

Q2 2013 Earnings Call

Company Participants

- Antonio Carlos Velez Braga, Superintendent
- Djalma Bastos de Moraes, President
- Luiz Fernando Rolla, CFO
- Maria Celeste Moraes, Legal Director
- Unidentified Speaker, Analyst

Other Participants

- Antonio Junqueira, Analyst
- Felipe Leal, Analyst
- Lilyanna Yang, Analyst
- Sergio Tamashiro, Analyst
- Vinicius Canheu, Analyst

Presentation

Antonio Carlos Velez Braga {BIO 16813855 <GO>}

(interpreted) Good morning, everyone. My name is Antonio Carlos Velez Braga. I'm Superintendent of Investor Relations of CEMIG.

We'll now begin the video webcast of the Second Quarter 2013 Results with the presence of Djalma Bastos de Moraes, the President; Dr. Maria Celeste Moraes, our Legal Director; Dr. Luiz Fernando Rolla, our CFO and Investor Relations Director; and Dr. Leonardo George de Magalhaes, Superintendent, our Controller.

The webcast can be followed on -- over the phone, 55-11-4688-6341 and also on our website <http://ri.cemig.com.br>. We now give the floor to our CFO, Dr. Luiz Fernando Rolla, to begin the presentation.

Luiz Fernando Rolla {BIO 1852035 <GO>}

A very good morning, everyone. It is with very great pleasure that we begin this video webcast of the Second Quarter 2013 results. I thank you in advance for your attention. It is important for us to communicate to the market the results that we at every quarter, publicize to our shareholders.

Here's the results of the P&L of the Second Quarter, represents an evolution compared to the previous year, much in line with the growth strategies and the improvement strategies

of our operation efficiency that the company has in place in the recent years. We are now in the very dynamic process not only from the regulation point of view but also from the economic point of view in Brazil. And you will see that reflected in our results.

The results that we presented in the Second Quarter 2013 compared with the previous year had a relatively small variation. We're going to go into a lot of detail during this presentation. You can see that the results of net revenues had an impact on the tariffs reduction that took place last February 2013. But also a result of the third tariff review.

Mr. President, these results that we are presenting now, if we look at the results, the cumulative results of this semester, how do you see the results?

Djalma Bastos de Moraes {BIO 2089645 <GO>}

Good morning, ladies and gentlemen. I thank you for your presence here and our staff. We have a very good result actually, this semester, 1.4 profits [ph] representing relative to the first semester last year an addition of approximately 20%. So we're in a very good situation relative to our context in which all of the activities in the country are, especially in the context (inaudible) finds itself. And the rest of world except maybe for the USA.

We represent, actually, (inaudible) this country. This result reflects our effort. Our team are part of it that's present here. Today, we have the presence of Dr. Celeste, (inaudible) the regulation environment we're experiencing. Dr. Celeste (inaudible) I might say for you to be knowledgeable about what we've been doing.

Unidentified Speaker

Mr. President, in previous quarters, we were talking or saying that CEMIG was going to do a process of fitting the new regulation reality. And in fact, we had, as we announced in the First Quarter, significant reduction in the number of employees. We have reached the number that we expected, an addition of 700 to 800 employees. We had about 1,000 joining the resignation program. Approximately, by the end of the year, we're going to reach about 1,800 employees. So it is good expectation is for us. And we believe that we have an ongoing selection process. We're bringing people, new people into the company, of course, with the necessary training.

And we are certain that we're going to reach 2014 in a relatively good situation. We believe that our results are going to proceed along the same lines that we have been having. We have operational gains to capture in the Second Quarter, which are going to be accredited next year, the second semester and certainly in a greater reflection by the end of the first semester and really more intensively in the second semester.

Exactly, the cash generation during the first semester reflects a little the kind of investment that we have been making coming from this reduction. Mr. President, exactly, we had an EBITDA of BRL2.4 billion, approximately a growth vis-a-vis the last semester about 15%. And this really reflects our policy, the policy that you have been actually informed about all the time.

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As a result, probably, today, we're going to have the (inaudible) of Taesa, the excellent results of Taesa. And also, they're going to be publicized. Recently, we actually (inaudible) part of our interest, TBE interest to Taesa. Taesa is going through a very good moment.

Just to give you an idea, we have not had much success in our auctions. But we're striving towards it. Two of our directors, plus 2 directors of Taesa, plus 2 superintendents have been recently to China, trying to find partners and associations in order to make us more competitive. We believe really that we are going to be successful in our next auctions. It is a dynamic company and we are already moving associating with Chinese similar companies for us to have a success in our auctions. It is our growth vehicle for transmission and we're going to have good results in the future. This represents our growth and strategy.

With Light by the way, you may have followed that in the media. We then go into a tariff review within the next month in Light. But there is a peculiarity to this expectation of tariff review with Light. If you observe that yesterday, there was -- the Aneel team would be in Rio de Janeiro examining the situation which we showed to Aneel.

We have been trying to show Aneel that there are 2 Rios, one Rio identical to the rest of the country with all of the problems that we have in the country. But there is the part of Rio de Janeiro which is very peculiar, the part where we cannot even make as feasible the cutting or the outage of a certain area or a certain residence, which has actually stolen energy. We are even prevented from cutting off that illegal connection. So we cannot join this normal Rio with the peculiar Rio. And we're having a small success. Light showed itself to be receptive and it's showing the team to verify that.

