

## Q1 2015 Earnings Call

### Company Participants

- Antonio Carlos Velez Braga, Investor Relations Officer
- Fabiano Maia Pereira, Chief Officer for Finance and Investor Relations
- Luiz Fernando Rolla, Chief Institutional Relations and Communication Officer
- Mauro Borges Lemos, Chief Executive Officer
- Unidentified Speaker

### Other Participants

- Paulo Ferreira, Analyst
- Vinicius Canheu, Analyst
- Vinicius Tsubone, Analyst

### Presentation

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

Good afternoon to all of you. My name is Antonio Carlos Velez Braga, Investor Relations Officer for Cemig. We now start the transmission of our webcast and results of Cemig related to the First Quarter 2015 with the presence of Dr. Mauro Borges Lemos, Chief Executive Officer; Dr. Fabiano Pereira, Chief Officer for Finance, Investor Relations; and Dr. Fernando Rolla, Institutional Relations and Communication Officer.

This transmission -- this broadcast maybe followed up by means of telephone, 55-11-2188-0155 [ph] or 55-11-2188-0188 and also through our website. To start off this presentation, we hand it over to our Institutional Relations and Communication Officer, Dr. Luiz Fernando Rolla.

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

Good afternoon to all. It's always a renewed pleasure to conduct this video conference with you gentlemen and ladies for disclosing our quarterly results. Some one-and-a-half-months ago, we disclosed our last year's results, and this is the first quarter of this current office and administration.

And, I invite you to read the disclaimer because we'll touch on various strategic points here. Our indicators were rather positive and they do reflect the strategy that has been adopted by current administration. Mauro, our CEO, what would you say about this first quarter of our management.

## Mauro Borges Lemos {BIO 18055467 <GO>}

Good afternoon to all of you. The assessment we make is that, in fact our results have been pretty positive as made very clear from the point of view of net income, EBITDA and net profit. Our position is very solid, and that's what we have to present to you, investors.

We are highly pleased with these results, and my personal commitment and of the entire Executive Board of Cemig is in the sense that we should pursue the consolidated result for this year that we will be true to these first good results in 2015.

We will discuss the results in detail during our presentation, but to sum up what happened during this first quarter, we had maximization of our results as a function of our trade policy that has been implemented for some time already and have brought up major results.

In addition to some very relevant factors happening in the first quarter and not only impacted the quarter results but they always bring benefits into the future. One of them, the consortium made up by Cemig and Light, which won the Itaocara auction, which had been dragging for over ten years, and we granted a concession for the next 30 years using these assets.

Also, the tariff adjustments occurred in April with a general impact of 7% on our distribution business. This means transfer of costs that have been incurred over the past 12 months.

In addition, Alianca, our alliance is bringing the first results with substantial accounting profit that we'll discuss to you in detail in a few moments. That reflects the capacity of the company to restrict itself, to re-organize itself, having viewed as rather complicated project and we could make a very attractive design of this effort to our shareholders.

Yes, indeed you're all right, this project we have been pursuing for a long time and now we're very successfully winning the auction. And, the competitor that would really go into this project brings a very positive result. We have a buildup of resources for this project. We are very optimistic about these results. I do believe also that this signal very importantly that Cemig -- well, this is a consortium made up of Cemig and Light, which is an associated company to us, that's the signal that we are back to auction.

That's important because as long as these auctions are attractive and made feasible to gain returns to our associates, so the participation in Greenfield projects for generation of Cemig is part of our DNA, and if it's part of our DNA, and if we do that so competently, we consider that this is a very important route to be pursued by the group.

We are convinced of that. We are strongly working on the formatting of these auctions, attracting interested investors and federal government, and the union of Brazil is interested in attracting such investors. We must work to make these auctions to be solid in bringing undisputable returns to investors and Cemig's associates and shareholders.

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So, this is our commitment and we are strongly pursuing this target, this goal. And, this auction includes public consultation and audit. On the one hand, we are presenting our competence and we are on the part of the group to participate. And, on the other side, the participation on the designing of the format of these auctions, they can become long-term investments. This is our characteristic.

We don't work on short-term speculative power market. What we know and what we do is to enter partnerships for long-term projects, and this auction perfectly reflects this idea. The auction good in itself also is a sign that our Board is mobilizing to make our group evermore competitive into future options. We reduced and mitigated substantially the risks involved in the hydroelectric investment project.

