

## Q4 2016 Earnings Call

### Company Participants

- Adézio de Almeida Lima, Chief Officer for Finance and Investor Relations
- Antônio Carlos Vélez Braga, General Manager-Investor Relations
- Unverified Participant

### Other Participants

- Andre Sampaio, Analyst
- Caio Carvalho, Analyst
- Vitor Sousa, Analyst

## MANAGEMENT DISCUSSION SECTION

### Antônio Carlos Vélez Braga

Good afternoon to all. My name is Antônio Carlos Vélez Braga, Cemig's IR Officer. We'll start now our webcast with Cemig results relative to fourth quarter 2016. And here with us, we have Dr. Adézio de Almeida Lima, Chief Officer for Finance and IR; Dr. Leonardo George de Magalhaes, Controller (00:26); and Dr. Paulo Eduardo Pereira Guimarães (00:32), Head of Corporate Finance Management. This broadcast maybe followed in phones 55-11-2188-0155, or 55-11-2188-0188, and also on our site, [ri.cemig.com.br](http://ri.cemig.com.br).

On page 3 of our presentation of results, you can see net revenue, EBITDA and net profit. Net revenue dropped by 14.2%. EBITDA and net profit fell by respectively 52.4% and 86.4%. The main reason for these reductions are listed here on the slide. Revenue, the main (01:40) - the main cause for that was a difference in the CVA. We were building our CVA in a positive territory in 2015, and in 2016 we had significant reductions. EBITDA and net profit are also explained in the drops by the operation of São Simão plant transferred to the Quota region. Also, we have the effects of our more than one BRL 1 billion of impairment and investments, one of which was relative to Renova and another impairment in Guanhães.

On page 4, we want to show that our comparison especially regarding EBITDA and net profit in a more clean somehow way, better to compare. The EBITDA, we made adjustments, as you'll see, and reduction was 23%, and net profit, a reduction of almost 40%. Could you comment on that, especially on the adjustments we made this year, the main ones?

### Unverified Participant

Yes. As Vélez already said, our EBITDA showed a reduction of 52%, but as we can see here, it falls to 23% in this comparison. That's non-recurring. We have some positive points that increased our EBITDA. Basically associated to the alliance in EBITDA. Our main effect was related to Renova. Renova is going to a structuring or restructuring. It's been expanding its investment calendar on a schedule, and because of issues that involve these investments, we will have to proceed to a feasibility analysis.

And there was – this investments into two parts, one of them in Cemig itself and that involved a lot of assets and the other parts directly by Renova, in the value of BRL 215 million. The two combined added up in the Renova figures as you can see. And through a subsidiary and also the Guanhões impairment of almost BRL 100 million, we had profit on sales of Taesa shares, this amounts to almost BRL 300 million. These are the main effects.

And now moving on to the next topic. On page 5, we have consolidated net revenue in evolution of the supply and the volumes sold consolidated. As we said, the main event explaining the reduction of net revenue is different in constitution of CVA. You can see that it was negative in 2016.

Also, São Simão plant was transferred to the Quota regime, (06:21) of São Simão annual generation revenue amounts to BRL 250 million. Also, the amount of available energy for the spot market in 2015, it was much bigger as you can see in the numbers, and the average price for 2015 was BRL 288, and in 2016 BRL 93.77 spot price. We can consider the image. Also, added to that, the decrease in supply of energy associated to a decreased consumption by industry.

As for operational expenses, page 6, the global value presented a 14% drop, and this reduction is explained basically – is associated to the reduction of our purchase of energy at the distributor basically, but we should highlight a few points regarding the controllable company. You can see that the voluntary retirement program in 2016, we got 749 employees joining, that resulted in a total cost of BRL 93 million. Expected savings amounting to BRL 200 million per year. Another PDD voluntary retirement program is also planned for 2017 as of May this year.

It's also important to stress the fact the provisions for losses on investments, (08:41) increases of BRL 54 million in the case of balance sheet and an increase of BRL 48 million in balance sheet. Other items in here were pretty stable reflecting our effort to improve our operational efficiency.

On page 7, we have the profile of consolidated GAAP. And Paulo Eduardo (09:18), my colleague, will speak about that and how this has evolved.

