

Q3 2015 Earnings Call

Company Participants

- Antônio Carlos Vélez Braga
- Fabiano Maia Pereira
- Leonardo George de Magalhaes
- Luiz Fernando Rolla
- Unverified Participant

Other Participants

- Kaique Vasconcellos
- Macos M. Severine
- Paulo Ferreira
- Pedro Manfredini
- Vinicius Canheu

MANAGEMENT DISCUSSION SECTION

Antônio Carlos Vélez Braga

Good morning, everyone. My name is Antônio Carlos Vélez Braga, Cemig's Investor Relations Officer. We'll now start our video webcast with Cemig results relative to the third quarter 2015 with the presence of Dr. Fabiano Maia Pereira, Chief Officer for Finance and IR; Dr. Luiz Fernando Rolla, Institutional Relations and Communications Officer; and Dr. Leonardo George de Magalhaes, Controller. You may follow this broadcast by phones, 55-11-2188-0155 or 55-11-2188-0188, and also on our website, ri.cemig.com.br.

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

Luiz Fernando Rolla {BIO 1852035 <GO>}

Good morning to all of you.

On behalf of Mauro Borges, our CEO, would like to thank you for attending this teleconference to disclose our results relative to the third quarter 2015. Unfortunately, due to a busy agenda, our CEO cannot be together with us at this moment. And we, together with my colleagues, Dr. Vélez and the others, will conduct our presentation. We tried to fit into the slides all the information that within of interest to the investors and analysts.

We proceed to the presentation that should take some 30 minutes. And then, we will open up for Q&A, upon which we will be - we may available to you for clarifying any doubt you might have.

Our presentation as usual each comprises an initial phase when we talk about the highlights of our quarter, and then, specifically, talking about the financial results 2015. In our first slide, we have the most relevant indicators, net revenue, EBITDA, net profit. We could see that we had very good performance as compared to third semester or third quarter 2014.

In 2014, we had some very relevant impacts mainly arising from the negative equity from Santo Antônio equity accounting, but even so in 2015, we had a very good performance in line with what we had programmed for the results of this year.

We have some other highlights, especially in generation, our actions, our suits regarding Jaguará and São Simão plants. We filed a suit at the Federal Supreme Court of Brazil, aimed at protecting our rights in face of the decision taken by the STJ. You know that there's an auction scheduled for November 25. We will talk about that a little more.

Distribution, also the contract for renewal of distributors' concessions was approved by Aneel and forwarded to the Ministry, and we will be soon signing the new contractors. It just a matter of some rights bureaucratic proceeding that we should still wait for. And then, we'll sign this contract by the end of the year. It's very relevant because growth of concession for February 2016 was impacting our - that (04:43) a little bit. Also, we have recognition from the market. We will highlight that a little further on.

Beginning by generation, we have already applied for the provisional remedy regarding the Jaguará hydroelectric plant at the Supreme Court. We had the dispatch (05:10) from the Chief Justice, Minister Dias Toffoli. And there is a call for settlement, extra-judicial settlement and an invitation to hold a conciliation (05:31) hearing. And in our view, this is a good way to go.

As for auctions of the plants, we are focused on the auction involving those plants we already operate. It will take place in November 25. We are ready to make an offer within the expectations of the Federal Government as to benefit.

Aneel, about distribution, it has recommended to the Mining and Energy Ministry the extension of concessions that issue having been overcome. The new concession contracts have conditional efficiency levels from the distributors. We are very comfortable about the fact that we should meet the quality and sustainability requirements. Yes, we have simulated various times over the years of our capacity to deliver and to meet the Aneel requirements. And even in the more conservative scenarios, we feel that we are in full position to deliver into the first tests placed by Aneel by 2020. We should easily pass them.

As our concession then, we will have this renewal by the end of this year. And from then on, we will follow -- make the necessary investments to meet the indicators and the

requirements as for quality and financial economic requirements so that we can be approved for extension. We anticipate no problems to meet such requirements.

Another very important recognition to us, once again, we were recognized by the markets as for our financial statements. And this time, we shown especially brightly among the listed companies. We got the 2015 Transparency Trophy. Dr. Leonardo is the Manager – is the Controller and he is the man behind this. And please tell us what this plans or this prize means?

