

## Q2 2020 Earnings Call

### Company Participants

- Antonio Velez, Investor Realtion Superintendent
- Leonardo George de Magalhaes, Chief Officer for Finance and Investor Relations
- Paulo Mota Henriques, Chief Generation and Transmission Officer
- Reynaldo Passanezi Filho, Chief Executive Officer, President
- Ronaldo Gomes de Abreu, Chief Distribution and Commercialization Officer

### Other Participants

- Marcelo Sa
- Philippe Assaad

### Presentation

#### Operator

Ladies and gentlemen, thank you for holding, and welcome to Cemig's Second Quarter 2020 Conference Call. We inform that all participants will be in listen-only mode during the company's presentation. After that, there will be a Q&A section, when further instructions will be given. (Operator Instructions)

Now, I would like to turn the floor over to Mr. Antonio Velez, who will start the presentation. Please, Mr. Velez.

#### **Antonio Velez** {BIO 15968846 <GO>}

Good afternoon, everyone. My name is Antonio Velez, Cemig's Investor Relations Superintendent. We'll now start Cemig's Second Quarter 2020 Earnings Conference Call, with the following executives: CEO, Mr. Reynaldo Passanezi Filho; CFO and IR Officer, Leonardo George De Magalhaes; Chief Generation and Transmission Officer, Paulo Mota Henriques; Chief Distribution Officer, Ronaldo Gomes de Abreu; Chief Legal and Regulatory Officer, Eduardo Soares; and also Mr. Rafael, Chief Participation Officer. You can also follow this broadcast by the following phone numbers: (55) 11 3127-4971; and in the U.S. (1) 929-3783440; as well as, by our links, at our website, [ri.cemig.com.br](http://ri.cemig.com.br).

For the initial remarks, I will turn the floor to our CEO, Reynaldo Passanezi.

#### **Reynaldo Passanezi Filho** {BIO 15054064 <GO>}

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Good afternoon, everyone. Welcome to not anymore a teleconference results, but this is a results webcast for the second quarter of 2020. We are starting a new webcast format and now so we are opening it with all our Executive Board. I asked everyone to be here to show you that we are here together. And if you have any questions, all of us will be here. And it's very important to provide transparency and accountability to our investors. So, Ronaldo from Distribution is here; Paulo Mota, Generation; Dimas, Commercialization, is on vacation, but Paulo and Ronaldo can take questions about that; Rafael from Corporate Participations; and also Leonardo; and we have the whole team here.

Well, I think we can turn to Slide number 3, please. I would like to highlight the main messages that we have. And I think that maybe the main one is the resilience of the company in spite of the pandemics. We see an EBITDA that is recurring of BRL2.3 billion in the first half of 2020, up 12% in our results. And for me, that is a clear demonstration of the company's resilience in spite of the situation we are going through. And this is a result that happens through all segments, in distribution, generation, transmission, commercialization and the holding. So this is really a result that can be applied to all segments, of course, with a few differences, but all of them show resilience. And we are very proud to say that a significant share of this performance, of this increased EBITDA is related to our efforts in order to improve operating efficiency of the company. Almost a half of this growth -- of the EBITDA in this period has to do with our optimization efforts and increase of operating efficiency. I think this is the subject that we will be following with a lot of hard work and we will be aiming operating efficiency, permanent optimizations, and I will give you a few examples, also some signs where we are going to our directions.

We are concentrating Cemig's activities in our main building, and we are going to leave the building, Oliveria Soares [ph] by the end of November. We are bringing in Gasmig to our headquarters, also Cemig's team is coming to this headquarters. We have now an open office for our top management in order to have integration and efficiency, we have put for sale, the airplane that we still have. So I think these are examples and these are signs that show that we are working on a better efficiency and we have a bold target to reduce BRL150 million this year in PMSO. So I believe this is our initial message, a lot of resilience in the company's results. A growth of our EBITDA, our recurring EBITDA and this has to do with our optimization efforts.

The second message in here, which is also important is a drop in our load and that is because of the pandemics, but what we see that this is increasing. It was 6% in the second quarter, now in the first half of the year, the accumulated amount was 4%. And it's important to say that in July, it's slightly above of what we had in 2019. We see that obviously for the integrated national system, you know that the national system discloses these figures and we are seeing the behavior here in Minas Gerais in Cemig's areas, basically the whole state of Minas Gerais. It's very similar, and we see a clear recovery of the load. We still have here on -- year-on-year, but this recovery is very important for the second half of the year and important also to show that we are going to go through the pandemics and in this difficult period with a lot of resilience.

So first, this low drop is decreasing, so in July alone we already have a figure that is higher than the same period in 2019, and we also see that in our delinquency rate. Our

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delinquency in April reached significant amounts and today we have a figure that we use a lot which is the ratio between collection and billing. And it is already very close to what was the target for the year. We are just 1% below that target, and it also shows that payments are improving, and thanks to the public policies and other conditions that do allow for that recovery.

