

Q2 2012 Earnings Call

Company Participants

- Djalma Bastos de Moraes, CEO
- Leonardo George de Magalhaes, Controller
- Luiz Fernando Rolla, CFO
- Raimundo Dias Fonseca, Chief Commercial Officer
- Unidentified Speaker, Unknown

Other Participants

- Carolina Carneiro, Analyst
- Marcio Loureiro, Analyst

Presentation

Operator

We begin now the video webcast of the Second Quarter results of CEMIG with the presence of Dr. Djalma Bastos de Moraes, our CEO, Dr. Raimundo Dias Fonseca, Commercial Director. And Luiz Fernando Rolla, our CFO. The webcast can be followed over the phone, 551146886341 and also on the Internet at our website, <http://ri.cemig.com.br>.

We suggest the utilization of the new [ph] player, whereby you can visualize the presentation dynamically. We now give the floor to our financial director, Dr. Luiz Fernando Rolla, to begin the presentation.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Good afternoon, everyone. We're going to split our presentation into two parts. The first half we're going to focus on our strategies, which have resulted great benefits to our customers. Today we're going to have the participation of Dr. Djalma Moraes who're going to make a few comments about some of the points of our presentation, which we consider to be very relevant.

As has been publicized, we in the Second Quarter 2012 BRL604 million, our income, which is a substantial gain vis-a-vis the year 2011, 16% growth, which is a very solid profit, which has brought very positive perception amongst the strategies that CEMIG has adopted. Likewise, EBITDA grew by 14%, which goes to show a consistency of CEMIG's growth in recent years. Dr. Djalma, the strategies that we have adopted, are they representing good results? What have you to say?

Djalma Bastos de Moraes {BIO 2089645 <GO>}

Well first good afternoon, everyone. We have demonstrated both in recent years, we have grown our profit by a percentage over 10%. And this makes us believe we are on the right track. And this is a period of acquisitions to -- but these acquisitions have given us certain singularity, certain that within these model it tends to grow, very important factors for us to grow and we have room that we are aware that we are, especially in the (inaudible) growth gives us the -- on the right track.

Luiz Fernando Rolla {BIO 1852035 <GO>}

On present we have grown in all the three segments but specifically in the (inaudible) areas we have grown, transmission, which is suffer that (inaudible). But we also had recent news that in our area, generation, we went over 7,000 megawatts taken and that our focus really giving the deals that are -- been adding value to our company. Shareholders has been (inaudible) company like as a growth investor, we have recently created Renova. And we are on the acquisition track, which has presented more than 30% as part of our results.

So we are on the right way, adding value, always seeking assets that might add value to our company and to add on to our company. And we are always aware that in order to present good results, we need to be great. And this is what we are trying to do. And with that, the perception of our shareholders has been very positive, especially investors in general are (inaudible) have given CEMIG great recognition.

We can see there on the graph that we have grown by 328% in the last 10 years, showing the confidence of our investors in the strategy that our CEO has talked about.

Unidentified Speaker

Thalis [ph], you have an additional comment on this.

Rolla, in fact, we produce this chart in the beginning of 2003, because 2003 was the year when CEMIG was finishing the discussion about this new strategy of growing outside of Minas Gerais acquisitions. And this year we can see that CEMIG had a market value around BRL7.5 billion. Our EBITDA at the time was BRL1.7 billion. Now by 2012 in the last 12 months our EBITDA is approximately BRL5.5 billion, a growth of more than threefold. And our market value almost BRL32 billion growth.

This shows that the market is very happy in recognizing that our strategy is the right one, as our CEO said, to grow acquisitions with financial discipline by adding value and also focusing operational efficiency. We also highlight some recognition that the capital market has given us as the transparency trophy of our financial statements and our IR strategy as well.

In the case of the recognition of IR magazine as the best company in the power industry in public utilities and the best conference calls. All of these, the strategies and the fact that

we have delivered the results we've been promising and to communicate that I think all of this as a whole has led to market recognition.