Leonardo George de Magalhaes {BIO 19066527 <GO>}

Good morning to all of you. It's a source of pride to Cemig even given the very uncertain scenario before us. We – our pleasure to expand our disclosure about the data of the company and that we are really reflecting very neatly what our operations have been reducing uncertainty among investments – investors, rather. And this recognition is important because, it involves the academia and other institutions. And this effort of our company to be ever more transparent and being selected as the top in Brazil, that was very good to all of us.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Yes, excellent, and please convey my congratulations to your team, all of them who have dedicated themselves so strongly to obtain these results.

Also, Fabiano could tell us about the short listed of our company – short listing of our company for the IASC Consumer Satisfaction Index 2015, also consumer recognition in terms of quality provided by Cemig to consumers.

Precisely, we have got this prize. Actually, we were shortlisted for the prize. And this other prize was for consumer satisfaction. And you know very well. And if you want to convey exactly how this works.

Fabiano Maia Pereira {BIO 19066644 <GO>}

Well, this prize is done through a website engaged in consumer protection. And it records surveys conducted among consumers that have somehow made use of that site to solve any pending issues with several companies in various segments. And we were elected within the power sector as having the best performance before these consumers.

This is the second time Cemig has taken part of it. And the recognition comes very timely because we are signing our distribution contract. This recognition, in addition to Aneel's IASC, this spontaneous selection by the consumer through the site, that's pretty much a knowledge as a champion of consumer rights.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Having done this first stage, we'll go now for some figures relative to the third quarter.

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Following the normal sequence, first with the consolidated net revenue going up 26% with a huge impact constituted by tariff price with a very substantial adjustment this year - not only that year early adjustment, but also the extraordinary tariff adjustments and tariff flags.

We had as you see significant reduction in consumption, but even so, 26% growth in consolidated net revenue. Especially in the distributors were responsible for this growth.

These adjustments were authorized in the sense of making up for the revenues of the distributor in face of the several expenses incurred with regard to energy costs and the risk - hydrological risk that the company is now - take as part of the expense.

This, of course, brought some relief to the distributors because they were using their own cash to finance such expenses. And now, we can divert this cash to our investments.

Power consumption over the period, the third quarter 2015 as compared to the same period 2014 in our distributor, dropped significantly 3.2%, followed by mostly the industrial, not so much from the residential side of it, 0.7% (14:08), because the category of consumers that suffer the most impact from the increases, tariff increases.

The first semester was very - the performance was very good. So, that contributed to the slighter - lower reduction. You can see residential, 1.9% in the ninth month, and industrial, 6.8%. The good news here in this slide is that despite the increase in tariffs, we haven't seen - we haven't so far envisaged any increasing default at this point.

Yes, because the tariff is already full. It's been applied fully on the bills, consumer bills. And default are just like the history, historical levels, virtually no effect. This is very positive and it protects our cash flow - the distributor's cash flow.

We had reduction in power consumption by the families with more efficient use of energy without that implying any further default in the company. They - consumers sort of adjusted to the consumption within their budget.

Of course, operational issues, the main cause of operational expenses of 32% plus was the bought energy highlighted in a very impressive way in our graph. You could see BRL 751 million increase in expenses related to purchased for resale, this regardless of the tariff flags and extraordinary readjustments.

This has been compensated or made up for some other means, like Leo (16:40) can explain to us this, but it is very relevant to see this cost. Unfortunately, it burdens our consumers. Yes, it's - in this slide, you can see that our controlled costs behave below our inflation, which reflects the efforts of the company to reduce its cost. But the non-controllable costs, as for the fourth quarter last year, we included CVA. And this year, as a we have BRL 1 billion plus recorded as CVA in association with the tariff adjustment, if you allow me, it will be good to comment on, in this climate of uncertainty in the public services, the CCEE liquidation, Cemig was able to file and win an injunction protecting its

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revenues that would be otherwise be very highly impacted. Even so, the company was pretty much conservative in recording its revenues.

We did include the benefits deriving (18:10) from the CCEE, the GSF. Figures here are the actual figures. We'll see how it goes and how the effect of liquidation will happen. Even consider the effective GSF, we were very conservative in accounting for our revenues given the default of these CCEE revenues.

The message is that, as the market regulates itself, we understand that there is no reason for concern or write-off of anything that's been recorded. As the scenario normalizes, we can expect even a higher – an additional revenue because of this conservative position right now.