And obviously, we have very positive expectations in terms of provisions. And also because we are bringing back our disconnections policies and agreements with granting power and also agreements with our debtors. And we do have a very positive expectation that we have a better result of our ADA over the year, whether because we are already back with our disconnection policies. We did return to it now in August. And also because of other agreements in which we are working on commercial debtors and also with the granting powers. And I believe we are going to have good results stemming from all these initiatives and that also has to do with the flexibilization of Aneel's resolution that allowed once again the disconnections.

And one thing that I would like to highlight, and it's in the next slide, I believe, is the potential that we are going to have both in terms of efficiency, as well as, improvement in service providing with digitization. So digitization effectively will allow us for instance, payments -- bill payments. Today electronics are growing a lot and decreasing the dependency of more expensive channels such as bank branches. So I think that we can clearly say that the company is showing its resilience. We believe that the worst of the pandemics is over and we come out of it strengthened.

I also would like to mention that we had excellent results in terms of tariff review. This is a very important subject for us.

I'm sorry. Are we back? Yes.

On tariff review for transmission, we have very positive results. In our balance sheet, we have BRL430 million for us, it's very good to be able to say that transmission is benchmark in this sector. And with that, we have a positive result both because the O&M revenue has improved and this is valid since 2018, since we are benchmark also because of the KE review and the WACC review and efforts and improvements. So transmission is bringing positive results, and I should say, transmission is a very important segment within Cemig and it needs to be duly appreciated with -- under different multiples, because for us, is differently from other companies with a component of improvements and organic growth. That's very important and positive in terms of value generation for the company.

After that, the enrollment under the COVID account. We have received -- and we have the figures, BRL1.1 billion or BRL1.2 billion, we have received net debt and it's going to reach BRL1.4 billion by the end of the year. And depending on the situation -- the load situation and overcontracting, but we have already received BRL1.2 billion and our cash in 6 -- 30 was BRL37billion, so with COVID account is already BRL5 billion in cash and a net debt of 2x the EBITDA, and you can compare that with 3.2x into -- in 2018, so higher amount in the past. So a lot of sign -- financial soundness, and also cash liquidity which is enough to face our obligations and our investment plans.

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I think we can turn to Slide number 4 now. Here on slide number 4. The first thing that I would like to mention is that we are ensuring the quality of service continuity. Of course, this is a crucial topic for us and we are very happy to be able to say that, we have a great perspective of having a DECI [ph] this year below the 10, which is a record figure for the number, the best result for the company. When we look the -- year-to-date up to June is 4.97, so in these first six months, it is already two digits, July also the figure is positive. So we have positive perspectives, here for all employees of the company that are working hard to improve our DECI average outage duration per customer. I would like to thank everyone in the team, all our employees. This is a guarantee of service -- a public service of high quality and to reach this DECI under two digits is a reason that makes us very proud.

Employees' health and safety also is a crucial topic for us, when we consider our own employees and outsourced ones, we have 22,000 of them, and we have 130 confirmed cases, unfortunately, three of them were fatal. And that shows, I believe, all the efforts we have made, so that the measures have been working. Almost everyone, of course, on the operating front is out in the field, so the percentage of contamination is very low, ensuring the quality, and the health and safety of our employees, and our support people are on and outsourced as I said. And now, we are slowly going back to activities here in Minas Gerais, starting next week actually.

In terms of relationship with our clients, we have our digital solutions. I think, here we have a great potential. I mentioned that in the past that the digitization is something that is very positive to improve the performance of the company, that chronic channels have increased to almost 40% -- from 28% to almost 40%, that is a significant increase, so that we don't have that dependency on bank branches, and also, of course, we have a better operating efficiency.

And finally, social responsibility, once again, we confirmed the donation of BRL5 million in equipment to hospitals in the state of Minas Gerais. The donation has been already formalized. Financial sustainability, I just mentioned, we do have a comfortable cash position and net debt over EBITDA ratio in 2x.

I think we can turn to Slide number 5, to conclude my initial remarks. We are working hard to optimize and to have operating efficiency. And in summary that shows the resilience of our recurring EBITDA that is valid to all the set of areas that the company works on, very much focused, and a better management of expenses. And maintaining the investment program. This investment program is a still valid of BRL1.7 billion this year. This reduction is not compromising investments in debt cycle. Not at all its compromising, it is just an adjustment during the year and sometimes even because of an execution problem, due to the moment we are going through, we know that sometimes it's more difficult to talk to city administration, so there are delays, but in general this investment program is preserved. And that shows the mission that I have and that I have always highlighted, generating -- service providing of maximum quality I just mentioned DECI and we are going to be able to be below two digits. Competitive prices, of course, we are working on optimization, so that we can have competitive prices.

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And with a private rationale in terms of decision-making, and that private rationale is reflected in these efforts to increase efficiency, as well as, work on investments that will generate value to the company and will add quality in service providing and also we will add to the regulatory base and the asset base of the company in a transformation project that -- a cultural transformation project that, here we call it novas energias or new energies, and the objective is to bring results and to a winning team that is effectively recovering, they're proud of being Cemig -- of being in this company and of providing maximum quality service to our people in the state.

These were my initial remarks, and now I'll turn the floor to Leo, and we will be available to take your questions in the Q&A. Okay. Thank you.