With investments made in recent years, we adopted a point that we are familiar with virtually all the aspects of the project and then we managed to reduce the risk in such a way that we'll be able to ensure attractive returns to our shareholders. So, this balance of risk and return in Itaocara case was very important for the company.

Yes, first of all, there was an intense debate in-house. We have been discussing this project for over ten years, if I'm not mistaken, and we finally arrived at a design under which the return of this project to Cemig reaches two decimal figures, with the participation of the other managers and managing entities.

Another important aspect of the first quarter, early in April, we could see the annual adjustments becoming ordinary adjustment of tariffs that's just a transfer of costs incurred over the previous 12 months. This has mitigated a lot the risks of our operations. The regulatory body took on costs that were before shouldered by distributors and also future costs and had reached a very high threshold. And, this ensures subsidiaries to low income consumers and also the purchase of additional power and energy by the distributors.

The cost of distribution, therefore was stable -- remained stable without any transfer of costs to consumers, not even of inflation. This will be to the benefit of our consumers.

Yes, indeed, this is a concern of ours, a commitment, and we believe that, in fact, we should go for these (inaudible) or these tariffs that are affordable, that can expand the capacity of our consumers to use the energy that's very strong, withstands your taking. Tariff adjustments included flags and included extraordinary adjustments because we have had non-ordinary aspects that would justify that. But, in real fact, in the long-run, we see affordable tariffs as a means to expand our consumer base and to make feasible economic growth of Brazil.

Most of -- in contrast with most distributors in Brazil, Cemig has corporate and industrial consumers with a heavyweight, which we negotiate with both in the free market and regulated market and the captive market. So this brings a much differentiated portfolio, residential consumers, commercial and industry, consumers. This varied portfolio is one of the most important assets of Cemig and this is important for all consumers and this is the way we work anyway.

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I believe that we are, in fact, pretty much concerned with this huge effort we're making to reduce costs and increase productivity in the Cemig distribution sector. This is something that we should pursue further into the long-run. Now fortunately this is not reflected yet in the first quarter. The increases are not 100% reflected in the first quarter. But in the upcoming quarters, we should see even higher impact on our revenues, positive impact that will also reflect on the results of Cemig distribution, more so the costs that made up our CVA are now being transferred through the flags.

Another important impact on our results was the recognition in the first quarter of the fair value. As our President already mentioned, as we had an alliance with Vale, a major, most relevant project was Cemig. And, this stockholding reorganization is bringing some 135 million in accounting impact, but it goes far behind that. Yes, indeed, Alianca Energia is our main drive to growth in generation.

We have high levels of competence in engineering, and if you add to that a private vehicle for growth, this brings us extreme, robust structure to increase our capacity for generation in Brazil. We have seen already huge increases and developments, and now with this new vehicle, we have all the ingredients for an ever wider participation in the power sector in Brazil for cash generation, that's generation of electricity.

This brings us predictability to our cash flow, which is much to the satisfaction of our Financial Director, isn't it? Yes, positively in very short-term, we believe that it will already bring satisfactory results and payment of dividend to Cemig.

I should remind you that our leverage is almost zero, so our capacity to grow is enormous. Another aspect that should be stressed here is that, our partner is not just a companion on our voyage, but it's a long-term strategic partner, namely Vale, and it will be our partner in the growth of our alliance and it's a major consumer of our power. So, CVA's that are very much consolidated and brings a lot of insurance, also guarantee for performance. These are two partners, one look for the other; they get along very well with a long tradition of cooperation -- mutual cooperation. I and my colleagues here have had many opportunities to talk to them and we're mutually satisfied to see this alliance taking shape both element Vale and Cemig side.

There is a partnership that came to stay. So, that's a perfect scenario, Vale wins, Cemig wins and also those who invest with us in this new resource will win as well. We have a major concern with the sustainability of the company's results, not only from the point of view of finance and economy but also the communities we serve. So, operating performance, tariff standards, these are major concerns and constant concerns of Cemig.

It's a corporate principle for us to watch for the three aspects of sustainability; finance results, respect for community, use of resources into the future for the new generations and protection of the environment. This is a corporate principle for us and we have been recognized for that. And on the communities we work with and we are at par with companies that have the highest standards of concern in these aspect.

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So, in this first part we talked a little bit about our vision, our views on the results and what we should expect. Having viewed the events of the first quarter and now we will provide more figures to you, the figures so far have been very positive. Net income have grown 24% reflecting all that environment -- reflecting the strategy that has been adopted and this allowed for these results.

