

Q2 2007 Earnings Call

Company Participants

- Agostinho Faria Cardoso, IRO
- Djalma Bastos de Moraes, President and CEO
- Luiz Fernando Rolla, CFO
- Marcio Araujo de Lacerda, President of the Board

Other Participants

- Eduardo Haiama, Analyst
- Sergio, Analyst

Presentation

Agostinho Faria Cardoso {BIO 20495015 <GO>}

Good morning, to all. We now begin the transmission of our video webcast of the results of CEMIG, the Minas Gerais power utility, regarding the first semester of 2007, highlighting a few analyses on the first semester. And we're counting the presence of Dr. - by Dr. Marcio Araujo de Lacerda who is the President of the Administration Board, Dr. Djalma Bastos de Moraes our CEO, Dr. Luiz Fernando Rolla our Finance, Chief Financial Officer and Relations with Investors, Dr. Fernando Henrique Shuffner Neto, who is the Manager for Generation Transmission, Dr. Marco Antonio Rodrigues da Cunha, management -- the Development Manager. And New Business Management, Dr. (inaudible), Director for Distribution and Commercialization. And Dr. Bernardo Afonso Salomao de Alvarenga, who is our Commercial Director.

and also via phone, 011-4688-6301. Now I give the floor to Dr. Marcio Araujo de Lacerda who is the President of our Board to begin our presentation.

Marcio Araujo de Lacerda {BIO 15840099 <GO>}

Thank you, Agostinho. Good morning, to all the executive managers and to you investors. I have the honor to be in the Board of this, such a victorious Company, from July 2006 to this date. And I here preside this meeting to participate in the announcement of the excellent results of the Second Quarter this year.

The main facts in the Second Quarter reveal that regarding our finances, results reflect the solidity of the Company's foundations with a net profit of BRL922 million or BRL190 per share, representing an increase of 38.65% regarding the same period 2006. Acquisitions represent 13% of our net profit. EBITDA has reached BRL1.9 billion with an increase of 53.01% regarding last year, 12% of that coming from acquisitions.

Commercialization, we witness a growth in the sale -- energy sales which reflected a strong extension of the economy of the state, Minas Gerais. And also our acquisitions. Our total sales reached 28,170 gigawatts hour. We have new clients in the states of Mato Grosso do Sul and Goias. And we have begun to export energy to Argentina.

And the capital market, our new program on ADRs pays on ON shares and we have seen the valuing of our shares, ON 48.13% and PN 25.52%.

In regulations we obtained a victory with the renewal of generation concessions which was an important bureaucratic hindrance which we will retain. And we made up a total of 1,735 megawatts for another 20 years. We have there listed our power plants and our small hydroelectric centrals which are involved in this renewal.

And regarding corporate governance, we've had a few alterations in our Board. We have new independent auditors, KPMG. And we have approved the proposal of our bylaws alteration with a new organizational structure in order to face a competitive environment. And we have changed our commercial management and our new business develop management.

In terms of quality, CEMIG has been elected by consumers in the Southeast of Brazil as being the best power utility in the region in a study carried out by Aneel regarding the year 2006.

I have now closed this brief presentation on our main facts of the first semester and I now give the floor to the Board Director Djamla -- the President and the CEO, Djalma Bastos de Moraes, to talk about business expansion.

Djalma Bastos de Moraes {BIO 2089645 <GO>}

Morning ladies and gentlemen. As we always have had in past occasions informed you, we keep on seeking the best opportunities of our -- for our investments be it through acquisitions, be it through investments within the Company. But what's the important thing is that we are always seeking the best business opportunity for our investors through projects with attractive revenues and reduction of operational costs. We always seek for the principle of sustainability with environmentally correct projects and we respect the community we serve. And we have focused on the long term and we have our directive plan. And we always seek the leadership in consolidating power, the power industry in Brazil.

Our capacity for generation transmission we see there in the graphs presented that we have grown in our generation at approximately 17% from 2003 to the Second Quarter 2007. Over the past four years we have added over 1,000 megawatts in our generation capacity, 12% from 2003 to the Second Quarter in 2007 in our transmission lines, 3% of sub transmission and 17% of distribution lines evidently there.