On-site, the president of Light was in a contact with the public safety secretary in Rio and Aneel showing this peculiar situation. We're trying to show Aneel that we need to invest, we need to be together with the government of the state and the units of what we call the peacemaking units, the police peacemaking units in the slum areas in Rio. It is a peculiar situation but we are going to have success in the Light, actually, stealing of energy, of power in Rio which is so peculiar vis-a-vis the rest of the country.

In the renewable energy aspects, we also had some novelties recently that we have announced that we, Light, you'll know that the Renova will have a Light/Renova interest and now CEMIG also we're -- we have an interest in Renova. Renova is our growth vehicle in the generation era. We've been participating now CEMIG, Light and our Renova, each one with 1/3 interest. This is an important interest of ours.

And by the way, you'll know because this has been publicized but we have been working along the lines of acquiring part of Brazil PCH. We have made a successful proposition Petrobras. However, the partner, which already had 49% has preference. We've been negotiating with that partner and it's possible even that we will be successful in this acquisition and maybe this partner might add some assets, might be, with us.

So it is these are news that we are actually -- will publicize but what we have as far is our Renova having an interested Brazil PCH. These assets which add up to about BRL700

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million, these assets with a proposition and we've been negotiated with the other partner. So that we can also have their interest in other assets that they may have. So that we can add that to our company. So those are important attitudes which we are certain will add on to what we've been doing thus far in terms of new acquisitions, adding value to our company.

Last week, we had the first auction of CEMIG/light equipment. We proceeded with the bidding process and there was a total synergy of the two companies. When need to magnify that. It was a small amount but it was the very first step towards a greater path. How about the regulation front? That is regulation front and the presence of Dr. Celeste has been very, very important in this realm of regulation. You know about our work with the judicial systems in terms of the 3 hydroelectric plants, Miranda, Jaguará and São Simão.

We had a conversation. We've been working so that these contracts may be considered legally valid. There is juridic perspective that we have that's right. We are entitled to this and we were surprised about two months ago with a later from the ministry already asking us to return Jaguará.

So we wrote a memorandum to the Supreme Court. We were present there in the Supreme Court, myself and Dr. Celeste and our contact in Brazil. We've been there to the Supreme Court. We visited the minister and we had our first success.

I'm going to give the floor now to Dr. Celeste but ladies and gentlemen. this is a small battle in a great war. We were successful in this first battle. So Dr. Celeste is going to provide us with some explanation of what we did there and how this process is going through. Dr. Celeste, please.

Maria Celeste Moraes {BIO 17339931 <GO>}

Good morning, everyone. I thank the reference of our President, Dr. Djalma. And my greetings to Dr. Luiz Fernando Rolla, (inaudible) Velez. As our president has said, our CEO has said, we were successful, really, a very important success that that Minister (inaudible) the reporter of our process. At the Supreme Court, we actually had this provision of asking the rights to have the renewal of a request examined by the Ministry of Mines and Energy.

As everybody has said, the Minister of Mines and Energy did not examine the merit of our request. The argument that the request would be untimely not because we had actually missed the deadline but because we did not adhere to MP 579.

Today's law. And we understand that the law apply to our contract is the one that was therefore -- that was in effect when the contract was signed. So we were in the right time. We entered the right time and we were very successful because Minister (inaudible) Joaquin [ph] actually approved our request granting CEMIG. Those are the terms of his report so that's CEMIG will remain.

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The concession owner of Jaguara until the situation is judged. The concessions ends on the 28th of August. The process has not been put actually on the agenda. The union actually re-appealed of that decision but because of the Supreme Court recess, the process had now has begun again in August.

So the company is very tranquil because that's injunction the for how ever time -- however long the process remains. We will keep the concession. And the minister in his report has stressed that he saw plausibility in our claim. So he actually advanced that on the basis of his own jurisdiction, isolated, given his decision that the concession, therefore, must continue with CEMIG until the litigation is judged.

Therefore, we've been working with the legal office that represents us in Brazil so that this injunction is stabilized. So that we can be successful with the concession of maybe in the next month.

Unidentified Speaker

Thank you, Doctor. Just a minute, just adding on to what she said. I was surprised this morning still about this subject, Dr. Celeste. Today, there was a report on Valor. I've mentioned Valor twice. And you talk to the Valor people, we're not giving them any coverage to them.

But today I was surprised with a story at the Valor newspaper where a former Director of Aneel said that about this topic he mentioned the sentence that CEMIG is actually have a lot of reason. Did you read that?

Yes, I did.

And we were surprised, pleasantly surprised, because there was a former Director of Aneel saying that CEMIG is right in its request. So for you to know that we find our claim pertinent, we are actually creditors of these three generators plants. And we're going to the last juridical consequences evidently about this topic.

At each day, we have been winning small battles. I believe that this new story is one other victory, small victory that we have had. And we believe in the justice system in this country. We believe in the confidence that our investors have been lending us. And we are on the right path.