### **Leonardo George de Magalhaes** {BIO 21639277 <GO>}

Thank you very much, Reynaldo. Good afternoon, everyone. Thank you for your participation. And this video call for the results of the second quarter, I will mention some highlights and then I'll turn the floor to Velez, who will go into the figures, who will compare quarter-on-quarter.

And I would like to start on Slide number 6, about our voluntary redundancy program. Mr.Reynaldo mentioned our operating efficiency process, which is continuous and the company understands that the cost reduction process already has had positive results in the second quarter and our costs are dropping continuously, and we understand that the process is going to -- is started -- or is coming and is going to have effects throughout 2021. And among one of these factors of cost reduction, we understand that the voluntary redundancy program has an important role. We implemented this program now and we had the enrollment of almost 400 employees. And for 2021 that is going to represent a reduction in our cost of BRL95 million, and that already considering a small replacement, and of course, there is an outsourcing effect here, but that is not a high, if we compare with the gains that we are going to have with the PE [ph] gain. So we understand that this BRL95 million recovery is very significant, and basically eight months we are going to recover that. And we understand that when we invest in efficiency, we can have this as a permanent gain in our results.

On the next slide, and Dr.Reynaldo already mentioned the COVID account enrollment, and the funds have already been received, that this BRL1.4 billion were approved, then the first tranche was BRL1.18 billion, reinforcing our cash and liquidity contributing to reduce our leverage and that allows us to have a comfortable position. And now we start the second half of the year with a cash position that allows us to pay for our debts without having to have new finances or rolling over. And so as I said, this is very comfortable. The company can deal well with the pandemics moment.

Another topic on Slide number 8, and we did have a material fact disclosed to the market. Our tariff adjustment allowed by Aneel was 4.27%, backdated to May 28. We had administrative appeals with Aneel questioning this adjustment because the company had already received a judicial deposit amount regarding the recovery of PIS, Pasep tax credits over ICMS. And then we received cash to the distributing companies, so we understood that in order to provide a contribution to society right now in the pandemics, and this is

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also something that can reduce delinquency with those action we sent an order to -- and now Aneel proposed that BRL714 million of this BRL1.2 billion that we have already received judicial deposit, regarding that tax credits over ICMS lawsuit, and this issue is going to be discussed by Aneel to all distributing companies in the segment in the future in the next few months. But in an anticipated fashion, we already agreed that BRL714 million of this amount can be reimbursed to our consumers.

And it's important to highlight here that the BRL714 million are within that 10-year period that we understand that should be reimbursed to consumers. And the success of this lawsuit of Cemig D was BRL6 billion. We understand that BRL2 million [ph] is from a period prior to 10 years, BRL4 million is an amount within that BRL10 million that should be reimbursed to consumers and this BRL714 million are within this BRL4 billion. So we believe this has positive effect for the company, for our consumers and we understand that this should be a balanced situation because we are recognizing the efforts of the company of having filed that lawsuit in 2008 advocating for the rights of consumers. And we understand the company also deserves to receive a share of this amount because of its efficiency when dealing with this tax issue. This is going to be defined by Aneel's Executive Board, but this was the company's proposal.

On Slide number 9, we have delinquency and losses. Our losses today are at 2% higher than what is recognized by Aneel at 3.66% [ph] and recognized by Aneel is 11.45% and we are implementing a whole series of measures to reduce those losses. Telemetering for major clients, a number -- a higher number of inspections and we expect that by 2021 we are able to bring to zero that cap of 2% that we have today vis-a-vis of what is covered by the tariffs. Our losses add up 13.66%. We are working a lot. Internally, we have taking several measures to reduce losses that involve several actions of the company. It's not a single action. We have inspections, telemetering, technology, effective actions, intelligence in the process and we expect that by the end of 2021, we are able to reduce, close to zero, these losses.

Default also we imagined that this would happen in the second quarter because of the pandemics and it had to do with the economic situation of families and the ADA was BRL199 million in this half of year, vis-a-vis, BRL108 million for past year. And also we have to say that disconnections were suspended. We did not have any disconnections in the second quarter. Disconnections are coming back and now we know that disconnections are very sensitive in terms of dealing with delinquencies. So disconnections are happening again now in August and we have held several campaigns to renegotiate debts involving low-income customers, hospitals and small companies to reduce delinquency rate.

Also, we should say that now in July we enrolled to a state law that would allow us to offset all debts with electric energy up to June of 2019, and these debts should be received with ICMS and we can discount those ICMS, that we pay the state on a monthly basis up to the end of 2022. So the debt that we have in the receivables around to BRL120 million to BRL140 million is going to be received up to the end of 2022. And that will allow us -- considering this is a real guarantee, to reverse the provision that we have for ADA and that refers to this share of the debts of the state of Minas. So in spite of our provision being of BRL199 up to June, we expect that by the end of the year, it reaches at a BRL170

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million at the most, exactly, because now in the second quarter we will have a reversal in the provision in this amount that we mentioned to BRL120 million to BRL140 million, because of this agreement signed with the state administration. We think this is good news and that shows the efforts of the company in this process of renegotiation of debts with customers and in the case the state had a higher debt. And it's also important because we did have that regulation by the state -- because this was a past-due debt.