Thank you, Dr. Vélez. Good afternoon. Talking a little bit about Cemig's debt, our net debt is around BRL 13 billion. It concentrates strongly over the next two or three years. This is something that we are trying to revert or reverse. We are rolling over all of our debt, seeking funding (10:00) longer term. And Cemig Distribution, around the first semester last year and the generation in the second semester last year, we could see the capacity

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to roll over the debt. In the case of distribution, we had another four years and generation distribution up to five years. Despite the difficulties found in the market and other issues evolving for Cemig D, we could do successfully this rolling over of our debt. We can see that, last year, our debt was basically kept stable if you consider the volume that we recaptured and the ones that we amortized.

As we will see later, for Cemig GT, we had pretty much substantial capacity to capture or funding through the option. Then, we pay the granting of São Simão, other short-term promissory notes (11:30). Part of that was rolled over for five years. Although despite this concentration in the short-term, we are trying to elongate that profile in that, so that we can have less pressure on this. We transferred that due on 2016, to 2019, 2021, years where our financial commitments are lesser.

You can see (12:18) most of this pie chart here in the capital markets, we had lesser access to the functional economies and other traditional sources. So, with market for sure, they lend money - even the CDI has only that served. This is higher than the history of our index service due to the leverage of Cemig D and the market conditions, but I would have the commitment to do this investment in the divert funds from the investment to reduce our debts; not only reducing and elongating the timetable for amortization, but also trying to get profit of this cycle have reduced tax rates (13:36).

In terms of leverage, we can see that those were a little higher than usual, but if we talk about net debt over stockholders' equity, you can see that our figures are at adequate levels.

Thank you, Paulo, about your comments on our consolidated debt profile. It's also interesting to comment to say that if we consider the adjusted EBITDA, you can see the figures are pretty much reasonable.

On page 8, talking a little bit about results of Cemig GT, we have mentioned already operation of São Simão being transferred to the Quota regime. There was an impact from this, also a lesser amount of available energy in 2016 as compared to 2015 and the prices in 2016 were - well, energy was sold at about in part (15:06) of what we had been in the previous year. And another effect also impacted.

The EBITDA, we can see, but it's important that our seasonal strategy adopted last year was very successful. Also, the debt profile for Cemig GT, Paulo, would you have any remarks about this?

Well, (15:47) I gave you an idea already of how we dealt with that. The other segments of Cemig, we got obliged to stress the fact that the negativity of (16:04) maturities timetable, you can see the number of BRL 217 million. We have already paid down BRL 629 million of that early this year.

On page 10, very quickly about Cemig D division results, much what we've seen already. The impact of CVA, negative CVA on net revenues, EBITDA - that's neutral for EBITDA, but what really impacted our distributor was that in 2016, we had a strong deterioration in

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terms of commercial losses and higher default, as you can see in our provisions note. The CLD (17:10) increased BRL 200 million, increase in 2016 as opposed to the previous year. That has a large impact on EBITDA, on cumulative distribution. Also, commercial losses amounted to BRL 200 million of impact in the net profit, also impact EBITDA, and also the consumer market, the captive consumer market saw a reduction in consumption. We're talking about reductions that amount to almost BRL 100 million, that amounts to around BRL 600 million altogether, considering all these factors.

We are making all the efforts possible to reduce the full and to fight commercial losses. We expect a much better situation by the end of this year in that regard, and I am sure that already, the results of the first quarter, we will point at some improvement.

When we talked about expenses, the early retirement program was pretty much adhered to and most of the workforce was allocated to Cemig GT (18:57). So, more than 500 employees in Cemig Distribution opted for the early retirement, and the total cost was BRL 64 million.

What about debt profile of Cemig D? Following the lines of the other segments and from the GDP, there is this concentration also on the upcoming years that as I have already explained, we're trying to redesign this debt profile, trying to elongate it and the leverage that is considered net debt and EBITDA, you can see a higher number here, but that's a result of the positive EBITDA, as commented by our colleague.

On page 12, we show you our investments for 2016. We can see that what was realized was pretty much near to what have been planned. We can see investments on other grant of concessions rather. We won in 2016 that (20:35) plant that has maybe operating (20:40) grant of concession.

And we won the auction and that was in excess of BRL 2.2 billion from this auction. This is a recurrent amount in year and those who follow us closely, we can see investments on Cemig D. It's around BRL 1 billion, last year BRL 1.1 billion approximately, and in 2017, we expect a similar figure.

On page 13, we have the cash flow. I would ask Dr. Leonardo (21:35) to describe to us this diagram.