Yeah, excellent. You (19:07) really mentioned and we touched a very important point. We have some topics still to be decided upon into the upcoming months, especially regarding GSF. We have some pending issues relative to the 688 Provisional Measure by the government. Though we have some developments arising from this in the fourth quarter, some decisions are still to be taken as for provisional measures and provisional remedies. Also, provisions for loss of investment in this semester relative to Parati, that's sequence of the provision we have made in the other semester. Any news about this, Fabiano?

Fabiano Maia Pereira {BIO 19066644 <GO>}

Yes. With regards to this provision, there was this important – relevant fact that the puts was exercised at Parati. We are negotiating right now and assessing for potential projects both for Light and for other partners that participate with us in – how should I say – at Parati.

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Yes, this is a relevant topic and we will of course proceed to restructuring as a function of the maturity of the agreement that was made with the four investors. As we said, we are already making a move towards this transition in a way so as to preserve our top quality in managing Light within the private sphere.

We had some provisional – additional provisions for Santo Antônio, a very small amount in the third quarter as a function of the GSF. That's the main concern of Santo Antônio. EBITDA grows almost 27% as compared to 2014. We are now nearing the lower limit of our guidance, and we will meet our guidance this year for sure.

It's just a matter of projection, a projection. Very simply, what will happen in the fourth quarter and our assumption is that we will really meet it in the fourth quarter. Net profit as a function of those impacts regarding Santo Antônio, it grows substantially with BRL 167 million in the third quarter considering all the impacts already commented upon, if we compare the accumulated figures, we still have an 8% plus increase from last year.

The generation system really gave the most contribution to the profits of the company. This is a continuous effort in the management of the company to maximize results, especially on the part of our financial director (23:32) dealing with our debt as per the fundamental part of our strategy, debt extension, that is.

So I invite you now to make your comments about the slide.

What we do have for 2015, we have already rolled on all the maturing debt, what we still have to do is just a small number of coupons. We'll proceed to pay them 2016, most of the maturity that's indicated in the slides relates to Cemig D, mostly related to the topic you raised, Fernando, the length of decision about extensional concession that brought difficulties to Cemig D. But now, we are in perfect position to proceed with it and to extent that making it much longer than it is today.

As for the cost of debt, as the interest rates in Brazil have grown, this had of course an impact on the debt profile of Cemig, and we are working towards having perfect conditions to cover all these debts. Yeah, our revenues are indexed to the IPCA and generation and distributor alike. So, the net profile of the debt is higher than the related (25:29) figure, 4.5%, which, for us, it's very good considering the context and our leverage. It's very good, too, in view of our Articles of Incorporation.

As we mentioned, within the short term, we will do away with the remaining debt. It's been a very much reduced BRL 5 million. It has reached BRL 5 million, and you can see that our profile which is extremely positive. But in the case of the distributor, as we mentioned, that's a special case because, in some way, we have financed the consumers somehow through the CVA. And these increases, the volume of debt that we have accrued, coupled with the fact that consumers were fearful of the concession contract that was upcoming, then there was this adjustment in the short term, we have a lot of room for elongating this debt into the upcoming years and so as to improve substantially.

The financial expenses of our distributor leverage is still high. Our EBITDA has not recovered fully. It should be expected also in our investments program. We had - now executing 63% of our investments program of the company as together - altogether. You see the value using reais (27:38) for the year so far, and we will meet all we have planned before 2015. We reached BRL 2,200 million (27:50) most of investments having been made in transmission, and we still have one quarter to be meeting all the commitments. You can see the amount is pretty much relevant.

And our last slide that's the most relevant for financial management. As you can see, we proceeded to a series of actions to protect our cash result in a very positive status BRL 2.7 billion total cash available. CVA is - accounts for a great deal of that. Yeah, the situation we have here has given the scenario we had early in 2015 when we could see that it wouldn't be a very smooth year for the company.

We took decisions along the year so as to protect the cash of the company. We're still doing that and we still have a long work ahead of us. So, given the tranquility to our

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investors and to the management of the company itself, so far as expanding cash, it is made available to the company.