We include all the part -- the great effort we've been carrying out in the Light for All program. Our investment in the area of generation and transmission you can observe are

FINAL

growing, are increasing from 2005 in the area of transmission generation from -- up to 2007, 480. For CEMIG distribution we have evolved from BRL691 to 2007, BRL1.1 million in 2007. And CEMIG is holding BRL58 million in (2005) and BRL43 million in 2007. And our most important growth is we departed from BRL1.166 million in 2005 and in 2007 we have BRL1.654 million this year.

Still within our widening we have our first machine Capim Branco. And now a second one. And we have a new one in (Magua Dio) with a total investment of BRL489m, adding to our installed capacity megawatts. Now in 2007 we have, along with our investment bank, increased also the program Minas PCH as you all know, as an alternative to energy supply and to power supply. In the short run we have a few -- we (inaudible) which are now ongoing and we reached BRL380 million with installed capacity of 91 megawatts, all of them financed by BNDES in a business structure. We are now on the negotiations with a few investors in the state so that we are able to take advantage in the shortest time possible all the (inaudible) and all the feasible ones within our own state within -- sought by a large number of investors. And it is possible that we will witness an acceleration during the next quarter beginning new PCHs.

And in the area of transmission and distribution we have, again, the construction of Charrua-Nueva Temuco with 205 kilometers in Chile with approximate investment of \$63.4m. And a distribution of 156,000 new consumers. And we have also a program on universalization. We have connected 177,000 consumers, overcoming Aneel's goal. And now we're just going over roughly 190,000 consumers in the rural area, which is a very important project for us.

And there is a more or less (inaudible) along with the Ministry to see for approximately 92,000 users within our concession area. We will go to the Ministry, the Power and Mines Ministry to try to figure out how we're going to finance that, whether it will be in the same format we have carried out so far or whether there is by their part of the Ministry another type of formulation. It is a commitment by the federal government and also by the state government. And we have not figured out the exact way to seek for this new demand in the rural areas.

We have added 12,000 kilometers in our grids in the first semester 2007. And as a main point, in our work in (CEMIG) is to respect the environment as a corporate factor. Over the past three years we have employed BRL285 million in actions in environmental programs, our programs of efficacy and power conservation. And we also participate in installation of gas/sun energy and alternative ways of energy, thus contributing to the optimization, the energetic optimization of our clients. Nearly 90% of the consumers acknowledge CEMIG as being the Company with a concern for the environment according to Abradee's survey.

Ladies and gentlemen. CEMIG when seeking new investments has prepared itself and I believe with a green light by our Board for the great moment we are under, having great assets at our disposal. We have -- we intend to participate in this and this has been approved by our Board. This is already consensus and we want to take part in the large assets that are going to be made available still in this next, the following semester. We are going to participate be it in associations, as we have done with Light. Maybe by ourselves if that's the case. But the important thing here is that there is a strong desire

Bloomberg Transcript

FINAL

from managers and society and I believe also by our Board that we are able to participate, adding value with large acquisitions, which is going to -- which are going to allow us to progressively get all the commitments we have made with our investors.

We heard yesterday the news, we heard the news yesterday that according to a survey carried out by a large weekly paper with national spread that we are rated among the 150 companies that offer the best working quality, the quality of work for our employees. And we're also working to be the best company among those with 10,000 employees. We are -- we hope we succeed in that but it is a very important thing for our management, which is our employee has pleasure to work. He wants to work for us and likes to. So being among the top 150 is important. But we also want to have victory among those with over 10,000 employees. I would like to give the floor now to Dr. Rolla.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Thank you, Dr. Djalma. My part will be to present the financial management, our practices, financial practices we have adopted in CEMIG and aim at giving sustainability to this entire growth process the Company has been through.

We have had a few results during our, the Second Quarter which are internally important. Our term revenue coming from energy sales to consumers has increased BRL1.233 billion with an increase of almost 26% as compared to the previous semester. It is a very vigorous growth and which resulted in adding -- with the add up coming from Light as -- from Light Inc. And as you all know, we have acquired Light last year and the impact they caused on our results are extremely positive and you are able to see that. Of the total add-ups, 81% came precisely from the incorporation and consolidation of Light's results, therefore showing that we indeed were very right to acquire.

And our growth strategy, the one we've been employing over the past few years we have obtained a conversion of debentures in Light with the admission by BNDES of those shares and has reduced a little bit our participation from 20% to 13%. This naturally had consequences not only for our results but also in what shows respect to our debt and the improvement of our credit quality. As we have consolidated an enormous amount of debt, it has improved a little bit our debt indicators.