We broke down (21:56) of the cash with provisions, investments, et cetera. You can see the significant numbers, a very strong cash generation.

Investment activity this year was very substantial, a lot of the investment we have to make, then also injections of capital in Renova. And in May, we will show that in more detail to investors having the year 2017, but it's going to be lower than 2016 because this BRL 2 billion that we invested on the grant has already been generating cash and that (23:00) our activity of distribution of energy.

In terms of financing, our debt saw no change rather. You can see it's more or like the same level in the mid-term and long-term, where we have (23:30) with that.

On Cemig D, we managed to reduce sequentially our debt, considering the capital amount on the year and amount paid on (23:49). This already has led our commitment to reduce indebtedness. We had more traction of our capital in equity, but that have to do with their grant that we have already mentioned.

Now, moving on to page 14. Proposal for allocation of net profit. In December last year, our board has already decided for BRL 330 (24:40) million. There, you can see the numbers and the figures for dividends. Now, the board will submit to the Shareholders Meeting a proposal to pay BRL 204 million, that's payable of preferred shares, minimum mandatory dividend. This represents some BRL 0.25 per preferred share. Also, another amount of BRL 161 million held in retained earnings reserve and BRL 7 million held in tax and incentives reserve.

Now, I would like to hand the floor to our finance officer.

## **Adézio de Almeida Lima**

Good afternoon to all. I think that all the figures have been conveyed, and we will be available for questions, but I would like to add this. I have been with the company for one month-and-a-half, a company that has - all (26:10) has been a benchmark to us. All (26:13) is a very positive image of the company and the board has made a few considerations for 2017, 2018. The main topic to be tackled and we'll try all our focus in energy. It's a better performance of our own equity and third-party capital, especially that financing and banking loans.

Well, it has been more pretty much explained. And also that coupled with the sale of our asset made it crucial (27:03) for us to get to a level of liquidity that's better than what we have today. Also, these investments are scheduled for this year. We think that - well, the legal issue involving the clients we see that we are entitled to keeping, but the granting power, some authority have already publicized an auction for September, auction of these plants.

So, for 2017 and throughout 2018, we expect that the interest rates are coming down. (28:08) is coming down. That for each points of (28:18) that comes down, we reduce our debt by BRL 700 million (28:22).

So, there will be less cash required to (28:35) to pay our debts. So, I'll be available now to you for any questions you might have.

## **Q&A**

### **A - Antônio Carlos Vélez Braga**

Ladies and gentlemen, we will now have the Q&A session.

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**Q - Caio Carvalho** {BIO 1838856 <GO>}

Hi. I'm Carvalho from Brasil Plural. I have a question. Good afternoon. Thank you. I would like to try to understand a little better. This investment plan for 2017, we know that it's part of the plan of the company, perhaps you could give an update of the initiatives in that regard over the year. (29:30) also talking a little bit more about Santo Antônio. The media has mentioned about the interruption of negotiations, I'd like to know how that (29:47) Santo Antônio. If the partners agree on the mode of sale, would there be any position expected from the accounts tribunal (30:01) of the state?

**A - Antônio Carlos Vélez Braga**

For (30:05) me?

**Q - Caio Carvalho** {BIO 1838856 <GO>}

Yeah.

**A - Adézio de Almeida Lima**

Caio, this is Dr. Adézio talking with you, Caio Carvalho. About this investment plan, our board has approved at the March meeting that this investments that we will be proceeding to Santo Antônio is the first case you mentioned. We've already had an advancement in evaluation. We have first with potential investors. We haven't found (30:50) yet the final agreement that we will be back to the (30:59). There was a cover proposal and maybe that's now being reviewed.

So, therefore priority for us to sell Santo Antônio to recompose our cash. And it's not an investment that we are interested in keeping our portfolio. You also asked about - any restriction about the accounts tribunal (31:29) with regard to the selling of Santo Antônio. No disputing whatsoever. We'll manage to achieve just a fair price for that. Other big (31:43) investment, I'll mention a few. Cemig Telecom already at evaluation stage and some potential investors. Today, we had a meeting with (32:00). They are interested in the assets.

(32:06) that's a set of transmission line that are (32:18), who is a partner in terms of transmission (32:26). It's interested in managing those lines. Also selling is Gasmig (32:32). It's in discussion, should we sell 39%, according to the (32:42) which we model, but surely get 49% to shareholder's agreement.