Mr. President, just a close -- we also had an extremely relevant fact in quarter results, the transfer of TBA of 2 Taesa concluding the regulatory process which is trying to bring Taesa very positive results. But in order to close this first phase, could you give a message to our shareholders and investors who our willing to analyze CEMIG as an investment opportunity?

I don't want to state to you investors that CEMIG is similar. I just want to -- you keep your confidence that you always had in our company. We've been present in more than 20

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events together here, outside of here and some other cities in our state. But please keep our confidence, our work is correct. We have a total support of our controller, of the other great investor (inaudible), which is adding the value to the company and is helping us. And the total confidence, the total trust that our controller has in us delegating the actions that we have been implementing and we are actually on the correct course.

I'd like to convey to you that we are going to continue doing the same type of work. We will continue this format based upon this tripod which is first, we'll offer good services to our consumers and the tranquility to our investors and that tenderness that we have with our company, our employees who are our support, which have led us to the situation we're in now, we're enjoying out.

So I want to be together with you, I don't know how long. I will still be able to share the success of our CEMIG. Thank you. Dr. Celeste and myself will have to withdraw, we have other commitments. We cannot be with you but we are always at your service. Thank you very much and good morning, everyone.

Thank you, Mr. President, closing this first stage of our video webcast. From now on we're going to go. Dr. Celeste (inaudible) into the figures that we're publicized and trying to clarify any doubt that our analysts and investors might have about our results. Thank you, all for your -- thank you, too, for your presence.

Now continuing our -- thank you -- continuing our presentation of our results, I'm going to now count on the presence Leonardo George who is our controller and Velez who is our investor relations, IR. They both are very well known to you. Dr. Leonardo.

This year once again, we've been able to -- the transparency trophy in our statement. We have filed our ITR. And it is an ITR already awarded with a price for the 10th time around, 11th, 9th time around. Last year, we've been (inaudible) the 10th time. Dr. Rolla, as you, yourself has said, once again we receive this transparency award, which is a reason of pride for us. It is external recognition of the efforts that the company has been making to give quality information to society, its investors and transparent information's.

So we think that this is a national recognition price and this independent judgment done by the University of Sao Paulo. And it is a matter of pride for us and also, it converges with our sustainability spirit. And that to respect our investors being as transparent as we can. Celeste gave our investors fair evaluation of the company.

It has not been an easy task, Dr. Leonardo, because the facts that are occurring have brought additional difficulty of understanding on the part of the public at large, especially investors. All of these regulatory changes, all of the transactions we've been making have brought an added complexity to our statement. And this has resulted in the need or explanatory notes that are more and more detailed. Yes. And also that Brazil has being going through great changes and accounted area with the adoption of IF -- IFRS and with standards that have been adapted into corporate environment of Brazil.

But CEMIG has a history of dealing well with challenges, whether in its investor relations or regulatory issues or its adaptation to the new environment. We think that this is one more challenge that the company is ready to face, to come out -- actually strengthen and giving more information with more quality information to our investors.

We think that we have overcome that clarification phase of through analyst and investors about, the practices of IFRS. We think that the first year of application of the standards was 2010, was very difficult both ourselves and our investors. We think that is the process of maturation. We've been able to get more convertors [ph] in our understanding, reducing information asymmetry between the administration and investors.

We know that this year has been a little more difficult because of the consolidation process. Now, we do not consolidate the information, all the companies that are controlled together. But in order to solve this issue, we have put additional information to our financial statements. But at any rate, the company's open to receive suggestions from our investor in our IR areas also just as related to additional information which would be important for these investors to understand our company's operations.

So the suggestions made by our investors are analyzed and we have every interest in improving on this information in our demonstrations so that the analysis by the investors is as fair as possible so they can understand our business clearly.

How about the relationship with our external auditor in this aspect? The company is audited by the Deloitte Company, among the largest in the world. It's important to report that is a tax [ph] company. We're also audited by auditors and what, refers to our internal controls and the company has never had any negative qualification in our accounts and demonstrations this being internal controls.

So keeping the independence of these independent auditors this is a fact. And we think that we have a good relationship with them and we can throughout the years have a history of demonstrations without any negative aspects. So in the spirit of the company to work in an adequate structured way reducing risks in the level of information that is publicized.

Last year, we had announced the deal of transferring the interest of CEMIG H to Taesa. In fact, what we have actually executed with already the approval of that now in the Second Quarter. We obtained this approval in this period and therefore, we included everything in the reflection upon the Second Quarter of 2013 of this deal, which naturally within our -- what our president has said of transforming Taesa is into our world [ph] vehicle in order to -- for transmission that is -- we are now given Taesa the necessary muscle to become an independent vehicle for growth with the cash generation that is quite relevant.

But we had Dr. Velez [ph], a very good result in the Second Quarter, coming from this transfer that says total value of operation was BRL1.9 billion which is reflected positively in our results.

Exactly about the hold up [ph], we received -- the Holden [ph] received a value directly from -- an amount directly from Taesa BRL1.691 billion and the remainder of that amount was received from TBE through dividends between the period in which the agreement was signed and the closing of the operations. So that the total value that our company -- the holding company will be receiving because some dividend that have been declared but not paid off, a total value of BRL1.929 million.