Just adding these words on is that really just for you to understand, we expected to be in the situation we are in, now enjoying by 2020 to be the largest power company in Latin America, the second-largest in Brazil. But there's also for us a great challenge. That is (inaudible) to keep ourselves, to maintain ourselves on this level that lead to the condition that we have to keep something that we actually expected to happen only by 2020 we have reached now. And we are aware that this is our job and we're going to do it.

Present is to grow strategy naturally has to do with the acquisitions, as you mentioned. But also we're looking for new opportunities and new projects in order to add new capacity based on the discipline of investments and the solidity in our financial situation. We are announcing now the growth of generation, as you've mentioned. And we now have three projects under way that are going to give us a very reasonable growth in our generation capacity, which are Santo Antonio, Belo Monte and the next auction of Tapajos.

Santo Antonio has already commissioned, is already -- we already trying to improve the Santo Antonio project in contact with Fultness [ph] and Eletrobras and with the other partners and under Andrade Gutierrez and (inaudible). And Belo Monte we are facing a few problems. You know this through the media. But this is going to happen always.

Our problem is to take them out of our way, as it were. And to show that these obstacles are likely to be overcome. And this is what we've been doing, we've been trying to make feasible solutions that will not hurt the environment. As justice have thought [ph], we were doing that with Belo Monte. But I'm certain that as in other instances, the work is already more than 10% finished. And this is something that is ephemeral and we're going to overcome this. So we're going to continue competing for new concessions in Tapajos. And certainly.

Besides our hydroelectric plants, we also dedicated the wind farm, Alto Sertao 1 by Renova, which was a great success, 294 megawatts. And our small hyrdoplant in Paracambi in association with Light. All of these growth strategy of renewable energy is using Light as a growth vehicle is also successful strategy. Don't you agree?

Yes, because of the news on Paracambi, it's necessary for you to see that our focus is always on sustainable energies, sustainable power. And there will always be this success of our incursion together with Renova into wind energy and by year in Minas [ph].

And as we have said recently a few seconds ago, we chose Light as our growth vehicle. But it will be timely also to speak of things that are happening there at Light and where we're present. We developed our own technology, CEMIG/Light Smart Measure. The Smart Meter has a great amplitude, because not only it's going to make feasible for Light the reduction of power thefts but also it has many -- wide range of other features.

As shown in some cities in Europe, this meter has a direct action in the consumers' household. We will be able maybe in a few years -- we're going to be able to exactly go in

each consumer's household to verify whether the air conditioning or their refrigerator -- as long as there is a chip, as some of the appliances have been sold in Europe. We can advise our consumer to improve their consumption. But this type of equipment also has other usefulness.

It's also a great component in our electric vehicles. So yesterday we were at Light together with Mitsubishi launching an electric car that already has this technology. And advised by our shareholders, especially stimulated by our controller, which is the governor of the state, we are now setting up a factory that is going to build those meters. And we invited Dr. Kelman, the former president of Light, to chair this new company -- already is born strong.

Approximately 2 million meters we're going to be produced. And the success of the electric car, even though they're still precarious in the countries that are already using it for over two years. But it's important that our own group, CEMIG, has a great concern about innovation, technological innovation that has (inaudible).

This product, we are certain, is destined to success because it is born already with great customers, CEMIG/Light. And this production plant, we do not know where it's going to be set up. But it's going to be a private one. It's going to be under Light and CEMIG company, Light with 51% of actual and CEMIG 49%.

This company is under actually and it's going to be very successful because this plant with equipment is not available in Brazil as yet. So we should try to find a private entity with experience, expertise in the area. And we're going to associate ourselves with them immediately, as soon as we're in about a year, year and a half to make a few meters available for Light.

Of course, also together with the operational efficiency of the company that is going to be improved, through this smart meter, we not only will detect what is wrong inside the consumers' household. But I can connect and reconnect and show the consumer many other benefits. And as for the electric car, there are many advantages for those consumers that will use. We'll have a supply station that is going to be set up at shopping malls. And this Totem was going to give the user many data, even advising the use and the load at times when power is cheaper and more available.

Combination of those investments with the improvement in operational efficiency already prepare the two companies, CEMIG and Light, for the next tariff cycle. Exactly we are now going to count on the participation between this interface with ANEEL. And Dr. Kelman is going to help us. Besides being the president of this new company, he's also going to help us during the tariff revision of our companies in upcoming months, exactly.