EBITA margin grew 23% regarding the first semester, reaching 38%. And this figure is an extremely important one. We've had a performance that puts us among the top companies, the most efficient countries in the power industry in Brazil. And as a result of that, precisely of our very (criterious) and meticulous selection of our investments. So we have today a margin of 38%. We've had the payout of our first, the first half dividends that declared relative regarding vis-a-vis the year 2006. And totaling up BRL691 million now as at June 30. And the total is around BRL1.382 billion and the second part of it will be paid in the end of the year.

We've also closed negotiation with the Inter-American Bank of -- Development Bank, for financing of Transchile. As Dr. Djalma has mentioned the investment we are putting into constructing transmission lines in Chile. A large part of this investment is being financed by

Bloomberg Transcript

FINAL

the Inter-American Bank of Development and we have already concluded the negotiations with the Bank and we are about to sign the agreement in Washington.

We've also had significant advances in our process of financial modeling along with the BNDES as you all know. The financing coming from BNDES is a creditable factor for the economicity of the processes we are to develop in the future. It is a very important competitive factor and we were able, we have been able to create with them a very creative structure, which is going to allow us to have access to finance, low-cost financing that every company, every private company already has and that CEMIG up to now did not have access to. But this is an extremely important fact for us because it's going to give us the very same competition advantages that private companies already have.

We've had a very strong improvement in the valuation of our credit quality. As you all know, in the past quarter, both Moody's and Fitch which carry out our credit evaluation, regarding our transactions and debentures we have (omitted) in the past, they both put us -- they both increased our classification to the level AA3 by Moody's, which gives us an exception and condition to have credit quality precisely within our planning, our financial planning. This is what we are seeking to assure this credit quality. So we're able to reduce and increasingly (sell) the financing of our project, thus making them feasible. And besides that adding value to the financings we have previously obtained.

Access to the market, of the financial market, is also increasing. As you all know, we have limitations. A great part of our institutional investors require a minimum, minimal credit quality qualification. And we have seen for these criteria so this guarantees us to have access to the market in a very wide way. And a good example of that is the transaction we have launched in the market for procurement of the -- through a paper that gave us a (lower debt), extremely low cost, the most competitive one we've seen among the transactions happening in the market.

We've also had, during this Second Quarter, the alteration of our share composition through a bonus of 50% and a (inaudible) risk process in the condition of being 100% integrated to the guidelines admitted by BOVESPA in terms of making better a unit value for our shares. We have had to make a split in our ADRs so we're able to adopt or to fit the new share composition to the ADR program in the United States. And as Dr. Marcio has mentioned, we launched the program, the ADR programs in the ON shares in New York. So all our shares have the same access to all markets where we're listed.

Reaction to this new structure was extremely positive by the investors, which reflected an increase of the liquidity of our equity. Dr. Marcio has also mentioned that the valuing, especially regarding the ON shares which increased over 44%, which shows that indeed, the decisions we made are correct and guaranteed additional value to our shareholders.

We are now going to focus a little bit on our results. We've had an extremely positive result, as already mentioned by Dr. Marcio, of 90, 2, 1 -- BRL921m. I would like to show you the origin where the results come from. I'm going to mention a few points for you and later on Agostinho during his presentation is giving further detail about the results.

I would like to highlight our business structure. We are an integrated Company, a Company which has concern on the risk each business carries with it and we -- this risk reflects on our results. We have seek to grow a very balanced growth of our business both in generation, which is the most investment-demanding business as you all know. It is a capital intensive industry where we have a great part of our investments in our hydroelectric plants. But we are not unconcerned with the other businesses. Transmission and distribution also have significant contributions. This is what we know to do best, generate, transmit and distribute our power.

So I would like to call your attention upon the fact that even though distribution is an extremely positive asset by CEMIG, it does not represent the great part of our business. The great contribution comes from not only our generation and transmission business which today, within the regulations of the industry, are more dependent on distributions but also on other businesses we have carried out. If we compare distribution with other businesses, today distribution corresponds only to 44%. And this is extremely important for us because we are doing, we are performing a very efficient risk management and this allows us to maintain sustainability, the Company's sustainability and the growth in our productivity in spite of the impact this argument may bring on each business. Therefore, this is a management, a strategic management that CEMIG has adopted over the past few years. We want to reduce dependence on the results of distribution.