Now, the effect of the results upon our demonstrations, upon our statements has different effects upon the holding [ph] company in our CEMIG GT which also had a small interest in one of the TBE lines. So the consolidated effects of those tables, that is -- this chart that is on the slide has a net effect of approximately BRL107 million. That is the net effect on that income after tax indicates of CEMIG GT, we recorded a loss because of the sale of BTE [ph] of BRL94 million.

EBTE is aligned that is partnered to TBE group, where TBE has 59 % of CEMIG GT -- 49%. When we actually assessed, evaluated the assets -- CEMIG evaluated a total of the operation and the profitability at that time would had and the cash that the holding [ph] would receive. In the end this asset had to record the loss in the case of CEMIG GT. Naturally, the fact that we transferred it to Taesa represent exactly our expectation of recovering those amount.

Now, we also have announced by the president, we have begun our negotiations with Renova. So as to have an increase of our capital. Our capital increase in this growth vehicle of renewable energy, we have an expectation there that is quite positive as you can see there, on the slide the growth -- the expected growth of Renova in the upcoming years that will be very robust and is going to add a mass value to our shareholders. So we have absolute trust in the technical qualification of the management of Renova.

Their controlling group -- the block has a very uniform partnership. At least a line in the long term view. We are now with the interest of CEMIG and the controlling block of Renova reinforced its capacity to execute normally the growth projects of the wind of the farms. But also to add a generation capacity of water generation, hydraulic generation of small plants. Hydroelectric plants which are going to add great value to Renova and get the robustness and the cash generation in order to ensure the growth in the future. Do you have anything to add Dr. Velez?

Antonio Carlos Velez Braga {BIO 16813855 <GO>}

I would only like to add and ask a question that's again the -- a clarification to our investors. Now, the whole operation potentially can reach a value around BRL1.4 billion which would be -- would be the acquisition of Brazil PCH. Acquisition of Brazil PCH which is not yet consolidated, because we're still waiting for the partners -- the other partners of position. But it would be interesting for our investors to know how CEMIG plans to finance that operation.

If there is a definition it would be the ventures and other IPI. That we are in the process of negotiation. We -- IPL that is how we're not in the process of how, we're going to

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capitalize Renova. And the partnership percentages that we're going to have resulting from is capitalization that we have several alternatives before us. We have made -- created strict finance and structures that aim at ensuring an amplified performance of the return on investments that we have made.

And whatever the structure that we have in place, the purpose will be to maximize the return. We have an expectation that is extremely positive. We can do it through an idea or a capital outside together with IPOs. Or -- so, this is still actually being considered.

And shortly, as soon as we have a definition of Petrobras partner and in this enterprise, we will announce definitely what or which would be the adequate structure in order to have those deals. And I would only like to remind that the capital increase at Renova, has the loss -- has an effect that CEMIG is an interesting party. There was an assessment through independent reports and by renowned companies, Ernst & Young. And they are partners.

So this amount that was actually attributed to buy per share was calculated through actually. Estimates -- not an estimate that we establish for the company's interest in -- especially in the controlling block, which reflects the expectations of growth that we have about Renova. Naturally these investments are inserted within the context of our sustainability vision. We are already within this principle already making decisions and implementing all of the necessary initiatives so that the company becomes sustainable.

Sustainable, it means guarantee and returns financial returns that are adequate and the respect to the environment and the guarantee to the future generations the availability of the resources that we manage today. Also, this deal, this transaction is inserted within the sustainability context.

Now, moving ahead, Gasmig, also is one subsidiary of CEMIG and a partnership with Petrobras. It has had very robust growth in recent years. It has a great potential of growth as part of the group. We have repeatedly of the size to the market.

That's the paternity for our developments of the gas, natural gas business within the block, represents a very good opportunity for our shareholders. Representing a value addition, CEMIG anticipate in this growth has already shown very solid results of growth, not only of gross revenue. But also investments into the expansion of its pipeline, the rail network so as to reach and enlarge the universal customers.

We're now focused in the (inaudible) industrial market and actually now, we've been enlarging through the construction of pipeline networks, urban pipeline networks in order to meet not only the residential sector but also commercial sector which is going to represent a change, quite a significant change in our growth vision and our -- and the sales and training the products that we negotiate with the customers.

So let us focus on the analysis of the results. The Second Quarter, we had a growth of a net revenues in the quarter, quite significant -- 15% of revenue growth, the consolidated

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revenue growth in the First Quarter. In Second Quarter, we had practically a stability, which in a quarter, represents a growth of 7%. Any comment, Dr. Velez?

In the case of the net revenues in the Second Quarter, there were several impacts that I think worth mentioning. Due to our sales strategy, we liquidated a relevant amount of power in the CCEE at the -- at keeping this uncontracted energy buffer in order to mitigate the risks of an unfavorable hydrology. And that is why we have a quite representative liquidation in terms of volume of energy and revenue as well. But this revenue also reflects the impacts of our -- this PM 579 and the Law 12783.

Besides the tariff reviews, in the case of MP 579 and the Law 12783, we'll have impact of the renewal of our transmission concessions of CEMIG GT. This has an impact around BRL100 million per quarter up on our revenue. And at the same time, we have items that are just on to the distribution tariff which also reduce the distributor revenue but also are just passed on.