Another successful policy in the company is the sales policy. We have had a successful strategy in place since 2003, when we included all of the new regulations. And since then the area of sales, led by Dr. Jose Raimundo today has been very successful. Dr. Jose Raimundo, you recently announced some contracts with large consumers. And how do you see the market situation and the outlooks for the future?

Raimundo Dias Fonseca

Good afternoon, everyone. First of all, I would like to say that the signatures Dr. Rolla said was the big contract. And the contract, over BRL2 billion, that was signed recently, this was proof on the confidence that CEMIG enjoys through the market during a moment of crisis, when consumers are preferring -- they're looking for short-term contracts.

And this actually goes to show the trust that consumers have in CEMIG, because CEMIG focuses on long-term gains. Our focus is not short-term gains but also -- but in the long term, it's a concern it's a win-win situation with the consumer, whereby CEMIG, when it engages in long-term contracts, it guarantees cash flow, which is good for us. And also good for the consumer, because the consumer will leave the volatility of price. Because of the Brazilian energy matrix, as you know, is made up of around 80% of hydroelectric sources, the volatility prices is very high.

An example happened in 2008, when the price during the rainy period reached BRL500. And a couple months ago the price was around BRL200. And it was during the beginning of the year BRL20 to BRL50. It went up to BRL200 and now today it's around BRL180. So there's great volatility of the prices. So when the consumer chooses a long-term contract, the consumer will do that because they trust CEMIG and they will have a guarantee of the best price in the long run. And it's also good for CEMIG because it guarantees constant cash flow.

Naturally the question that all investors would like to ask has to do with the price trends for the future. But given our sales strategy, the tendency is going to materialize. It's going to be captured in future negotiations. But the important thing is that the partnership contract with our customers has resulted in more benefits, additional benefits to CEMIG, especially as we have done in the last contrast in a growing way of adding capacity to the contracts. Is that so, Dr. Rolla?

Luiz Fernando Rolla {BIO 1852035 <GO>}

Yes.

Raimundo Dias Fonseca

If he knows what the trend is, he should mention that.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Well CEMIG has many use of opportunities, both in free-cell and regulated environments. We try to allocate our energies in the best opportunities possible. So we have a guarantee of a cash flow, which is quite smooth and because most of our power is already sold in the regulated environment, where we sell -- in the BOTOX power option in 2006 we guaranteed the 35-year cash flow with a very good price. And we have long-term contracts, whereby the consumer has accepted to pay a little more to CEMIG.

Why is that? Because they know that CEMIG -- first their trust in CEMIG, knowing that CEMIG is going to deliver the power. And second, the flexibility that we offer our customer. CEMIG is concerned with long-term relationships and always trying to adopt flexibility. At the time of difficulty of the consumer we are always open to negotiation. And this brings confidence into the negotiating table. And they're even willing even to pay a premium to have our power.

We have several growth factors. Sales is one of them, which has given us fantastic results. But we have a few others that are going to add some additional products to be offered our customers. One of them is gas, which naturally we have very positive expectations and outlooks as a functional grow in demand. What can you tell us about this?

Raimundo Dias Fonseca

We have -- and you're aware of this -- the investments in our company Gasmig. We have now a strong project together with the state. Under the simulation of our controller of residential gas, some of the neighborhoods in Belo Horizonte are already being served by this network, which has been enlarged and I believe this is one of the great new objectives and targets of our Gasmig company.

And pile on to that we have had some optimistic news from the San Francisco Valley, the presence of gas there. This is news that reaches us in an optimistic manner. And we as a company of electric power and distribution of gas, we're going to make the most of this gas, not by making great investments in prospection.

But also we're going to use our expertise in gas distribution and our expertise in making feasible-generation projects and to implement generation projects. If the gas exists in the amounts that are being talked about, we're going to have a good generation park here in our state. Excellent opportunity, therefore, for speedy growth of CEMIG.

Another factor, which is transmission, which has proven through the recent IPO to be a very great success as well, we have been able to capture in the market -- in local and international market BRL1.7 billion in the utilization of these resources for the acquisitions that have been announced of Abengoa and CEMIG interest in TBE. This project we consider to be of the utmost quality, because it adds immense value to CEMIG.