Talking about efficiency on Slide 10, we talk about our quality indicators. We believe this is another good news. The company is more efficient operationally. We are reducing cost without damaging -- without hurting quality. Our average frequency duration for consumer has always been much lower than what is established by the regulating agency, and it's still very good. Our indicators are good. We did have a 2.28 and the regulating agency established 3.24. And DECI, it was expected that this is the last year in the cycle after the beginning of the conceptions -- the concession, so it's very important for us, in terms of the DECI. We believe we are going to meet the figure in -- here we have the average of the last 12 months and compared to the prior year, we are one hour with a better quality in service to our consumers. We understand this is also good news. This is the first time that the company has a DECI that is lower than 10 hours a year, because these are annualized results. So we understand it shows our commitment with customers in terms of assets based modernization and having investments that have consequences to -- that improve our quality indicators.

On the Slide 11, we have our distribution loads. Cemig D in the second quarter had a load reduction close to 6%. It was one of the lowest distribution loads here in Brazil. We were able to see that very clearly that even with the pandemics effects and Velez is going to show you that, our distributing company had resilience in the results. And here we see the figures up to June, and July and August is still is preliminary. We had a drop here, a reduction in the load in April specifically, and then the load picked up back in May and June, and now, July and August, it is even higher than what we saw in 2019. That is a market recovery in the state of Minas Gerais, it really is high. Our own load still with a reduction. It matched 2019, but came down a little bit, but for free clients is much higher. So our expectation for the second half of the year, and of course, we have to wait a little bit, but that chart trend shows a recovery of the load of Cemig Distribution, vis-a-vis, the second quarter, and even the year of 2019.

On the Slide 12, we have the tariff review of transmission and Dr.Reynaldo mentioned, but we should -- highlighted, Cemig GT is a benchmark in the sector with CTEEP. So we have discipline in our transmission costs. And it's important to say, that in our tariff review -- because it had happened already, tariff review in the distributing company. This is important to show the regulatory compliance of the company. And how the company is making very prudent investments and that's important when we think about expectation of revenue for Cemig GT and D, and here we have an increase of 9.13% in our APR [ph] and it's a 100 million higher than the prior RAP of 640 million, close now to 780 million adjusted for June 2020. And because of this APR, this new price -- pricing of assets of transmission by Aneel and the regulatory base that is an accounting difference there, and this is new base approved by Aneel, has generated a creditor effect of 430 million. And there's the fact of course, this 430 million effect at this moment is nonrecurring. It does not mean that it's going into our cash position right now, but in the future this impact of

430 million, will revert into the company in a significant revenue in our transmission business.

Now talking about GT, just as the same, we had a major recovery in GT revenue here in August, we reached 1,954 megawatts -- or gigawatts, average gigawatts, higher than what we had in March of last year. And when we break it down, we see the incentive-based [ph] -- once with the load is too lower -- here in the incentive-based, we have shopping malls and other areas that have been impacted by the pandemics. But in the conventional clients, we see a significant recovery. We believe that is very relevant and even at higher levels than what we had seen in March. And continuing, we see that this creates an expectation for the next half of the year. We know that Cemig GT's results in this order, suffered a little bit, because there was a drop in the demand, in the load of our free clients, but we have a favorable expectation for the third and fourth quarter for 2020. Of course, we are going to have to wait a little bit more and to see how the market is going to behave with the pandemics and the Brazilian society as well.

And on the Slide 14, we had a major concern with our free clients, so that delivery -- we did not have a huge delinquency in the generation sector. And then we had the opportunity to -- and we have taken several actions to have build deferrals of the difference between the take -- and what effectively was consumed by our clients in the period of up to 36 months. And we believe, we have been well succeeded, because although we postponed the cash, we were able to have GT's effective delinquency to be very low. In April, of course, then we showed the results of the quarter, but in April, we did have a higher provision, but that was reverted in the following months, because we were successful in negotiating these overdue bills with our customers and clients. We believe this is also good news. So for Cemig GT, we understand once again that results have been affected in this quarter, but we do have reasons to be optimistic about the second half of 2020.

Now, I'll turn the floor to Velez, so that he can analyze the results into details for the second quarter of 2020, and also in the first half of 2020, when it compared to the first half of 2019.

**Antonio Velez** {BIO 15968846 <GO>}

Thank you. Hello. So I will turn now to the results of the second quarter, and then I will talk a little bit about the trend of the first half of the year. On Slide 16, we have here some comments that are important to be taken into consideration because they also explain our results. For the holding, we have the restatement at market value of Light with a positive impact of BRL475 million. Remember that, Light is in our assets -- in our balance sheet as an asset available for sale, and because this is a listed company and every quarter, we have to do the mark-to-market in the amount of our shares. So here we did have a positive impact of BRL475 million, and that is in our results as well.

At Cemig Distribution here, we have a lower volume as Leo has mentioned and our CEO also, we had a drop in energy sold of 6%, in our captive clients this drop was of 8%, and transmission was down, 3.5%. Also, in the voluntary redundancy program, the expenses



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allocated -- and here we have more people involved, as you know, but the expenses allocated for that was BRL46 million.