We had seasonal effects and we are going along the same actions as the other companies in this sector. Having view the reduction of risks, seasonal risks and we had this natural hedge by buying energy. This brings stability to our revenues and our future results. This is a guideline we are following very closely, despite the fact that the context was not too favorable. GSF was pretty low in this first period.

Yes, we believe that efficiency in managing the trey, the commercialization having viewed the hydro crisis, the adverse hydrology and we adopted this hedge that was built accordingly and it was extremely relevant so that we could cross this desert. So to say 2015 which is extremely hard period for the electrical sector as all the investors know from the point of view of hydrology and very could build-up some of these hedges. And the commercialization is a major highlight in these results and this will happen also in the coming quarters.

The synergy was pretty well developed and the results are there showing how we participate very significantly in the Brazilian market. Also the impact coming from the consolidation of Gasmig acquisition, almost a 100% of Gasmig is ours now. This reflects the revenues with an addition of BRL426 million as a result of our incorporation of Gasmig.

Operating expenses also grew around [ph] 50%, but our slide shows the reason for that, that has to do with the amount of energy purchased. This has been very high in recent years due to the dispatch of the thermal plants, the GSF is lower and this purchased electricity compounded to our hedge, which is not necessarily a negative value, although it was substantially increased the expenses and as in percentage terms as well but it brought a positive effect.

The other aspects are pretty much under control, isn't that Dr. Fabiano, and nothing that would be a reason for concern, gas bought for reselling, reflects the impact of the acquisition of 40% [ph] of Eletrobras. EBITDA showed an increase of some 22% and if our President is willing to explain to us, please what happened to our EBITDA. We had a major performance 2.5 billion and that is an important indicator for the remainder of the year.

Yes, an increase of 22.3% as compared to the quarter in 2014. This was partially a result of our alliance and the other part comes from the management and commercialization and internal efficiency gain of the company. We still remain with the commitment to remain this result and this will be our pursuit during the rest of the year.

1.8B [ph] is our performance, still very positive in comparison with the remainder of the market and addition -- if we add that to the measures we are about to discuss, this

performance will be even better into the upcoming quarters. As a consequence of revenues and EBITDA [ph] or EBITDA 18%, it was the consolidated revenue or net income.

It's a little lower but it's understandable that last year PLD or spot market had a very expensive price, which is now BRL288 per megawatt hour in this first quarter. So we have to adjust that and consider the gains from Alianca, still a very positive result.

Yes, one of the best results of the sector in this quarter, again demonstrating our constant pursuit for positive result. And it's a good sign for the rest of the year. I have no doubt about it. This result in the first quarter was a very strong focus that our Board have in view and we wanted to achieve and we did achieve this very positive result. We'll keep on working strongly to achieve a consolidate result comparable with this first quarter.

This is the favorite slide for Dr. Fabiano, that's our debt profile, consolidated value of BRL11.9 billion, some indicators here will be commented on by Dr. Fabiano. As we look at the profile -- consolidated debt profile of Cemig, we listen as an observation that a good deal of this 2015 debt was rolled over, but is not reflected here because that was started in March. Capital cost of the company -- of the debt has increased a little bit over recent months because the long-term interest rate has been increasing but as we see it, the leverage of the company in itself then we have all the indicators under control and that allows us to look ahead with confidence to improve this profile. This will be a pursuit of ours, this year and into the next year.

It's important to highlight also that the debt although it's indexed to PCH [ph] and IPCA. We have CDI and IPCA, we have a hedge for it and our index is IPCA. And our debt is determined by the Selic, which is the official interest rates, Federal and if we consider these two factors, we see an advantage for company over scale such as Cemig.

Cemig D also in a very position, some BRL6 billion in debt, but the relationship between this EBITDA is very favorable. We are very much concerned Dr. Fabiano, isn't it, to elongate that profile into the next years, it's a restructuring of this debt and we are doing that beginning in this 2015.

Yeah, we are looking at a possibility of reducing the debts volume at GT -- Cemig GT, this is already in our pipeline and also working on potentially debt index to inflation. This brings more flexibility to the company and we need to hope us drove even further.

Distributor as well as Cemig D, despite all the tight conditions in 2014 it's still in at a very reasonable position in terms of debt profile, of course not all the hedging mechanism and protection mechanism is reflected here. The tariff flags adopted by the regulatory bodies, so we are still to observe a little bit of this impact in the second quarter, but in any event this performance is rather positive and predictable and with our strategy to restrict the debt we'll elongate with that for our distributor division.