You have heard of the recent closing the deal with Abengoa. 50% of the -- the remaining 50% is now in our business portfolio. We are now larger and given more musculature to the Taesa company is going to remain in Rio, absorbing the people who are involved in the Abengoa project inside our company. And it's a strong vehicle, a very strong one. And we're going to participate in the auctions and distribution, whether we're partners of Abengoa or whatever, any partner that may give us conditions to make feasible our success story of options.

And in spite of all of this growth strategy, of a program -- of aggressive investment program that CEMIG has implemented recently, we have had success preserving the financial health of the Company. Recently a risk-ranking agency, Fitch, reaffirmed our

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ratings for the local market of Deguara [ph], which gives us a credit quality which is quite significant and allows us to have access to the markets of the best quality possible, as we have shown recently, not only in capturing for CEMIG GT which we did through the new debentures market but also through Taesa.

If we look at the infrastructures of CEMIG vis-a-vis its debt, we can also see a certain concentration there in 2012. But this concentration has a reason, because of the loans that were captured by Taesa so as to finance its expansion. But the fact is that we have a structure of market exposure that is quite positive. And we've been capturing, as you can see, the reduction of the interest rates.

We are already below the level of 6%. And we are going to continue capturing this reduction for the next quarters. Our indicators today, especially the stated [ph] ones, are all within the standards that our shareholders would demand. So naturally this gives sustainability to our growth, the provision or the prediction of our cash flows, as (inaudible) emphasized in the long-term contracts with our customers gives us a good predictability of cash flow, also having sustainability in mind.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Would you have a final message to our stockholders as we close this first part?

Raimundo Dias Fonseca

And so these shareholders and probable investors that are listening to us, they should trust our administration here. This has been our present -- the people who were present here who are not directors since when I began my term here, this company (inaudible) and Dr. Rolla were not directors. They are directors today. They are people that grew and went up the ladder here inside the Company.

So there was a concern that there should be political interference by the government of the state. I show that the choice of the new president of Light was a technical choice. But the technician, this person, came from the national system, a former director of Light and a person that is exclusively dedicated to the industry. Same thing goes for the CEO of this company that is going to be created, it's a technical person without any type of political interference so this has also shown our controller.

That is a concern with the management of this partnership of the technical management of this company without any political interference. And you may expect from us that what we have offered in the last 10 years, a growth above 10%, we do not believe that this great time that we're going through now of difficulty in several industries of sectors evidently will affect us.

But we are, as you can see. And there you're going to see also subsequently through Dr. Rolla that we are now on the right-away in spite of the diversities -- that is of adversities that is. We've been working. We have time during the great power outage, time that we -- but we survive well and like to leave messages to all of you. Please, you take a look at our

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management and trust our controller. And this is what we expect from you. Thank you very much.

Djalma Bastos de Moraes {BIO 2089645 <GO>}

Mr. COO, Dr. Jose Raimundo, thank you very much. We now move on to the second part, which is going to be more analytic of the Second Quarter results. I'm going to thank you for your presence here.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Thank you. Good afternoon, everyone. Now, for the second part, I would like to invite Leonardo George de Magalhaes, our controller, in order to help us analyze more critically our results.

Leonardo George de Magalhaes {BIO 19066527 <GO>}

As you saw in the beginning of our presentation, we had a profit of BRL604 million. And the accumulative is around BRL1.234 billion, which gives us a very positive outlook to surpass the results of 2011.

We are in the comparison that you just saw today. And you can see there on the slide that is being projected there that we had a very positive points, as, for example, the growth of the results prior to taxes, EBITDA growing by 14%, operational income, revenue growing too. All very positive factors. We're going to delve into these figures from now on so we can show you how we built the results, the results that we consider very good and coming from the strategies that our CEO has mentioned at the beginning of our presentation.

We're going now to talk about sales volume, both consolidated CEMIG GT and D. As you can see, we had a volume that was practically constant. There was a slight decline of 0.2%. But justification for this performance is based on the fact that the liquidation of CCEE was reduced substantially.