For Cemig GT the main effect -- in the results here, for Cemig GT was the sale of energy at the lower limit of flexibility contracted range. This was the main effect. We also had the tariff review for transmission, already mentioned, which allowed us to have a positive effect on the amount of the concession there for -- that also went through our EBITDA in the amount of BRL430 million. The voluntary redundancy program, the expenses allocated for Cemig GT was BRL11 million. We also had the mark-to-market of the Eurobonds, which had a positive effect in 2020 -- second-Q 2020 of BRL71 million. And when you compare that to the second-Q '19, also there we had a positive effect of BRL558 million.

So here on Slide number 17, we have the explanation of that variation of mark-to-market of Eurobonds and also hedge instruments. And in this case, we had the hedge instruments that had a positive variation of BRL487 million, while the debt amount -- when we consider the depreciation of real it had a negative variation of BRL416 million, so the impact in our financial result is of BRL71 million positive. So this is our hedge working to protect our debt.

Turning to Slide 18. And here we have an energy market for Cemig Distribution in the second quarter of 2020. We had a reduction in the load of Cemig D of 6%, and the transported energy from distribution -- Cemig Distribution had a drop of 3.5%, and the captive market had a drop of 8%. If we analyze that into the details and we break it down the consumption classes, we had as expected, we did have a drop in all the segments, exception made to residential consumers. As we know, everyone was at home, so it's no surprise that the residential consumption was higher during this period.

Now turning to Slide 19. We have here our EBITDA and consolidated, net profit, and we have here an analysis, because of these effects and nonrecurring effects on our daily operations, or that are not referenced to the long-term. So we made a few adjustments. When we -- well, let me comment, the EBITDA and the adjusted net profit. You see the charts here, and also in our release, if you want to understand it better, but these are all the facts that we already know and that has already been discussed here in the presentation. Our EBITDA, our adjusted EBITDA, and I would say that, it had a drop of 6.8%, which I consider a smallest part in on BRL1.7 billion to BRL939 million in the second quarter of 2020. Net profit had an increase of almost 5% starting at BRL415 million in 2Q 2019 to BRL435 million in 2Q 2020.

Now turning to Slide 20. We have Cemig GT with EBITDA and net profit. As we have mentioned, when we not consider the tariff review, we have the EBITDA in the second quarter of 2020 of BRL341 million, a drop of 33% compared to the same period of last year. And this drop is because of the seasonalization, and mainly what I have mentioned, our free clients had a reduction in consumption, and therefore, they were billed in the lower limit of the contract flexibility. They have been billed on the take, so that generated a drop in our revenue, and the energy available was so that the spot price at a -- amount of price that was lower than the contract, and you all know that this was low this period.

And the net profit in the second quarter of 2020 for Cemig GT had a drop of 63% from BRL88 [ph] million in 2Q '19 to BRL70 million in 2Q '20.

Cemig Distribution on the other hand had a very good result, also considering the scenario, of course, that we expected better than last year, but this was higher than last year, from BRL407 million of last year, if we do not consider PIS/Cofin tax credits, and to BRL535 million this year, growth of 31.4%, and this is also because -- and it's important to remind everyone, that is thanks to our operating efficiency efforts.

And I will go into the details in the next slide. Same thing for net profit. Here in recurring terms, it went from BRL152 million in 2Q '19 to BRL285 million in 2Q '20, a growth of over 87%. In terms of operating costs and expenses for the company, when we basically look at what would be the PMSO, the expenses that are manageable -- here, I'm also not considering provisions because last year we had a huge provision that would affect the analysis. It was the provision for Renova credits of almost BRL700 million. So when we look at PMSO here, we have a reduction of over 8% in the second quarter of '19 to the second quarter of 2020, that is significant, if we consider also expenses of the voluntary redundancy program. So that's a reduction of over BRL70 million.

It's important to stress also here on Slide 22, that out of the budget that we had originally for 2020, we still had a reduction for this year of BRL150 million in materials and services, and this is already being seen after the second quarter.

On Slide 23, and I'm mentioning the numbers, but these are the same effects, but now with the specific figures that we had in the first half of 2020. And now we are going to compare to the first half of 2019. So in the first half for Light we had a reduction of BRL134 million, in the first half of 2020, also, we have restatement at fair value for Centroeste, a gain of BRL52 million. For Cemig Distribution, there was a drop in the energy distributed of 4%, captive market was down 6% and transmission was down 1.3%. Once again, BRL46 million expenses with a voluntary redundancy program and an increase of ADA of BRL91 million -- our allowance for doubtful accounts. Cemig GT, as I mentioned, we had our profits affected by sale of energy at a lower limit of flexibility contract range. We also had the tariff review, the voluntary redundancy program, and the marking-to-market of Eurobond, we had a positive effect of BRL677 million in the first half of '19, against the negative effect of BRL367 million in the first half of '20.

On the Slide 24, the energy market for Cemig Distribution in the first half of the year had a reduction of 4%. The billed market and transmission, and the free market was down 1.3% and the captive market was down 6%. Once again, when we look at the consumption segment, the only one that has increased that had a positive variation was the residential consumers that when we compare the first half of '19 and the first half of '20, residential consumers were up 2.8%.