The focus of our concerns here is, especially the performance of the distributor, given the renewal of the concession, we still have some homework to do in terms of operational expenses of the distributor, we are doing it. We have taken some initiatives soon to be opened to the market, to be disclosed to the market so as to adjust the situation of the distributor to the cash flow as available to it.

In transmission, we also proceeded to a very deep adjustment given the concession - the adjustment of the concession contract for - since 2012. And we consider some aspects through 2016, we are taking care of that. We are entering the new year with this positive factor to preempt any possible problem that may come up in 2016.

These were the slides we had to prepare and show to you about the performance and results of the third quarter.

Now, we open for question and answers.

Q&A

Operator

Ladies and gentlemen, we now initiate the session for questions and answers. Our first question comes from Macos Severine from JPMorgan.

Q - Macos M. Severine

Good morning to all of you. Two questions, first, I would like to know, well, Cemig is facing a new situation today. The major point here involves, well, lower leverage and more operational performance. What could we expect in terms of improvement in efficiency and operational performance? When do you intend to reach these new levels? The holding, the profit sharing, it has been mentioned, any further reduction could be expected at least initially. And as for unleveraging (32:37) the selling of assets or what are the other ways do you (32:39) envisage in business to achieve these reduction in leverage that I think is very important?

Another doubt about your stock holding positions, what could it be required in terms of equity into the next semesters Santo Antônio, Belo Monte and, more recently, in Renova, TerraForm. I was checking for their shares. I see that the expectations for revenues had a gap of BRL 550 million. Have the shareholders being summoned (33:21) to cover that gap? Well, if we consider that the plans like Jaguará and São Simão and others in the portfolio, this is still an open issue. But if we take this a base line scenario, well, this leverage level would increase very much. Should we sell assets or improve operational performance? Another important point would be the compensation for these assets. Are you negotiating with Aneel and what expectations do you have for compensation of these assets? These are my questions.

A - Antônio Carlos Vélez Braga

Well, thank you, Severine. Of course, these are, well, a wide array of things. Well, we would have to rewind our presentation. But let's try to be brief and to address your issues. First, about the operational efficiency for the improvement, as Fabiano mentioned, as a function of concession contracts renewals, we must have a plan now to meet the target set other - (34:51) this new concession agreement over the next five years.

This involves some economic financial issues. We have approached two things, both leverage and operational expenses, improvement of the performance. In this case, this is very relevant indeed because these two things will enable us to meet comfortably the target set by Aneel. We also have several other initiatives. We are adding new initiatives even and in the process of defining together with our Board of Directors. They haven't reached a final approval of the new measures, but it should happen by December, as the April budget for 2016, we must have some additional information to give you by then.

We have many initiatives being taken towards reducing controllable expenses. We cannot open up at this point. We cannot disclose what initiatives are these, but I think all of the negotiations with our board, and this, as I said, should be cleared by the end of the year.

There is one point that's already clear, that it is - that we should seek the focus on those sectors that represent higher added value to Cemig. This is the guideline for our works, the work we have been developing, a stronger focus on those segments that mean higher added value. Yes, an improvement of performance of each employee of Cemig to the effect of improving performance and reducing the need for subcontracting or outsourcing services.

As for reduction of leverage, as for Cemig D, we can also include that theme of compensations there. A substantial reduction of leverage in both companies, B (37:43) and GT, we must consider these reductions to be happening. We are still negotiating with the Ministry and Aneel so as to set the criterias for calculating this compensation. We trust these values will be relevant and they will help us reduce our leverage. In addition, we are reducing our debt by payments to the maturity dates.

With regard to compensation, Severine asked and two things should be made clear, two compensations are involved. The one involving the plants that we have returned (38:44), that's the focus on the auction of the 25, and this will be - also, the necessary documents will be given to Aneel for making accounts.

As for the plants under litigation, it's a little premature to talk about compensation, but if and when this comes to happen within the timeframe scenario that Severine mentioned, then we will have a better view. Also, all the conditions set by Aneel as for the existing transmission system, this amounts to some BRL 7.1 billion, isn't it? This is well ahead BRL 1.2 billion and the criteria for compensation is still to be defined. And we believe that soon this will be solved by the Ministry.

As for equity demand relative to stockholding, Belo Monte does not require so much investment and then it will go operational in February next year. So it will start generating

revenues, which will substantially reduce the need for equity on the part of the venturers.