In the year of 2011 we had had a volume of liquidated power -- this is CCEE -- that is around 1,000 gigawatts hour. And this year we were able to go a little over 500. And in spite of that, this made what you can see there on this chart, a reduction of 191 gigawatts hour, as compared to that of last year.

Luiz Fernando Rolla {BIO 1852035 <GO>}

But it was a positive effect Dr. Magalhaes, because the sales to final consumers had a positive variation, whether for residential consumers or --?

Leonardo George de Magalhaes {BIO 19066527 <GO>}

That's exactly that, Dr. Rolla. After all, what we can see is that the market, our consumers, isolating the fact of the secondary energy liquidated Second Quarter 2012, the lower than

the one liquidated in the Second Quarter 2011. The consumer market continued growing strongly.

When we observe, for example, residential consumption going up, commercial consumption going up as well, then same as the lower one. Our industrial consumer consolidated presented a slight reduction because of the crisis that the world is going through today. But even then it's practically stable. It's important to highlight that when we analyze the volume of sales of the distributor, we see that the captor market of the distributor, the industrial market, presents very robust growth still.

Going a little further, if we zoom in on the sales volume CEMIG GT, we're going to see an increase. It is the impact that I mentioned of the liquidation of CCEE, the PLD. This decline made the growth rate is 4% decline. But as you can see, if we isolate this issue of CCEE and PLD, we had a growth for free customers almost reaching -- quite significant, reaching almost 147 -- 137, that is, gigawatts hour. So it is a very positive performance, as you can see.

Now, if we look as well as transmission, distribution, we're going to have -- I apologize for that. Prior to talking about distribution, it's also good to mention the matter of the proportion of free consumers in the regulated market, which has followed a very positive pattern, giving us very stable conditions to capture prices or price trends on the market. As Dr. Raimundo has mentioned, our policy on the sales policy based in part on long-term partnerships with our customers, has resulted very positively. So therefore hence this concentration on the free market.

Let us then move on to distribution. Distribution is slightly different. It's had a growth of 2%.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Could you analyze -- could you go a little deeper into this? Elaborate on this?

Leonardo George de Magalhaes {BIO 19066527 <GO>}

Sure. This growth, this volume of 2% in our distributor, CEMIG D, evidently reflects the residential consumption, which is growing in a major way, by 5%. This is the result of the unemployment rates in Brazil, which are actually historically minimal. And the family wealth, it's a main variable that indicates the residential consumption, which continues growing. And this is reflected in the real commercial and residential consumption.

If we analyze the industrial consumption, the first moment we see a decline of 12%. But when we take out the effect of free customers, we in fact see that the industrial consumer that's captured in our distributor still presents a very robust growth, around 3.6%. In this manner, then the growth of consumption in our distributor, which was 2.4% for all customers, in fact it has a growth of 5.4%, sort of contrary to what would be an observation as the general consumption in Brazil. The consumption in the state of Minas Gerais is still very strong.

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In general, the message -- I take home my message that we have behind this information is that there is an economy that is still very robust, which has generated consumption. And this result shows exactly the confirmation of such a trend. We have two reflections on that. In a distributor company, most of this growth is captured by the regulator through ex-factor. It also reflects positively in our CEMIG GT, because the regulated market has a stronger growth. And we're going to have greater demand for the capacity of our CEMIG GT, which naturally is going to reflect upon prices in spite of all the situation that has been mentioned by Dr. Jose Raimundo before.

Now I'll go into our presentation a little further. We have this more relevant factor, which -- for the growth of our net revenue, which was this growth of sales that we had. But the revenues has gone up substantially despite of us having a reduction in the sales-growth volume. On the CCEE market, the PLD liquidation last year, PLD had a very low price. And this resulted in a low revenue, which, compared to this year, we had a gain, substantial gain, that is of revenues coming from this price level of PLD, which has contributed together with our other final customers to obtain 16% growth in our performance.

Unidentified Speaker

Anything else to add?