On Slide 25, consolidated EBITDA and net profit, we see an increase in adjusted EBITDA of over 12%, as our CEO mentioned in the beginning, from BRL2.34 billion in the first half of '19 to BRL2.284 billion in the first half of 2020, and net profit in recurring terms had an increase of 20%, reaching BRL1.22 billion in this quarter.

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On Slide 26, EBITDA and net profit for Cemig GT, and here the EBITDA had an increase of 2%. If we just consider a nonrecurring effect up to BRL1.26 billion and net profit had a reduction of 15.8%, especially, because of the hedge effect, which was not offset by other effects.

Now, EBITDA and net profit for Cemig Distribution for the first half of 2020. Slide number 27. Still we see growth of almost 13% for the EBITDA in the first half of 2020. BRL1.29 billion. Same thing for net profit, a growth of over 41% from BRL340 million in the first half of '19 to BRL481 million in the first half of 2020.

On Slide 28, we also see the same trend of expenses reduction, PMSO reduction in the first half of the year that we had seen in the quarters. Our operating expenses have dropped 8.2%, when compared to the first half of last year.

On Slide 29, we have the comparison of Cemig Distribution in terms of the regulatory and what was realized for OpEx. We understand that we had a regulatory cover of operating expenses of BRL1.323 billion and the realized was BRL196 million higher than the coverage that we have as you can see here, the real OpEx. This is because our retirements and post job expenses, and post-retirement expenses were BRL152 million, and also our default provision.

And turning to the EBITDA, the regulatory EBITDA, and the real EBITDA, we then had the regulatory EBITDA, in here, BRL1.323 billion, and here we have OpEx of BRL196 million. And also, other losses -- here, nontechnical losses, as had already was mentioned that had a negative effect of BRL108 million. So the real EBITDA was BRL1.25 billion. So in this quarter, our EBITDA was BRL300 million below the regulatory EBITDA. As our CEO mentioned and our CFO also mentioned, we are working hard so that the distributing company overcomes and is able to meet the regulatory targets that we have.

At cash flow generation, we have here, a short summary on Slide 30 of our cash flow generation; in December of '19, was of BRL1.3 billion. We had a cash generation in the first half of 2020 of BRL4.2 billion and this period also, we paid some debts of over BRL1 billion, and we have made investments of BRL700 million. So our cash in June as it already has been mentioned, it was very robust, consolidated cash of BRL3.7 billion. Not considering the amount that has already been received in the COVID account of BRL1.2 billion at the end of July.

Turning to the next Slide, 31. We have our debt profile. And here is the consolidated result. This is debt, it's very comfortable, so when we look at the maturities timetable, we have an average tenure here of 3.8 years. Of course, that would -- like to extend it a little bit more, but in the short-term between 2020 and 2023, we have very comfortable maturities. And within our cash generation, we don't have major problems. Not only cash generation, but also cash position. We have a tower -- a wall in 2024, which is, here the Eurobond that is due in 2024, in terms of net debt. We had a net debt of BRL12.2 billion and when you consider the present value of hedge, because this is the amount that we would be receiving -- right now, if we were to pay the debt today, and we have to take that into consideration. So it is like we had a net debt of BRL8.9 billion. So our main

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indexors here, you can see, most of our debt is dollar-denominated debt, and the remainder is distributed, just as the same between IPCA, 24% of the debt, and the CDI, 23%. Remember that our dollar-denominated debt is protected, as I mentioned, by hedge instruments that are transformed into CDI. Our cost of debt also has a strong reduction since 2018. The nominal cost of our debt at the end of '18, was of 9.67%.

And now in June of 2020, the cost of debt is 4.3% and that also has to do with the reduction of the CDI, but the debt in the dollar -- dollar-denominated debt, the bond that was hedged, a 142% of the CDI. Now this is a relatively affordable debt, if we consider any debt that we might contract from now on. And as our CEO mentioned, when we see, when we analyze the leverage indicators, total net debt over adjusted EBITDA is of 2x already in June, turning up from -- you can see here, almost 3x to 2x in June. This was a very quick recovery of our financial soundness. And also capital structure which is measured total net debt over equity plus total net debt of 34.5%, also a very robust structure.

Turning now to Slide number 32, almost at the end of our presentation. We have here the Eurobond covenants, maybe these are the most restrictive ones, and here we show -- and we focus, the covenants in June, so net debt over EBITDA for Cemig GT, it was 2.85x and the limit for the covenant is of 4.5x, and here you can see the breakdown of the calculations. It's very transparent and how the calculation is done, and for the holding, just as the same, the indicator of net debt over EBITDA covenants is 2.12x. And the limit here for this covenant is 3.5x. So this is a very comfortable position as well.

And now turning to the end of our presentation on Slide 33. I would like you to save the date. It's September 15, a month from now, basically, so that you can be with us in this 25th Annual Cemig Meeting with the Capital Markets. We hold that every year, this is already our 25 Edition. Normally this is done in May, unfortunately this was not possible this year, because of the pandemics. But we really wanted to do it and we are preparing this event. It's going to be fully digital this year, and we hope to have you with us. So please save the date, September 15. We do expect you to be with us. That's what we had to explain our results of the second quarter.