Tariff revision and flags have reduced substantially our perception of risk. The perception of risk from our investors was looking at some risks to the cash flow of the companies. From the point of view of investors, last year that with our measures we managed to

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reduce these risks and even so we adopted further measures for protecting our cash flow, restricting execution of our investment program. In the first quarter, we curbed a few of our investors -- investments rather is not to say that we are not going to make those investments. We will recover that over the rest of the year but for the sake of protection of our cash flow, we did that.

And if you look at the figures for 2015 planned and executed, we restricted, a little bit that in the beginning of the year for greater tranquility but we did invest some 25% of plans. So if you look at, this is just the first quarter, it's well evenly distributed over the year, as compared to last year and it's little lowering the heat, but it has to do with differences between the two years.

Last year, our investment program was pretty robust and in comparison with this year it looks like there has been a reduction, but actually what happened was that investments in last year was outstanding but these next slides bring a very positive indicators, generation of cash is pretty positive, even having view the pretty complicated situation we went through during the first semester as for the context of the economy that reflects the hard work of the company over last month.

We have just tracked (technical difficulty) have a track on that very closely and this we can see our capacity to generate cash to meet our commitment. We rolled over some part of the debt, we liquidated a matured debt and we still have a good cash to go through the rest of the year without any much concern.

Also if you compare as far as capital markets are concerned, if we see a very positive evolution, by March we show the negative performance but as the tariff -- extraordinary tariff adjustments and (inaudible), the perception of the investor improved pretty much and our shares valued pretty much above the average in the sector at Bovespa, and for example still being built. They did have also a very positive performance in the capital markets.

These were the points we wanted to bring to you. We now open for questions and answers, and we are ready to approach any other point that may have not been looked upon in our presentation.

## Questions And Answers

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

We now start our Q&A. (Operator Instructions) Mr. Canheu from Credit Suisse.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

Good afternoon and thank you for the presentation. I would like to know if you have any update on the -- for a dispute concerning the three main hydro plants. Apparently there had been no news but we just saw that this has been brought back to the court agenda. Could you anticipate any further developments on that?

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## A - Unidentified Speaker

Vinicius, good afternoon. What I could advance to you is that as a plant we've started of a process for negotiating the three plants. We defined together with a union, Brazilian Union, their parameters for such negotiation and I'm personally involved in this negotiation with the fellow government and the Minister Eduardo Barak [ph] appointed by our President to conduct negotiations with Cemig. On the part of Cemig, I've been conducting dealings with the minister personally myself and my perspective on that is very positive. I do believe that there are interests -- mutual interests. The federal government and the state government and Cemig controlled by, of course by the State of Minas Gerais, there is a common interest to get a solution where everybody will win. Ever since we took on the direction of the company, we have been saying to the market that we can transform this game, which looked like, it's all or nothing type of game to a win-win situation and that's the direction we are following in the negotiations with the federal union.

As you know negotiations of the scale, require time -- take time and you really need time to wrap up all the aspects, not to leave any room for further litigations so that we can get to a position where we will be comfortable that the decision will be to the benefit of the company. It's a complex negotiation and in that sense we have defined from the (inaudible) of this negotiation that the time variable shouldn't be the most important variable when seeking solution.

This year as everybody knows is exceptionally a restricted year as for water resources, and this is an external factor that provides a rebate, the process of seeking a negotiated solution. We know that, we acknowledge that before the market, from the beginning we have mentioned that and we have no dead line, no final date to define the end of negotiations. We believe that the more time -- if we have a little more time, we can arrive at beneficial solution by the second semester of this year, that will be good for Brazil and for all concerned.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

Okay. Thank you.

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

Our next question comes from Paulo Ferreira, Bradesco.

**Q - Paulo Ferreira** {BIO 18941383 <GO>}

Good afternoon. Thank you. I would like to ask if there is any concern on the part of the company or the margins in general as regards the leverage. Once the perspective for distributing dividends in 2015, will it be 50% as before or will it be anything below that? Thank you.

**A - Unidentified Speaker**

I request our Financial Officer to reply.



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

First I would like to make it very clear that the commitment on the part of the company remains strong, the statutory dividends are 50% of the profit. What we have done at this moment was just a prudential [ph] move. Last month assemble meeting approved 25% and we reserve 25% for future dividends and these will be paid as soon as this scenario of uncertainties is overcome.