Leonardo George de Magalhaes {BIO 19066527 <GO>}

No. That's exactly that. I would highlight the liquidation of CCEE. Liquidation is part of having liquidated about half of the volume of 2011, as the price of the spot market in the Second Quarter was on average almost six times the price of the spot market of the Second Quarter 2011. Even that represented a growth of over BRL130 million revenues coming from this liquidation.

Because of this revenue gain, we naturally had comparative with the increase of the operational expenses, which is our next slide. We had an increase as well. But in this increase we have visually the growth of expenses with the purchase power.

Unidentified Speaker

Could you elaborate?

Leonardo George de Magalhaes {BIO 19066527 <GO>}

Yes. In this case here, the increase of the purchased energy has to do with the fact that we are also exposing the other point that explain CEMIG distributor has some contracts by availability depending upon the shipping of the thermal plants. So the purchased energy was purchased at a price of a thermal price, some of them at spot prices, which was quite high.

So it does have an impact upon our expenses relative to purchase power. But it's important to note that our distributor, this component of our distributor and this expense

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is that Parcel A. The Parcel A has a guarantee of passing. And we have a great guarantee. But it's going to be returned in the next tariff cycle beginning April next year. So it is an expense that is quite high during this quarter. But it's going to be returned to us beginning next year.

Unidentified Speaker

So you're talking about CDA?

Now, Dr. Leonardo. The balance of CDA, that we have today already recorded in our statement for 2013 shows it's about -- what?

Leonardo George de Magalhaes {BIO 19066527 <GO>}

Good afternoon, everyone. Because of the new accounting standards, we cannot record our CDA within our statement, our balance. So when we have purchased energy, as happened this quarter, this effect is reflected in our balance but it's temporary, considering that in April there's a surplus value that we spent because of the increase of the energy prices is going to be passed over to our costs.

So we can say that this increase of BRL168 million in the purchase energy vis-a-vis previous year. And most of this amount, BRL168 million. But if we do an analysis more than BRL150 million in terms of purchased energy refers to CDA in this quarter, which is going to go into the tariff to our CEMIG -- in the case of CEMIG. So we are going to -- it's actually substantial amount that is a right of the Company that is going to be included in tariff April 2013, when we have the tariff adjustment.

Proportionally, Light will have the same impact. It also has the impact because a PLD increase impacted the price of energy for all distributors. And likewise CEMIG and Light had the pressure, this momentary pressure of this cost that they are going to draw benefits later on.

Unidentified Speaker

Naturally this was the highlight in terms of growth. What can you tell us about the PMSO?

Leonardo George de Magalhaes {BIO 19066527 <GO>}

The PMSO has a -- it's a very positive performance in this quarter when we compare it to the same quarter last year. Because it presents a reduction if we analyze only our CEMIG D, as everybody knows, our most consolidated expenses are consolidated. We see reduction 20% vis-a-vis the previous year. So it has to do with our constant efforts to improve operational efficiency.

This year it's important to remind you it's one year before the tariff revision. So it's the best year for the distributor in every sense. That is, best year in terms of revenues and in terms of expenses and the greater efficiency gains coming in from the pipeline. So

unfortunately because of this purchased energy, the results of our distributor is not as great as it could be. It's not as robust as it could. But even then it's presented a major growth.

Unidentified Speaker

Naturally it's going to help mitigate the reduction of the results of the distributor in 2013, when the new standards or the new methodologies of tariff revision are going to be implemented.

Leonardo George de Magalhaes {BIO 19066527 <GO>}

Certainly for the next tariff cycle we'll have a new operational efficiency program, which provides for synergy among companies. We are estimating a gain between BRL360 million can be reached up until 2015. Of course, this is included in calculating into our guidance, which was publicized last May.

Unidentified Speaker

Naturally the combination of revenues and revenue growth, a net revenue growth of the group CEMIG with the contained growth of operational expenses would have a very positive performance all in all in our EBITDA. Our growth, as you mentioned, went up to 14%. You can see that we have reached the mark of BRL1.443 billion, which is a fantastic performance if we consider all of the corporation without any recurrent item. And this is probably the best performance ever in recent years.

Leonardo George de Magalhaes {BIO 19066527 <GO>}

Exactly. This is a record, actually, the greatest record of EBITDA for a quarter.