It's good to remember that the volume of funds from BNDES is very relevant within this context, and this reduces even further the need for equity in Belo Monte. As for Renova, the agreement that we are setting with SunEdison is preferably precisely aimed at enabling Renova to go on developing their wind power potential. 2,500 megawatts are already being contracted, and these investments will be conducted in a way such as we have negotiated with (41:19). Another part that we now have with financial capacity to shoulder any possible investments that might be required by Renova.

I believe we addressed all your questions, Mr. Severine. As for sale of assets, we have not transferred that, no. Nothing of concrete, of course, any good proposals, we'll carefully look at for sure. As for asset selling, well, we did it through Light and stockholding at Renova. With Light, we helped reduce indebtedness.

But in a general way, the assets that we operate are relevant and they contribute to our results, as you can see in our presentations. I believe we responded everything.

Q - Macos M. Severine

Yeah. I made the question about selling of assets because there was news disclosed recently involving Light. But I'm satisfied and thank you.

Operator

Our next question comes from Kaique Vasconcellos from Citigroup.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Good morning. Thank you. Two questions. First, about rolling of the debt and the difficulties associated to concession of distribution. What can we expect in terms of the debt rolling into the next years? And the second question, you will be part of the auction in the coming 25, what will be your position in this process?

A - Antônio Carlos Vélez Braga

Thank you, Kaique, for your questions. Dr. Fabiano will answer.

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

With regards to the distributor, we maintain continuous contact and talks with the banks. We are doing that in advance so that we can roll on the debt into the next few year and, if possible, this year, so that we could enter 2016, we'd have our debt already rolled up. With regard to the financing of our stock ownership, at the auction, we're still talking. We haven't reached the final model precisely how it will look like. We will have further conversations, and by the end of this week, we should have wrapped that up.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Yes. Thank you.

Operator

Our next question comes from Mr. Paulo Ferreira, Bradesco.

Q - Paulo Ferreira {BIO 18941383 <GO>}

Good morning and thank you. A very quick question about leverage. Cemig has been notified about Redentor. And my doubt is that this should have an impact on 2016 and the leverage of Cemig. My question is, how do you assess the amount of losses - of loss related to that? And do you resort to an independent assessment agency or how do you make this account? Thank you.

A - Antônio Carlos Vélez Braga

Thank you, Paulo, for your question. The agreement we have with Parati, inside Parati, as the Redentor fund, it goes through the payment of dividends of CDI plus 0.9%. That's what we aim at delivering and the value of the period is what has been invested already as we constituted the fund, BRL 1 billion. We are now negotiating with new investors on these investors. Would you add anything, Fabiano?

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

Just to say that the question is relative to our criteria for provisions for loss. We are very conservative in these calculations. It's important to say that this account uses our cash flow and the fair amount, and we compare that to the put value (46:59) CDI plus 0.9%, and this is seen as a loss. This is a very conservative approach and that's how we will proceed to compound any provision for losses for next few year, and we expect to have negotiations that we will resolve these issues.

Just to add that we are - we've been talking with some investors and, in principle, the outlook is pretty much favorable to the sense of reaching a solution, even much before maturity guidelines. So, we'll have good news about the next year, and that's what I expect. And this is a fact indeed that must be considered.

Our expectation is that, with the negotiations underway, we'll have no impact in the sense of the need for new cash injections by Cemig, which would imply in buying shares, buying stock which is not our objective. But as for the payment of dividends relative to Light, there are expectations in selling assets of Renova by Light, this will substantially improve the indebtedness of Light and they will be in position of paying the required dividends with a very good level of performance in 2016 until much they have to put (48:46).

Q - Paulo Ferreira {BIO 18941383 <GO>}

Okay. Thank you for your answers.

Operator

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Mr. Vinicius Canheu from Credit Suisse would like to make a question.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Hi, well, almost - yeah, good afternoon to all of you. Three questions, very straightforward. First, about Jaguara and São Simão. You said that São Simão will be dealt with in 15th of September. I'd like to know the figures about EBITDA and profit, results in general for the quarter in these two plants.

Many questions were made about leverage, but I would like also to know whether the distribution at Cemig capital expansion is part of the plans given the level of indebtedness of the company?