In the case of this quarter, especially the cost of transportation, the transmission cost of the distributor and the reduction of charges, RGR, CCC, which was extinct. And reduction of CDE. Besides that as you know, there's the subsidy of 1/3, which is, in the case of CDE, was reflected an increase of a 136 million. You'll have all of these items that are reflected on the variations of our net revenues.

Hence, the apparently opposing signals in the growth in the First Quarter and the stability of the Second Quarter. Just reminding that in the First Quarter of 2013, the energy liquidated was even greater especially because that the First Quarter presents an increase that is greater than the Second Quarter.

In case of explaining adamantly, we're going to go into the CEMIG GOING TO, results in CEMIG D and maybe we can -- and then we can evaluate the asterisk of growth and the stability of revenues in the consolidated way [ph]. As for the costs, usually we highlight increase of operational cost of the purchases of energy. This increase is quite visible there on our chart. It's showing an additional cost of energy purchase which was included already in the Second Quarter.

But this necessarily does not represent a negative factor. Precisely, we have in our expense composition items that we call non-controllable and controllable items. The non-controllable cost, the fact that they are -- the increase or decrease does not represent an increase or decrease in the profitability of the company because they haven't -- there is a tariff coverage for that. In the case of distribution, it's tariff coverage.

In the case of generation, we all had purchased energy to resell when we have a sales contract for that energy. And as we carry out this operation, if we stand to gain. So the items that we'd call non-controllable are purchase of energies, regulatory charges. And transportation cost which are there as charges of network use.

And all of increase of expenses, the increase of these items represent about 80% of the variation of expenses. Those are costs that are not reflected upon the profitability of the

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other companies. In the case of the generation business, as the market knows, CEMIG GT had already sold or actually all sold for 2013. And we started purchasing energy since July last year. When we noticed that there was a risk of an unfavorable hydrology for 2103, then with advent of TM-579, this purchase of energy, not only for 2013 and 2014 was incremented. So as -- so that, the slides guarantee it.

The fulfillment of the contracts, we had already had regenerated this buffer that I mentioned in the previous slide so as to face the risk of unfavorable hydrology. And this is reflected when we see the increase of the purchased energy in the Second Quarter of 2013 up to BRL123 million. Around BRL50 million is located in Austin [ph] in distribution.

As -- it's passed on to the tariff. In the case of CEMIG generation and transmission, it's an increase of 173 million reflecting the purchases but also with a margin. So this is also reflected in the implement of the results of our CEMIG GT. And we also reflect in the Second Quarter our program of reduction of expenses, precisely personnel expenses having in mind the redundancy program announced by the president which was very successful.

The cash generation remains solid. Much in line with what had been planned by CEMIG. You remember that all of the decisions that we've made in the company aimed at protecting this generation, our cash generation capacity of the company and we aren't really having very good success in the First Quarter. The performance was directed by the sales of the installed capacity which gives us the semester average which is quite strong of 15%.

Naturally, within that aspect that we always prescribe, that's the great part of this cash flow that comes from generation and transmission which are the basis for this cash flow. We -- only CEMIG GT for example, has given a contribution of BRL1.352 million, BRL1,352,000,000 as for the performance compared to the guidance that we publicized by the end of May in our annual event with analysts and investors.

If we consider the EBITDA over the last 12 months, we have already gone over that guidance. That's the upper limit of the guidance with this performance. If we consider only the performance in the first semester, we have -- will be on the much the half of the lower limit which goes to show that we are actually on the way to delivering that guidance that we have actually publicized in our annual meeting last May. Any comments, Dr. Velez about that?

I would only say that it is worth remembering that the EBITDA that we present today because of the account and rules that we've been adapting beginning this year, this -- the beginning of this year, does not consider the consolidation of the company's controlled together as a whole. And our guidance considers this consolidation proportionately. We consider it -- it's a managerial EBITDA which we follow and which reflects the minority participations that -- this interest that CEMIG has and as a part of its strategy.

So there's this small divergence between the amount of the managerial EBITDA which is the old criteria. And the EBITDA that is in the financial statements which they're not

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considered as proportional consolidation. Same thing can be said about the net profits. The net profit, the consolidated, has given a very positive results for us which has supported our dividend policy.

So as you can see in the slide that our net income has solidly grown in the last quarters with a tendency to deliver what had been promised in our guidance to our investors.

Now moving on and the focusing now on CEMIG GT with a little more detail. We can notice the impact up on GT because of the facts that we have commented before, which is a reduction of the EBITDA compared to last year, because of the impact of the sale of EBTE, which then has been mentioned before. The performance of the First Quarter of 2012 was very positive because of the generation of energy, additional energy because of hydrology.

This energy has brought very positive results in spite of in the Second Quarter. The price of energy is compensated but even then we had a reduction comparatively. It is -- once remembering that we had a GSF [ph] reduction this year as compared to last year. The second -- the volume of energy of electricity was practically stable. Likewise, the net revenue and the net income was affected and accorded by these impacts.