And now, we are going to open the floor for the Q&A session.

## Questions And Answers

### Operator

(Question And Answer)

(Operator Instructions). First question from Marcelo Sa from Itau.

### Q - Marcelo Sa {BIO 16454581 <GO>}

Hello everyone. Thank you very much for the call. I have two questions. First, I would like to understand which are the main goals that the company has now? Right now though is

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in the company for a shorter period of time, so which are the targets? What can you comment? And second question is about the sale of assets. This has always been a relevant topic for Cemig in the past few years. So what can you do this year? What about Lights share or Taesa share? Can you comment on that? Thank you.

### **A - Reynaldo Passanezi Filho** {BIO 15054064 <GO>}

Hello, Marcelo. Thank you very much for your question. Yes, it is true, that I've been here for a while with pandemics, it's been 6 months already. Cemig is a major -- a huge company and it always had its targets and we follow the company's budget and the main targets are all defined in the budget for 2020. So we are working on DEC, the average outage duration per consumer. This is the 5th year of the concession, so we do have to meet the DEC indicators. This is a mandatory clause for performance. When I mentioned that it is below 10 hours, it means that this is an all-time result for the company. This is a really historic moment. And I'm working a lot to bring to the company operating efficiency, investments that will add value to the company and also private criteria to make decisions.

I know we are in the pandemics, but I'm trying to go out and talk to people, we are working on these 3 topics to ensure quality in the service providing and that has to do with the EC and we do have great results also stemming from digitization, virtual services. We are working a lot to improve customer service by the means of digital channels. We are working to improve tally[ph] measuring and also move forward in automation of our operating and dispatch centers. We have great opportunities there. So the two main drivers that move the company are operating efficiency and digitization.

And we are trying to guarantee and maintain the investment program for the company. This is a huge one for distribution also an important one for generation. We are considering to hold a public call now in a short period of time. So obviously we intend to increase our own production and that has a positive characteristic of having customers there. So if we are able to grow our own production, we have this advantage which is to have our own customers. And we are working to effectively bring in criteria and the rationale of a private company in all this decision process.

And when I talk about the project rationale, I'm talking about looking for results to generate value and to really be paying attention to the company to generate value out of each decision and to create a culture which is a winning culture and not a culture that will allow us not to fulfill these targets. This is a culture that will generate results. Maybe, we'll bring to Cemig -- I don't know, we are thinking about it -- about having a new strategic review that's always done. Probably we'll be working on it, because we cannot only think about the present, but we do have a lot of topics on the future modernization and others. We have 8.5 million clients that allows us to have a huge potential in distribution. And we have the strength of the brand. We are the largest commercializing company. So we do have great opportunities.

We can put -- many, many advantages that we are discussing here that can generate a lot of value and we have to be prepared for the future. And we'll take this opportunity to make any strategic review. So in the short term, we are proving to have a lot of resilience,

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the numbers show it. And in the mid and in the long term, we'll be working to be able to seize the most of this modernization project. And then we will be able to see that we do have a strong electric matrix, everything is integrated and the business is sound and that we are serving consumers.

Our investment plans and I don't know if Paulo or Ronaldo want to comment and Raphael. So our investment plan -- or divestment plan actually is moving on. These are strategic topics. And in due time, we'll make the announcements. But nothing has changed vis-a-vis the past. We are moving forward with this program. Important divestment program to generate the capacity to invest in the core areas, which are generation and transmission. I don't know if Paulo, Ronaldo, or Rafael want to comment.

### **A - Paulo Mota Henriques** {BIO 16679291 <GO>}

Marcelo, this is Paulo. Adding to Reynaldo's comments. Yes, we have developed and we are trying to develop projects that will add value. CMIG has an important tradition in generation and the HPPs, so now will invest in new projects and also in different sources such as wind and solar projects. Just to give you an idea, the asset of the company itself here we have a small investment that happened in last year's auction and (inaudible) plant we were awarded the auction. The project is moving well, and we are also working with other possibilities and that will obviously depend on the development of the market of the sector. For instance, (inaudible), we are also considering that if the market moves on and all of that in agreement with commercialization, this is a major differential. So we do have a strong commercialization company and we do want to have support. So that this commercialization becomes more effective and adds more value, and then our projects also can be developed and reach that level of performance. And on a daily basis, as the comments mentioned efficiency itself and transmission being benchmark and generation trying to optimize our processes using technology. So in summary, these are some daily projects that we are working on, and everything is very well balanced with all the different areas of the company. Thank you very much.

Now, if you allow me I will leverage those strategic -- the strategy for the company was to buy energy from players that were going to participate in the auction. So CMIG purchased energy of companies that were developing solar and wind projects, may be closer to the average megawatts that you wanted. And so now I understand that the company's idea is to invest in its own projects as a source of growth, there's a strategic change of the company now to be able to meet the demands of clients by that type of service of product.

Marcelo, for us, we want to seize the opportunity that the fact that we know clients. This is not a change in strategy. I can tell you that because I'm not here for a long time. But clearly I can tell you this was not in our plans either. But in any way, yes, we have to increase our own generation capacity. There is the process of postponement of the plants, and the renewal of the plants as well, but we do have clients and customers and if we can have our own production much better, right?