And third, about the auction. There will be this financing model designed by the end of (50:29) as you said, but are you going to participate in any consortium like in Santo Antônio? Do you negotiate any part - stockholding, stock ownership over time in the Cemig and consortia? Are you planning to participate any way via consortiums?

A - Antônio Carlos Vélez Braga

Thank you for your questions. Let's try to respond - to address each point separately.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Would you please?

A - Antônio Carlos Vélez Braga

Yes. With regard to the accounting of São Simão, we - well, as we are still seeing this uncertainty about these injections (51:27) at the CCE, it's what Leonardo said. We were the most cautious (51:34). And I have no means to show you the accounts of São Simão. We've made provisions in the sense of avoiding any bad surprises. And there's no specific number for São Simão. This is part of our wider figures.

As for the auction, there is this part we should make very clear that there are several lots and ways of bidding at the auction, and now has not disclosed the participants. And it's a matter of strategy also. We should not disclose all the strategy for participation at the auction, if things happen as expected next week.

Next question, about distribution, the debt requiring more injections - capital injections by Cemig. We have conducted work in the sense of setting fitting Cemig just through with (52:51) into this new concession agreement. And for me, it's a little premature to advance our strategy because this is going to be brought to the board of the company, it would not be prudent to disclose this in advance. Sorry.

Thank you, Vinicius.

Operator

Our next question comes from Marcelo Savio (53:25).

Q - Antônio Carlos Vélez Braga

I have a question about distribution. In this quarter, that was higher than the second quarter despite the strong drop in consumption. I would like to understand this. And also, I would like to understand whether we should have in the fourth quarter similar result as the third quarter or should expect a better result?

I was discussing with Lau (54:17) about that, about Cemig D. The fundamental point was the work started since the beginning of this year. The results are already showing to that effect.

Just - you say that the difference in EBITDA from the second and third quarter?

It's hard to hear you. Could you please repeat?

If I look here, the second quarter, (55:03), is this improvement associated to cost expenses - cut in expenses or is it not recurrent?

The CVA is not recurrent, but the value I can convey to you later on.

As for the (55:25), theoretically, CVA would be - force everyone to take it on a recurrent basis. That's the aim of my question.

Marcelo (55:43), I apologize. But I would have to go deeper into this result as you have informed and we have to inform you later on.

Also for the generation, our fourth quarter, should I expect something better or like the third?

Well many things cannot be just guessed for the fourth quarter. We'll have adjustments, too, in the fourth quarter. And we still don't know the impact of GSF and the exchange rate impact because we buy energy from Itaipu in dollars. We can't, at this point, predict the results of the fourth quarter. We still have to wait and see the disclosure. And of course, Lau (56:51), with his usual competence, will do that.

Yeah, I should remind you that the fourth quarter, we won't have the São Simão revenues. It's third (57:04) quarter regime. And there is also the entire issue that involves the liquidation of CCE. Let's see how it stands and injunctions, how they will end up, so that we can see a better idea of the performance and the results of first quarter. Liquidation of CCE will be very important in that definition.

And also, the approval of the provisional measure, no doubt we shouldn't forget that important detail. 688, provisional measure 688 is being - is about to be approved by our President or the President of Brazil in the upcoming weeks.

We cannot foresee what will happen in the fourth quarter, but our guidance should be met, as we said, within the interval that we have announced in May. One point within that interval, well, as Fabiano said, we will have to wait and see how it develops.

Are there developments and new things?

The level of uncertainty is unfortunately still high and we would risk to incur in some lack of precision if we try to guess figures for you. So, thank you.

Operator

Our next question comes from Mr. Pedro Manfredini from Itau BBA.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Three questions. I have some echo in your return of questions. It's hard to hear at points. But my three questions are about costs. I would like to have some details on what you have been doing and what should be done in 2016 as part of your cost reduction programs, especially in distribution next year?

My second question, growing for generation, we see prospects for growth. In this growth - in this auction for November 25, you mentioned Aliança Energia and a partnership with Vale, and we see that highly leveraged. Is this vehicle of growth in generation Cemig? Will it be done via Aliança given the scenario?

And the last question, we have seen questions, about your vision for prices next year, spot prices coming down. I would like have an idea, we have a very - a lot of information on the back - the rear mirror, but I would like to see what are you expecting precisely for 2016 onwards?