But that profile which is there -- is in very positive level. We have a strategy of elongating that debt and remember that in the last two years, we had a contract, a concentration that is -- a very strong concentration in the short-term. But now our debt are consolidated that as quite comfortable. Our product quality remains according to the risk assessment agencies. We're quite comfortable. Certainly I call attention the net debt of \$5 billion which is well below our annual EBITDA which is -- that gives us a safe condition to continue investing in a sustainable way. And a well-balanced way given conditions to continue being a consolidated company.

Also, calls our attention with the profile of our debt showing that during a certain time, the company was indexed to CDI and was benefited from the process of interest reduction rates -- interest rates reduction in Brazil. But now the company using is using some market opportunities has changed its net profile. And now, we are much more well-balanced between interests -- interest indexers and inflation which gives us a guarantee in reducing the risk of a company in the case of variation of those indicators.

Certainly, positive composition of a strong cash innovation and a capacity of -- another part capacity of the borrowing which allows us to grow at the rate we're growing, with sustainability of our investments. And it's just reflected upon our results and that we are extremely happy to see the results taking place in a very solid way. We can see that the GT, that profile as I remember, was a reason, a matter of our concern as investors when the provisional measure.

579 [ph], there was a strong concern about loss of revenue that this company would have because of the anticipation of concessions although the concession renewal. But we said at that time that we would be seeking not only -- or try not only to defend the financial situation of this company and to keep it at a strong level. But also to give it the necessary

condition so that it can -- so that it could continue investing and replacing all of the generation capacity, eventual capacity loss that it might have with the return into 2013 of 18 or out of the plans that we operate.

So the results that we see in the same CEMIG GT with a net debt of BRL2 billion gives us the liquidity to ensure our creditors that quality of credit of CEMIG continues extremely high and we are certainly going to deliver the results. This performance level [ph], a very few companies can really take pride and present such kind of result. Even with the last changes in the electric industry, our company continues in a comfortable financial situation, well-structured align it to be -- to fulfill it.

So now, in the distributor, we'll have the first impact of our tariff review and we have already had that reduction of the tariffs last February. We are coming because of the 579 Provisional Measure. We continue now with the strong performance of our distributor as compared to the first -- the Second Quarter of 2012, the -- and EBITDA growth around 5% in spite of the fact that the amount revenue fell by 3%. But also made up for by an increase of energy sold of 4.3%.

The profile of the CEMIG distributor debt is a little different from our CEMIG GT. But even then, it is quite comfortable and very adequate to the gas generation of our -- of this company. We have no pressure of that rolling for the next year. As you can see that the average turnover after 2020, which actually gives us the tranquility to make another quick measurements of the silver (inaudible) the necessary investments to improve the quality of service and the preservation of our assets.

Now, this is the best slide of our presentation. It actually reflects all of these quality managements and very conservative view that are of quality preservation of our financial situation. As you can see, we have a cash generated, a very solid cash generated, the growing one. We have been generating more and more positive and more surplus in such a way that we can't pay very attractive evidence to our shareholders. Up to the First Quarter, we paid already BRL2.6 billion dividends, really quite significant amount.

We are also -- we're able to reduce the debt. We paid more debts than we rolled and in spite of the fact that we had significant investments as well because of our expansion. The cash flow, the available cash flow including are also the papers, the inequity and dividends are raised about BRL5 billion which positions us very favorably to continue growing in acquisitions and new projects and expansion of our activities and several business lines that we have.

It is a clear demonstration of our financial capacity of the company and it's being used parsimoniously and with the necessary efficient and efficiency in order to generally move the sources to give sustainability to the growth of the company in a very solid way. It naturally reflects the -- upon the expectations of our shareholders. We had a performance of very good last year, frankly, all of the companies that are listed.

We highlight Renova which had a performance up until yesterday, a very positive one. But both Taesa and CEMIG, all both of our shares. Again, positives down the industry --

industries of electricity have had a decline of 9% which is relative to the investor's perception, the results that we have been presenting now in this quarter. Reinforce this perception of investors and this is quite important too as in the accounts on the trust of our investors to continue growing and enlarging these activities and generating more resources and dividends to our shareholders. Now, we're quite happy with the results of the Second Quarter.

Well these were actually are all the pieces of information we'd like to bring you. And I believe now, we can open the floor for questions and answers. So that we can actually respond to the curiosity of investors and analysts about points that we have or we might not have covered during our presentation.

Questions And Answers

Operator

Ladies and gentlemen. we'll now begin the Q&A session. (Operator Instructions) We have a first question from Filipe Leal of Merrill Lynch.

Q - Felipe Leal {BIO 2015017 <GO>}

I have two questions, one about the results. And the other one more strategic -- quick doubt about the results. Did you provision any excess about DSS [ph] because of the resolution of MPO3 [ph] and was there any effect upon solidity? And second, we saw the conclusion of the trends of TBA [ph] to (inaudible) we had that were on those operations ending?

Has other assets, smaller assets, transmission lines. And small hydro plants or the hold in the district continue to suppress with rationalization by placing this assets within the vehicles that again is in transmission? Then renewable energy, for example?

A - Unidentified Speaker

As for the first question actually, I have no expectation of losses coming from the GSF. But within naturally discussion with the regulators is the ISS [ph] DSS charges those services and assistance which naturally through our institutions and industry. Institutions who have been challenged even at the court, the payment of additional expenses to provide synergy have no expectations because of the strategy that (inaudible) has just mentioned.