As you are able to see in the slide, the contribution that acquisitions bring to our results are very significant, not only because of the numbers of consumers, because today we see for over 10 million consumers. Light has added 3.8 million consumers and all this shows the dimension CEMIG as a Company is now assuming. We have a cash innovation as measured by EBITDA which is a very important one of BRL1.9b. This is probably -- I still don't have the figures -- probably I would say is going to confirm is the best performance in the power sector in the first semester in Brazil. And this also shows that the criteria we've adopted in selecting our investments indeed have been bringing good results to the Company. As you are able to perceive, we have had a significant contribution by these acquisitions to our result.

Speaking a little bit of our debt, as you know, we have publicized that very intensively before our debt management sees for a few premises that we understand are going to conduct the Company to our final goals, which is to guarantee credit quality, which is enough to secure our access to investing -- to the investment market, not only in Brazil but also in international market.

We seek a reduction of exposure to the exchange rate of the money, the exchange risk. We have an exchanging regime which is extremely variable. We cannot be secure that this exchange rate is going to be maintained in the levels they are today. We've had indications, indeed strong ones, that dollar is still going to lose value regarding -- in relation to real. But in the long run, we cannot know if the tendency is going to maintain. And volatility of exchange exposure is very great because of this. But we are seeking reduction of the risk by reducing our exposition today. Only 10% of our debts are in foreign money. And this secures our presence in the international market. And we need to address international market to finance a few projects. But this is going to happen within criteria so that we are able to bring protection against this exchange risk.

FINAL

And we have been preparing the Company for this. We've seen a reduction of the debts because the Light -- because Light, with the exercise of the BNDES. With the conversion of debentures we have reduced our debt in BRL178m. With that our financial indicators have improved substantially -- have substantially improved. And today our net debt reaches BRL5.8 billion without EBITDA our interest rate, which is over 3.5 -- which is 3.73%. Our debt slice of EBITDA which is a very important index -- indicator which is coherent to our risk classification, the one we obtained. And our total debt reached -- reaches 41% and if we compare CEMIG to other companies we are in a very comfortable position to get finances for our expansion.

The next slide shows our, our debt profile with a very, with an extremely important characteristic. As you all know, we have a tendency for reduction of the interest rates in Brazil and such a trend has been increasing for a few quarters now. And because we trust this trend we have changed our equity from a fixed to a floating fee which allows us to capture all descendency of falls -- of a decrease in the interest rates as you are able to see.

Our average costs -- debt -- cost of debt is 8.56%, which is well below the one we obtained previously which was of 11% and this brings benefits to our results. As you've seen, we have postponed our debt. Our debt profile is very comfortable. Five years ago 75% were due in three years and today as you see, the debt has a very elongated profile with an average of almost five years for the deadlines.

We are still trying by taking advantage of the liquidity of the market to seek long-term financing. And we are perceiving now in the market a tendency to elongate the deadline, to postpone the deadline of our financing. And this is going to fit perfectly to the type of project we employ, that is today we are able to finance in the market in a deadline which is very similar to the one the BNDES finances, maybe with even lower costs than BNDES. And this is an extremely important fact because for CEMIG, given the restrictions we have in our access to BNDES, also puts us within competitive levels with our private competitors.

This is the cash represented by the end of the Second Quarter, BRL1.639 billion which is a very substantial growth as compared to the year 2006, almost 60% growth. And this is a part of our strategy. We are accumulating cash so we are able to invest when proper in the assets we understand are going to bring the best results for the Company. As Dr. Djalma has mentioned, we are always watching. We are ever watching the opportunities coming from the market and I'm sure we're going to use those resources very -- with criterion so as to seek for our investors will for -- to have -- for the payout of dividends.

And I would like to highlight that what has been producing the increase in growth of CEMIG are the foundations of the Company. We are very concerned with preserving that, those foundations so they are able to effectively bring results to the Company. And you all can notice that in the performance we've had over the past semesters regarding EBITDA and the margins, we have been witnessing a very consistent growth which is very much aligned to what we are projecting.

FINAL

As you know, during the month of May we have publicized our guidance, we have published our guidance and each quarter we are going, we are able to give sequence to it. If we look at the past four quarters, we have -- we had had (inaudible) EBITDA and we are working towards the reaching of our goal which is that interval between BRL3.8 billion and BRL4.2 billion a year.