The company has been announcing the big (33:01) investments of (33:04) are not part of our core business. We (33:07) negotiating them. So, we are discussing it and that's not closed. Nothing is closed at this point. And the company has been making efforts to really arrive at BRL 300 billion with the deal done (33:30) (33:33). And so, these are the criteria. No relevant stake and also out of our core business.

**Q - Caio Carvalho** {BIO 1838856 <GO>}

What about the timing? You mentioned - you gave an example, perhaps it's more comprehensive than that, Santo Antônio and transmission lines. Is it safe though to expect

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that it will be done within this year and what's the timing, what's your target in terms of these projects?

### **A - Antônio Carlos Vélez Braga**

Yeah. We think that we are (34:14). Again, we will devalue our assets, but typically we intend to sell all of them by October. We want to have the cash already internalized. It's not closing the deal, but we want negotiations to go on by October. We have a team dedicated to this aspect of selling efforts.

Our next question comes from Andre Sampaio, Santander.

### **Q - Andre Sampaio** {BIO 19422379 <GO>}

Good afternoon. I have a quick question about distribution. What's your strategy to improve and make up for the losses?

### **A - Antônio Carlos Vélez Braga**

We already are making up for these losses. But yesterday, we had recovered already BRL 98 million in cash. We had one of the agreements at BRL 104 million of volume (35:29). So, we have all that figured out for reducing our losses and recovering the (35:42).

Yesterday, for example, we included 500,000 (35:58) control the situation and not important, we can make about some (36:08) the tax re-composition. We will present to you for the National Agency of Energy, ANEEL. We expect to have, okay, a good net cash back rate re-composition for 2018.

To talk more about the increased efficiency of distribution. We have one program for cost reduction and early retirement programs last year involved 700 employees, had a very good effect. And we implement this year another such program and we expect a substantial number of employees throughout the year. All these movements by the company, they're along the line of hitting, or reaching regulatory benchmark, reducing our costs and debt. Perhaps this year, we want to reach this regulatory framework that we will have the opportunity to discuss with ANEEL the costs incurred by the company and the rates and reducing our personnel costs. We expect the Cemig Distribution will increase its profitability. 2016, as commented upon, rather hard, difficult year. We expect (38:12) market, high levels of default, but our revenue in 2017 will collect the fees (38:23) of our efforts.

### **Q - Andre Sampaio** {BIO 19422379 <GO>}

Another question about (38:30). Do you have any estimation of how many employees will adhere to the early retirement program?

### **A - Antônio Carlos Vélez Braga**

Well, because this will run until October, we would rather not risk, guess. We don't know - we expect a substantial number, but we don't have a figure.

**Q - Andre Sampaio** {BIO 19422379 <GO>}

Thank you, then.

## Operator

Next question from Vitor Sousa, Brasil Plural.

**Q - Vitor Sousa**

Good afternoon. I have question relative to Light. You still have two-thirds of the put option of Light by November 2017. What's your strategy with regards to (39:55)?

**A - Antônio Carlos Vélez Braga**

Yes, we have time until November for the production (40:11) that liquidation. It's well structured, well organized, well planned, and we are all set in order to buy those shares. It's a complex issue that involves a substantial volume of shares, but the money we have available and we expect through our actions over 2017 that we have money enough to buy that.

In case the (40:56) liquidation, then you will have more than 50% of the company sounding like (41:11). No alternatives were sent by (41:15), but 26% electric, RME electric (41:36) stakeholders of Light. Again, if we buy this other partner, then we will be above 50% as you say.

But we have until November to prevent that from happening. I cannot respond due to confidentiality issues. I cannot open up too much in terms of events in the capital market that will lead up that. But we will assume the (42:12) has approval by the boards, but there will be no (42:21) with that. I don't want it to become a state company, but even in the upcoming market - in the upcoming months (42:36) we're in position to present that at the same time.

Okay. Thank you.

We'll now close our question-and-answer sessions. We now would like to hand the floor over to Dr. Adézio de Almeida Lima, our Chief Officer for Finance and IR.

I thank you all for participating and we look forward to further opportunities to discuss and solve any doubts in the shown advancements as we move through 2017. If you need any further information, we are all here available to you. Let me (44:26) will be available to you for any doubt that you may have over in the course of the year.

But there will be other opportunities to discuss and even meet you personally.

Thank you.



So, this webcast with the results of the fourth quarter 2016 of CEMIG is now closed. Thank you and have a good afternoon.

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