Last year, we acquired the generation capacity that was necessary to cover this risk of not favorable hydrology which generates lower GSF. So we are now perfectly profitable with the strategy that we adopted and have no expectation of -- for finding for what you have mentioned.

Now, your second question about the strategic vision, we have all, every interest in grouping together our assets by segments. So as to give the necessary muscle to these vehicles so that they can be sustainable and independent, not only in cash generation but

also in their capacity to raise funds in the market. So our strategy is always that strengthen in these vehicles.

We have done that with Taesa. And the transfer of TBE to Taesa represents this additional muscle that we are giving to our transmission area. We've been doing the very same thing with generation, renewable generation. This transaction that we are certain is going to be finished in a very brief time. It's going to give Renova the necessary muscle again to become a great player in the area of renewables and maybe even a position of leadership, our management that is responsible for the management of the company.

It is very highly qualified and it has a strategic view that coincides with that of the shareholders which is going to allow -- let it grow more speedily. So our philosophy and our strategy is that reinforcing these vehicles and through them, we capture all the necessary synergies in order to maximize the return on investments that we have made in these companies. So that we can continue growing in an independent way.

So we have actually repeatedly shown that the (inaudible) has made acquisition, light [ph] has made acquisitions. And certainly, Renova is going to go into this growth process -- growth bound. Okay. Thank you very much.

Operator

(Operator Instructions) We have a question from Vinicius Canheu.

Q - Vinicius Canheu {BIO 6300903 <GO>}

My question is just for a clarification of few figures that I see that -- there was a chat here in the conference call. So beginning -- three questions. One is following, CBD [ph], we're looking at the results. There is a reduction of -- the redundancy program of BRL3 million. And I'd like to understand what is -- if this a positive redundancy program figure and this ECE [ph].

If the distributor is over-contracted and liquidating a POD [ph], looking at the cash flow chart, when you see investment activities. I see the number of activity with reversal investments, I'd like to understand this figures. If you could tell us more about what is in your cash flow chart. Thank you.

A - Unidentified Speaker

Let us begin with the first one which is the easiest one to understand. As a matter of fact, in the First Quarter, we provided for ex [ph] benefits with our voluntary redundancy program. There was an estimate in the First Quarter, anticipated to the expenses that will actually occur later.

Evidently, when we effectively incurred those expenses, we can't include the conclusion but the provision had been over estimated. And because of this over estimation, we made the adjustments now to the actual numbers.

So those reduction of revision that we did in the First Quarter is reflected positively in the Second Quarter. And this gave us more positive results for our distributor. Also, the second question is ECE expenses. Can you repeat the question, please?

There is -- the CCE [ph] revenue. 267 [ph] the First Quarter was a higher value. 137, 130, I'd like to understand if the distributor is over contracted and this would be the revenue of this over contracting.

We're not over contracted in our distributors. Most of this must be some -- sale within the 3% percentage over. So that and electrify [ph] to the consumers which was reflected by the survey.

Okay -- the last question about investments. A detail of investment activity lines in slide 19 under cash flow. It states clear but just try to understand why the application is so high and what is the reversal in investment of TD [ph], just to give an idea what is included in the -- you consider with the equity.

When I see slide 19 that intangibles and fixed assets, BRL2.468 billion. Intangible, fixed assets and others.

I believe that this information of detailed deserves a little more attention from us. I think it would be more adequate in this stage to place this information on our website. And to give you the detail of what the amounts are that make up this amount that is shown on slide 19. We make a commitment to do this quickly. All right. We can check this now. Thank you very much.

Operator

Our next question comes from Mr. Sergio Tamashiro from the Safra Bank [ph].

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Two questions. One with the about selection. I like to have an update of what actually are the movements. These are the -- those injection [ph] if it's going to the really Supreme Court or the Superior Court?

A - Unidentified Speaker

Tamashiro, I think the legal pathway is unpredictable. It may finish at the -- or actually the Superior Court but it also can go up to the Supreme Court. So it will depend upon actually the decisions that the Superior Court will make about the selection [ph] as explained how this process takes place.

Naturally, we'll have to wait maybe on an extra -- during the next weeks for the Justice to decide upon this injunction. The process going [ph] to the end circuit because of the strategy that the Minister of Mines and Energy has used because it did not deny our right to have an extension of our concession. But it said that we were untimely. He's added one

more step to this process. And we're actually following out the steps and therefore, naturally this is going to take more time than we have previously estimated because of this ministerial decision.

At any rate, the injunction is going to be decided on shortly. And we're going to have an idea of what we can get actually in the future steps. Naturally an isolated decision.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Are you still waiting for the total decision or the assembly decision?

A - Unidentified Speaker

We appeal to be given by -- the ministry is going to go through the general assembly of the Superior Court. This was the decision of one of the chief justices, then it has to go through three of them. The one that gave us isolated, that was reported, yes.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Now the second question as (inaudible) have mentioned, perhaps the increase of the cost of the purchased energy was followed by revenues. By looking at the guide on my purchase (inaudible) the First Quarter was 973, Second Quarter 213 [ph] (inaudible) an increase, you're' having BRL29 million. When we see in the consolidated revenues, I see that the number went from 378 to (inaudible).