Well these were, this was the information I had planned to bring to you and now I give the floor to Dr. Agostinho Faria Cardoso, which is our Investors Relations to present the results with further detail to you.

Agostinho Faria Cardoso {BIO 20495015 <GO>}

Thank you, Dr. Luiz Fernando. Analyzing the evolution of the consolidated results, we have begun to prove with a little bit further detail the foundations that have been described and previously shown to you.

The net revenues during the second semester -- the Second Quarter reached BRL2.584 billion which is -- and our operational expenses grew 13%, making up a total of BRL1.747b. With that our operational result was BRL837 million in our EBITDA, BRL1.037b, a margin are practically 40% which confirms what Dr. Luiz Fernando said, among the best in the power sector in Brazil. We had profits of BRL515m, a growth of (38%) regarding the past -- the same period, which guaranteed profits of BRL922 million with a very strong growth of 28%.

Evaluating the impact of non-recurrent factors which is quite small in our results, page 26 you're able to see this table. The previous impact the year end was a very important investment for our reductions of our personnel -- of our employee expenses and the reversal of RGR. And now in 2007 CVA of the energy purchase and we had a review of the transmission expenses and now we are -- we can see the non-recurrent factors. These were the non-recurrent factor. The very same of -- by the acquisition of Light.

And it does make up a total of only BRL900 million so that our adjusted EBITDA were BRL1.866b. Our consolidated net revenues confirm the investment that we have made through the year 2006 showing the value we are adding to our Corporation.

Sales to the consumers during the quarter, they have reached BRL3.032m. TUSD have grown a lot, almost 40%, reaching BRL380m. And also a significant growth in our power supply meant that our net revenue grew 44%, reaching BRL2.584b. And I would like to highlight that 58% of our total of our net revenues has been generated by our CEMIG distribution.

When we evaluate the next slide, maps of sales of each business, we once again prove that we have been very assertive in being all the segments of our industry, that is distribution, generation, transmission of power. A great part of our clients of CEMIG distributions that decide to migrate to the free market were captured by our -- by CEMIG generation and we now can see that the contribution of Light almost 10% of our total sales of energy. And this growth, which has been impacted by Light reaches a total of

Bloomberg Transcript

15.8% of our energy sales during the first semester. So this is a very important contribution but we already have -- we had an improvement in the sales of our CEMIG distributions, reaching almost 3.4% as we are going to see over the next slides.

In operational expenses, we see a strong impact with the increase of purchase energy. This is consolidated, no contraction beginning. These are consolidated in (ARPU) and in the first semester 2007, purchase energy expenses reached BRL1.3 billion with a 25% growth. On the other hand, we have reduced our expenses with employees. They reduced from BRL653 million to BRL536 million in 2007. Also the expense of our transmission lines have reduced as the reflection of the new tariffs in the transmitters. And we have reached the first semester with BRL13 billion (sic; see presentation) of expenses regarding -- and with an increase regarding the previous year. And CEMIG is responsible for 66% of total expenses.

When we value the main businesses of the Corporation, we will see that operational improvement as a constant, with an increase in revenues and a contingent of expenses, which is very significant for our Corporation. CEMIG Distribution and Generation has reached BRL1,208 million of revenues in the first semester. The expenses have maintained the same levels as of the previous year, which led to an operational result of BRL784m, EBITDA, has grown 21% and as also mentioned by Luiz Fernando Rolla it is among the best results. Other (countries) generated with a margin of 65%. So we had a net profit of BRL382m, 30% regarding the previous year and a margin of 31%, which highlights that our sales have increased 6.5% giving a new seasonality (map) regarding the first period of 2005, whereby we had a migration of our free customers.

Regarding CEMIG Transmission we have witnessed a large increase in the operational efficiency. Our net revenues increased 3.4% reaching BRL2,797 million and the operational expenses were reducing, were reduced. And with that the operational results were up BRL621 million and EBITDA of (BRL817m) with again a margin for our distributor of 29% which is a very expressive value regarding the scenario of our power industry in the country. So the net profit in this (method) was BRL436m, with a margin of 16%.

To finalize that analysis we now see the performance of sales throughout the year and this part of energy which is sold to our captive customers added to the free market has grown 5.6% (sic; see presentation) regarding the first period in the previous year -- the same period in the previous year.