Unidentified Speaker

And here, Leo -- Dr. Leonardo -- I apologize for calling you Leo -- we applied the proportionality of our participations.

Leonardo George de Magalhaes {BIO 19066527 <GO>}

Yes. The balance this year we had a significant participation of our EBITDA coming from the companies where we have tried to control. And in this case the interest -- EBITDA of these companies reflected into our balance proportionately.

Unidentified Speaker

Excellent because we look at the balance among the several areas of action of CEMIG, generation, distribution. And transmission, which is the pie chart that is right beside it showing that CEMIG is trying to concentrate most of its cash flow in the generation and

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transmission segments exactly as a function of the predictability of long-term contracts, which are given by these segments.

This does not mean that we do not trust the results of the other businesses. We do. But the volatility's slightly higher because of regulations that the distribution segment is subjected to and therefore the fact that we have this very expressive volume of the cash flow.

And the more predictable segments gives us the certainty where we can continue growing within the strategy that was mentioned by our CEO. Of course, this growth is supported by the growth of the EBITDA and the cash flow. The cash flow has been very robust, enough to be able to finance this growth. And cash generation is very strong and in this cash flow, Leonardo, because of the practices of IFRS, we did not consider all the values, the long-term and securities that are actually not included here.

Leonardo George de Magalhaes {BIO 19066527 <GO>}

Certainly we have very expressive amount of resources, more than BRL800 million in financial obligations in the long term for better management. We have better profitability. But in fact if we add this fact that we will be talking about cash flow more than BRL3 billion, it has to do with the Company's ability to generate cash more than BRL800 million in this quarter, operations more than BRL3 billion per year. And as you said, this cash generation allows us to keep a very robust investment program and to pay our shareholders.

This is the slide that every financial director likes to show. We could actually spend at least half an hour talking about this. But as we have other good news to impart to you, we have within our investment program, it is important to understand the strategy that CEMIG has adopted about our investment program.

Of course, we are looking for the maximization of the return for our stockholders. And we are concentrating especially in the segment of distribution rate, volume of investments now in last month, because we're going to go into the tariff-revision process. So for the distribution -- this is meant for Light. This is true for Light and CEMIG distribution.

We're going to try to carry out all the plans that have been outlined for -- so that -- that is, we can implement into those figures, into our asset base, when it comes the time for the tariff revision. And as a result of these investments, we're going to have a substantial improvement in our operational efficiency in the first year of the tariff revision.

This is a combination of two positive factors because we're going to have more revenue and operation expenses are going to be less. So we're going to have a very good gains, enough to be able to next year make up for the reduction of the regulation return as established by ANEEL [ph]. All of the other investments, in spite of us being a little delayed. But they follow natural sequences and we're sure in 2012 delivery significant amount, which is going to be included in our asset base.

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Moving a little further along and concluding this second part of our presentation, we have some indicators that are very significant CEMIG today has a group form, the assets are -- assets that reach BRL37 billion with a market value around BRL31 billion as our CEO has said already, there is an anticipation of challenges for 2020, when our shareholders, through the formulation of the strategic plan, imagined that would be reaching a position of the second-largest company in the electric industry. And we anticipate the performance that we have shown thus far.

So as our CEO has said, this renews the challenges to maintain this position. It's not easy, in spite of the fact that CEMIG has some factors that are very positive that are going to add much more value for our stockholders in the long term, specifically in the sectors of generation, renewable energy. And the sector of gas. And technology, as our CEO has mentioned already, the smart grid, also going to bring us a very strong growth factor.

So with this slide, we conclude the second part. And now we are open for any questions that you might want to ask us.

Questions And Answers

Operator

We shall all begin the Q&A session. (Operator Instructions) Or, send in your e-mail to ri@cemig.com.br. We have a first question from Marcio Loureiro from Votorantim Brokers.

Q - Marcio Loureiro {BIO 17426775 <GO>}

Good afternoon, everyone. Initially I'd like to thank you for your -- the question has to do with acquisitions and distribution. Are you still prospecting in the market? Do you have some asset that you're looking at? What are you thinking in terms of a possible acquisition for distribution? Thank you.