### **A - Unidentified Speaker**

To add a little bit to this, the issue of indebtness as mentioned, our conviction is that our indebtness level is pretty low. If you look at all the relevant indicators, it's a fact that the distributor going through a period of increased indebtness due to all that happened last year and early this year but with this new policy of transfer of costs especially non-controllable cost and this will by the end of the year improves substantially our performance.

### **Q - Paulo Ferreira** {BIO 18941383 <GO>}

Thank you.

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

(Operator Instructions) Our next question comes from Mr. Vinicius from UBS.

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

Thank you. Perhaps you could give us more colorful description of what's happening with Alianca, are you going to focus on more known assets, existing assets or what?

### **A - Mauro Borges Lemos** {BIO 18055467 <GO>}

Our strategy as we have commented during our presentation is to make it into our vehicle for growth in the generation from mean to big (inaudible) and Greenfield projects, some of them already defined to turn our alliance into company that you be much more -- have much more capacity than in the initial 1,200 megawatt. This will enable accelerating this growth and our goal is to grow very strongly into the next five years, in five years it will probably become one of the most important generating companies in the country.

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

(Operator Instructions) We now close our Q&A session. I would like now to hand over the floor to Dr. Fernando Rolla for his final remarks.

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

Before I hand it over to our CEO, I should remind you that on the 25th our tariff annual meeting with analysts and experts in the field, it's a traditional event in the market and for Cemig I extend the invitation to all of you. You can be present, you can follow the event through the telecommunication media we will put at your disposal. We will discuss the strategy of Cemig for the next years and also for final remarks and to close the meeting our Chief Executive Officer, Mauro Borges Lemos.

## A - Mauro Borges Lemos {BIO 18055467 <GO>}

I would like to close this session by saying first, that we restate firmly our commitments taken when we took office and the new administration. Our shareholders, our investors are fundamental to us, we will see consolidated results consistent with what we have already in the first quarter and reaffirming this commitment is important to me and to us. And how we plan to deliver these results, this is always the question that we should revisit. First, we believe that competence -- Cemig's competence as a company involved in generating transmission and distribution of energy involves major gains in operational synergy and then operating at low cost at these three specialized dimensions of Cemig is extremely important.

Secondly, we are working on a growth strategy of Cemig as a Group. We today are a Group, a relevant Group, we have a private vehicles and the mentions that we consider the most significant for our growth involving generation, creating this private vehicle which is Alianca Energy with Vale and consolidation of Renova as company generating renewable energy.

Renova, it's important to say that this recent operation with Cemig's Group aims at expanding our capacity between best. We're not selling any of our assets. We are rather establishing a long-term partnership with this leading U.S. company in renewable, so that we can have assets for generation in Renova.

We have backlogs with PPA's already stretching and auctions already done. We have already -- the guarantee on long-term contracts and we want to speed up investments for cash generation by operating these assets that are now in our backlogged. Our pipeline is of high quality and that's what we want to press ahead.

Our strategy is to have this financial instrument for speeding up our renewables. We are already a leading company in renewables in Brazil. We will go on with this, with the participation of Cemig's Group in transmission. Our orientation is that our capacity in engineering should be added to this private vehicle, which is (inaudible), which will expand our participation in the transmission market of Brazil.

Our (inaudible) operational maintenance in transmission, we can operate at very low cost, so we must use our competence in engineering to press on with the growth of this sector in Brazil. As far as distribution is concerned we have a Cemig distributor, which holds the largest market of distribution in Brazil. This company is a major asset of ours and together with that we have Light as a private participant and we by that -- by means of these actions we will take important steps towards growing together Cemig and Lights.

These are the instruments we have with a big capacity for synergy and this can be put as a service of further growth. This is a commitment of the Board and we should deliver by the end of the year, results to the share holders as comparable to the size and scale of the company we lead.

And as public utility company, we must also deliver affordable quality services. This is a commitment that we are restating at every opportunity and I do it again right now. These

are not incomparable. Profits on returns are not incomparable with the public utility roll of Cemig. On the contrary the more we deliver services, affordable services, quality services the more we will be able to grow.

One side reinforces the other, quality affordable services means greater returns to our investors. So this strategic view will be reflected in our economic financial projection to be submitted on the 25th during our event. We will be transforming the strategic view into figures but also into results for the future.

To wrap up our conference, I would like to thank you all for your attention. I should mention that our investors department -- investor relation department are here and Mr. Ricardo is here, you probably reserved the tougher questions for him and he is available 24/7 to you and to share our strategy for relationships with investors. Thank you.

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

So the video webcast is now closed. We thank you for your participation and have a nice afternoon.

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