There was a decline, I'd like to understand this behavior. I was not able to diagnose this increase in revenues.

A - Unidentified Speaker

Tamashiro, what happens is an effect of MP-579 actually was in the end of February. So we have still January and February (inaudible) that was previous. MP-579 is -- that reduce penalty on costs of generation but also the cost of transmission. There was also the reduction of RGR [ph] and CB [ph]. There's some additional comments that is just worth remembering, that in the First Quarter, the expense was reduced because of the BRL400 million that we received at the time of the tariff review.

We've received it from the federal government. This helped us reduced the revenues. And there also an isolated non-recurring event which did not have a counterpart in the revenue. And the (inaudible) also helped the expenses on the First Quarter to be lower than the Second Quarter.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Thank you. I understand that. Thank you.

A - Unidentified Speaker

As we have to go on in the presentation, it is of quite complex to understand this variations given that we have had a several impacts coming from the TM-579 and other

measures adopted by the government. So as to mitigate the impact of this 579 measure. And also some other issues as for example the increase expenses with purchase energy. So we have to really grow longer at these aspects in order to really understand the varying issues that are being presented.

Operator

(Operator Instructions) We have another question from Antonio Junqueira from BTG Pactual.

Q - Antonio Junqueira {BIO 15403195 <GO>}

Good morning. I don't know if you made available this information. I would only like to confirm the value of CDE [ph], the February or this quarter which has an impact upon the distributor EBITDA.

A - Unidentified Speaker

Good morning. This information was not made available. We made a -- also we will provide this information in a correct way. Just remembering that most of the purchase of energy expenses have been made up for it by CDE subsidies.

So what is going to be recorded is not such a significant value. That's is true. It is not very significant because of by April 8, we had a review of these values in the tariff but it's still (inaudible) that we still provide those figures?

Q - Antonio Junqueira {BIO 15403195 <GO>}

Will it be possible to include the CBA in all the quarter statements?

A - Unidentified Speaker

I think this information is relevant. I think that we may analyze the possibility of including even in the same way as we promised to provide information of consolidation in the previous criterion. And we think that the CBA is very important in order to measure the performance of the distributor and begin make a commitment to publicize it and monitor. Your request is recorded and we're going to include it in the next quarter.

Q - Antonio Junqueira {BIO 15403195 <GO>}

Okay. Thank you.

Operator

Another question from Lilyanna Yang from UBS.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you for the opportunity. I have actually two questions. One, if there is any sign from the Ministry of Mines and Energy about the concession for 2016. If you expect a renewal,

with or without burdens, what to expect. And the second question is about the generation prices in Brazil. If you can tell us what would be the long term price and how much you expect and this -- the idea thus far absolutely will reflect the main methodology that has been (inaudible) by now.

A - Unidentified Speaker

This process about -- innovation-based is that administrative process with data [ph] soon after the publication of our basis. That first review, it is still under analysis by the director and we believe that in the next months, we shall have -- before the end of the year, we're going to have some decisions about that.

We don't expect this decision to be given in a short time because of the number of processes that already there at the board of directors that I know of. But certainly, we expect that before the end of year, we may have some decision about that.

As far as price of energy, it's still a little distorted because of the relationship between those short term and the short term have a substantial increase. Then and electricity prices because of the thermal plants commission. And after (inaudible), there's over (inaudible) probably have the long term price well directed by the marginal cost of the construction of new capacity.

And within this class, the main driver is the cost of EHPs [ph] added to the transmission price especially those plans located in the Amazon region. And in parallel [ph] with the marginal cost of the wind farms. We believe that we should have a marginal cost generation that should be in the range of BRL110 to BRL130 per megawatt hours. We'll have some options ahead of us which are going to give us very good indication of the prices. And naturally, this is trying to confirm the tendency that I've been talking about.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you. How about the renewal of the distribution concessions? When do you expect a more clarification from the Minister of Mines and Energy? Is at the end of the year or 2015?

A - Unidentified Speaker

On the part of the regulator, there's no definition about this renewal. Our construction contracts actually is due in 2016. And according to statement by the general director of (inaudible), the distribution concession does not have that urgency of anticipation that the generation positions -- acquisitions had because this is not going to be reflected in the cost of energy to the consumer because the distributor companies go through periodic reviews. And according to him, the price is already within parameters that are coherent with the regulator's view.

So there is no schedule as yet. And we have not received any request in the part of that now for information. We believe that in the next months, we're not going to have anything new. Not yet.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Well thank you very much.

Operator

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

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

I would like to thank first of all the time that you have dedicated to this web conference. We have just done it for 1.5 hours and I expect that we have actually met with your expectations.

We have to actually thank (inaudible) with all the size. And shortly you're going to have information available on our website in order to add on to your understanding of these results. We repeat that we are convinced that CEMIG that has the correct strategy. The adequate implementation and the financial capacity to implement it.

And this has been highly demonstrated by our statements and the confidence that we have in those strategies is very great. And you can feel assured that CIMEG is going to follow on the same path of creation and value and investment discipline in the search of forest energy [ph] among the several assets that we operate. I thank you all for your attention and I wish you all a good day. Thank you very much.

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