### **Q - Marcelo Sa** {BIO 16454581 <GO>}

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It's very clear. Now considering that you mentioned the postponement of the plants, what is your idea to try to privatize the plants, so that you have the right to postpone that and then you would need a shareholders' meeting or you have margin for any other possibility?

**A - Reynaldo Passanezi Filho** {BIO 15054064 <GO>}

Yes, we are working on the available ones. The main legal alternative is renewal of the plants either by SPE or by changes in the capital structure of our holding. In addition to PLS-232, that has to be approved. But we have more time than other companies. So the main process for us right now is to follow up other companies that started with them, but in terms of definition of the methodology and the conditions what is the granting amount and the payments and our focus now is to follow this methodology rather than making a short-term decision, because our concessions are due further on in the future.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

That's great. Thank you very much.

**Operator**

Our next question from Philippe Assaad from Goldman Sachs.

**Q - Philippe Assaad**

Good afternoon. Well, considering the pandemics scenario, how do you see the trajectory for the next few years? Can you comment on what you see for the future about the PMSO? So my second question, do you see reductions in the next quarter? And if you do, where would you have those savings? Thank you.

**A - Reynaldo Passanezi Filho** {BIO 15054064 <GO>}

Philippe, I could not hear well your questions. I don't know if they did.

**Q - Philippe Assaad**

Can you hear me better now?

**A - Reynaldo Passanezi Filho** {BIO 15054064 <GO>}

I'll turn this floor to Velez. I think Velez was able to understand the questions.

**A - Antonio Velez** {BIO 15968846 <GO>}

Hello, Philippe. Good afternoon. I had a hard time understanding your questions, but first question, I thought it was about the price of energy. Is that correct? And then second question on our efforts for PMSO. I will comment on that, and if there is anything else that you want to know ask me.

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So energy is specifically in the short-term, we already estimated for next year, but the end of last year we estimated for next year a price that was closer to the long term closer to BRL150, but now with the pandemics that's not the case anymore. We expect that there's BRL150 we got to that in 2022 to 2023. That's why we are working on our negotiations, but that's the reference we have. But for now, it's just a reference, because there are not that many contracts being signed. And in the short-term, the price BRL100 and BRL110 for this year, going a little bit higher next year.

Now about PMSO, this is what we mentioned. We have that focus, specifically this year, because of the pandemics, we have taken more initiatives, ones that the pandemics allowed us to take. So in addition to the reduction that we had forecast, we had initiatives specifically regarding materials and services that we've allows us to an additional reduction of BRL150 million, which start to show in the second quarter of this year, already we have a little bit of that in the results for 2Q '20, and will show more in the second half of the year and we are still analyzing all opportunities. Okay?

### Q - Philippe Assaad

Thank you. Now going back, I think my phone was not very good. I hope that you can hear me better. Now, my first question actually was about commercial losses considering the pandemics. How do you see the trajectory of losses for the next years? I know you have inspections and other actions being taken, but are they enough to face these losses?

### A - Ronaldo Gomes de Abreu {BIO 20244891 <GO>}

I think I would have to address this answer. Ronaldo Gomes from Cemig Distribution. About losses, we have concluded by the end of last year a huge structural diagnosis for losses, and this would be our last mile. We are working on investments, the acceptance of these investments in the tariff review, we are working in the DEC this year. From DEC January to July, we are meeting DEC. We're also working on delinquency that had reductions up to last year. We did have an impact of the pandemic. And this structural diagnosis for commercial losses allow us to have here the amount broken down by reasons.

So we have a plan that is being implemented. We know that we have a structural problem. We are starting to work on obsolete measuring devices. This action is in line to what was planned still this year. We have an increase in the number of inspections. Up to June, we had the same number of inspections that we had in 2019, the whole year of '19, but we still have a potential of doing much more in the second half of the year. So these two actions, one is in line, the exchanging of the obsolete measures -- measuring devices, and inspections we have to wait for pandemic, so that we can do more in the second half, more than the first half.

We have a systemic structural action and connections that are faulty or that are illegal, both (inaudible) as well as in the whole state. We have another project, where we are going to have 330 Tally[ph] measuring devices, we already installed some of them. And we also have a project to fight commercial losses with a public lighting. We understand that this year, we are going to have a positive result in the second half of the year. And in 2021, we are going to have the commercial losses under the regulatory coverage.



Removing those 2% that we were over in Slide number 9 of the presentation. Okay, Philippe?

## Q - Philippe Assaad

Yes. Thank you very much. Very clear. And I'm sorry about my audio.

## A - Ronaldo Gomes de Abreu {BIO 20244891 <GO>}

No problem. Thank you.

## Operator

(Operator Instructions) Thank you very much. If there are no further questions, we turn the floor back to the company's management for the final remarks.

## A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Well, I would like to thank you very much for being here with us in the call. And our investor relations area is available to take your questions and to talk to you if you need. We expect to see you in our Cemig D. Thank you very much.

## Operator

Teleconference of Cemig has ended. Thank you very much.

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