A - Antônio Carlos Vélez Braga

Of course, these issues are extremely relevant. Unfortunately, they involve a high degree of uncertainty, too. What we can advance is that initiatives for cost reduction has implemented from the beginning of this year.

We of course, what - we focus on the reduction of expenses that could be more immediately cut down, more focused on outsourced services, materials, process, and operational improvements, benefit from investments made in the past as for automation that improves good deal, the performance of our system.

We just look at our quality - our indicators. All these initiatives have been accounted for in the first semester or first quarter. In addition, we have several other initiatives already mentioned today. They are to be approved by our board and will and shall be implemented very effective measures. We will learn of them as soon as we have our approval from the board.

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And this will – or these initiatives will very much improve cash flow in our distributor. Several initiatives will be announced very shortly. As for generation, the context of pricing of energy has been pretty volatile given the uncertainties we have talked about. The sequence of injunctions and problems associated to GSF have brought a lot of oscillation to the power price. At times, you'll reach reasonable prices.

The government itself is incorporating as part of its vision and uncertainties for upcoming project, prices for 25, the basic prices are already out there at a very interesting level. Some other points are being considered. But this gives you an idea of the future price.

If you take as a reference these prices, this is what the market will be applying in non-regulated contracts in the near future. So, we depend a lot on the rainfall of the summer months, so that we can have an idea – a better idea of stock prices in 2016.

Given any precisions in our metallurgical forecast, we have no clear – not a very clear vision of the need for using thermal plants and other costs in operations. This has a very relevant impact on the prices that the market would be applying. But if we take as a reference, the prices in the 25 November auction, then it wouldn't be too far from that.

Would you like to add anything, any contribution, Fabiano?

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

Well, the crucial point here is that if we look at the spot prices, that depends a lot on the rainfall. And we are just beginning the rainy season. If we look at – well, if we look at other aspects, volatility is much lesser than that which is involved into our spots prices.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Just to add to my question, as for the vehicle of growth in generation, should it be expected to be Cemig GT or via to have Aliança Energia?

A - Antônio Carlos Vélez Braga

Well, specifically in this auction, we will do it via Cemig GT, but Aliança is the vehicle for growth and the generation sector. According to our proposal, it will seek growth beyond what's been derived from joint participation of Vale and Cemig.

As you said, the leverage is very low in that case. And it opens up a lot of room for growth in its portfolio of possibilities. They have already identified a few possibilities. And as they start happening, we will disclose it together with Aliança.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Perfect. Thank you.

A - Antônio Carlos Vélez Braga

Thank you, Vinicius (sic) [Pedro] (01:06:57).

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Operator

Our next question comes from Mr. Vinicius Canheu from Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

One more question, I would like to know if you could say anything in advance about impact that Cemig could have as a result of the San Marco disaster. Some of the plant in generation might have impact. Could you comment on that?

A - Antônio Carlos Vélez Braga

This issue is still being assessed. This disaster in Mariana recently – this is a major – force majeure impact. We cannot mitigate it right now due to its dimension. We are directly negotiating where the OMS and CCE. Possible impacts may derive if they have to stop those plants.

But – so as to assess the real impact on our processes, it's still premature. It's too early to say. Most of the impact is on Aliança properly, not precisely Cemig GT, because these plants are being run by Aliança already.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Okay. Thank you.

Operator

We now close our Q&A session. I would like to hand it over the floor to Luiz Fernando Rolla for his final comments. Dr. Luiz Fernando, please?

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

Once again on behalf of our CEO, Mauro Borges, we'd like to thank you for attending. The principle to us is to treat all the issues pertaining to Cemig as a lot of – with full transparency. We expect to have answered just your satisfaction. Exception made to Marcelo (01:09:34) to provide him an information.

We should reiterate the trust Cemig has on its strategy to keep it focus on optimization of its processes, so as to provide to its employees and shareholders positive results that can meet the expectations of our wider community and fully meeting the targets set by our regulatory bodies. Cemig proceeds – push forward our plan for growth. As we described in our presentation, when we trust, the results will be highly positive. Any final words?

A - Unverified Participant

No, thank you. You just wrap it up.

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

So that's it. There is nothing else to say. So, thank you your attendance, and have a nice afternoon.

Operator

So, the video webcast of the results of Cemig for the third quarter 2015 is now closed. We thank you all for your participation, and have a nice afternoon.

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