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

We do have a growth policy. And one of the significant factors exactly acquisition. And we're trying to make the company grow in accordance to those three segments that we - - where we already have a certain leadership. There's generation, transmission. And especially distribution power.

Now, the basis of distribution is one of scale. That is, if we don't have enough scale, we're not going to be able to deliver the performance that our regulator demands from us. And this is clearly seen from the regulations that are being issued constantly by our regulating agency, which leads us to try and find a greater scale.

Today we have a significant scale, 11 million consumers. But we understand there is still room to grow. So we looking for alternatives on the distribution market. It's kind of static. It's easily mapped out by the people who are interested in expanding. But we are seeking some alternatives to grow in this area, especially in those that are going to add value to us, assets that have evident synergies with our present operations.

Q - Marcio Loureiro {BIO 17426775 <GO>}

Thank you.

Operator

We have a next question coming from Ms. Carolina Carneiro from Santander.

Q - Carolina Carneiro

Good afternoon, everyone. I have two questions -- one, about your cost performance for the distributor. You talked about you have some non-recurrent effect in PMSO, or is this trend in decline? Can we keep it for the next quarters? And could you tell us some update about the negotiation of the CRC payment to the state?

A - Unidentified Speaker

Could you answer the first part?

A - Leonardo George de Magalhaes {BIO 19066527 <GO>}

In this quarter, we could see that frankly there was no non-recurrent PMSO for the distributor. It's highlighting the reversal of the prediction, because the provisions have to do with the legal and doubtful creditors. Doubtful creditors is low. We can say it's very low. It's less than 1% of our revenues. And we find that this management of our billing as mentioned.

As for legal litigations, our legal department has been talking about the focus that the company gave in to the management of the litigations and not only because of liabilities but also because of the opportunities that the company may have, especially on the tax side. So because of the provisions that we had, we were able to reverse positively the results as a result of the legal liabilities of the company. And in the First Quarter as compared to the First Quarter last year, the participation that results has been registered linearly throughout the year because we made an agreement with the unions.

And in fact, for two years -- so in the last year there was an agreement that was initially during November. The greater impact upon the Company results would occur only in the Fourth Quarter, which is not going to happen because this has already taken place linearly throughout the year. So we understand that this result of the PMSO reflects basically what is the operation of the Company without non-recurring events that would deserve any highlight.

Q - Carolina Carneiro

Thank you, Dr. Leonardo.

A - Unidentified Speaker

Your second question referring to CRC, I'm going to give you an overview of what is going on and what are the next steps that we are taking the coming weeks. CRC is

undergoing approval by the secretary of the department of the treasury, the national department of now -- the state of Minas Gerais has two of the contracts, the financing contracts that are going to be signed with the World Bank and the Credit Suisse.

These contracts are already understood and accepted by ISDM. There is a third contract, only with the French agency of development. That is about to be approved this year, this week or maybe the beginning of next week so with that we close all the necessary funding or the stake -- completes all the necessary funding in order to liquidate the CRC contract.

The next steps are -- is then to submit to the department of -- the treasury department and the formal referral to the civil staff of the presidency to finally approve the contracts. So we are now effectively approving the last steps. And the estimate is that until the end of August all the steps have been taken and beginning then we're going to depend on the conclusion and formalization of the contracts to be signed between the state of Minas Gerais and the financing institutions in order to liquidate the CRC contracts.

So it is still being top priority of the state of Minas Gerais. And naturally we are giving it all the necessary coverage so that everything runs as quickly as possible.

Q - Carolina Carneiro

Thank you.

Operator

We now close the question-and-answer session. I would like to give the floor now to Dr. Luiz Fernando Rolla for his final remarks. Thank you. Please, Dr. Luiz Fernando Rolla. Please proceed.

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

Thank you very much. We now complete our Web conference and closing exactly at 4 PM. I thank you for your time listening to us during this hour, the report of our results during this quarter, the Second Quarter 2012. The questions are always welcome. If by any chance you, ladies and gentlemen. have any additional question to ask us, please send us an e-mail to our RI area. You all have this e-mail address. So we will answer your questions with the utmost efficiency.

I would like to thank you once again for your presence here and wish you all good afternoon.

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