Now I give the floor to Dr. Marcio Araujo de Lacerda for his final considerations.

Marcio Araujo de Lacerda {BIO 15840099 <GO>}

We will now close this presentation by approaching the issue of sustainability as this management factor. CEMIG understands that sustainability is a managerial value which is the result of our commitment, our long term commitment to the environment along with our social responsibility and our respect for the interests of our shareholders.

FINAL

And this year we have published our report, sustainability report according to the methodology, the GRI methodology, the Global Report Initiative. And CEMIG has won the award by the Sao Paulo University and the Furnas award which is called the (blue gold) in the year 2006, because of its social and environmental actions, developed and implementation of the Irape hydroelectric plant which is a plant that has been (implanted) in one of the poorest regions in the country, in the north east of the state of Minas Gerais. Therefore we have been acknowledged of our actions to make it possible for sustainability both in the Dow Jones Sustainability Index and of the BOVESPA Sustainability Index.

Our sustainable results are acknowledged by the market. Both our net profits that have grown expressively also EBITDA and especially the market value of the Company in millions. We grew in 2006 to -- up to June 2007 at 26% reaching over BRL20b. In dollars it grew in the same period 40% reaching over \$10b. This therefore reflects the commitment to grow associated to value adding and also along with the implementation of the strategic plan, resulted in new recognition by the market leading to the valuing of the Company.

Along the same sustainability lines, the Company is consolidating its leadership, its national leadership each year increasing its presence over the national territory in a very expressive fashion, as shown in the map.

At last we understand and also does the market that the CEMIG Corporation reaches the status of a global class company. And among the total assets of BRL24.4b, it has a net asset of BRL8.4b, a consolidated debt of BRL7.6 billion and a consolidated net revenue of BRL4.9b.

In reaching that status, the Company -- the reaching of this status is the result of very serious work and preparation by the Company to consolidate the power industry in it's most recent configuration well and operational excellence allied to cost reduction, the execution of our plan which directs our growth, risk management, secures flexibility to decision making processes as well as adherence to the best practices of corporate governance. And by financial management always focused on improvement of the credit quality and as it is already known, the premises of our bylaws secures sustainability. And finally the commitment to return over investment which has had a reflect on the payout of dividends which are very expressive ones.

I now close the second part of my presentation and we will be all available to answer questions.

Questions And Answers

Operator

Ladies and gentlemen. we'll now begin our Q&A session. (Operator Instructions) Our first question comes from Sergio (inaudible) from Itaubank.

Bloomberg Transcript

Q - Sergio {BIO 2274485 <GO>}

Good morning, to all. First of all I would like to ask you regarding the positions for the consolidation of a national leadership. There's a series of very large projects, (spoken in Brazilian), which are the very expressive ones. And you also have a series of restrictions regarding the leveraging. You have a minimum payout of dividend. So I would like to know about your strategy to participate. Are you going to participate -- take part in all projects as a minority? Or what would be the restrictions for your participation? And if there are restrictions which would be your priorities?

And the second question regards the concessions of hydroelectrics. The extension of concessions for hydroelectrics for another 20 years -- further 20 years. Is there any possibility to get the new concessions? And have you had any demands by Aneel to increase the fees and so forth? And does this work for the entire power industry or all other hydroelectrics that have concessions?

And my last question regards (CCH). In terms of the deadlines that have been signed, the agreements you have signed, be it by distributed or be it focused on (free indexes). And if so what are the conditions for tariffs, taxes and deadlines?

A - Djalma Bastos de Moraes {BIO 2089645 <GO>}

Sergio, please we will talk in parts. CEMIG indeed intends in taking part in the large projects that are coming up in the following semesters. These acquisitions we have evidently thought of to make it feasible as a minority, with the exception of cases where we should have credit changes, large credit changes. But we do decide to associate and to take part as in example as what we did in Light as a minority.

The second question was we do not put among our intentions that type of acquisitions. Could you add to that?

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

Regarding our indicators that are included in our bylaw, we have some flexibility if occasionally we need to make an acquisition, a large acquisition. Of course we have to approve that in our Board, such an exceptionality. And we do not see in this issue difficulties for our expansion. We can participate in any investment regardless of its magnitude.

As the President says always, our CEO says, always seeking our strategy to have partnerships with other investors. We have maybe the option to grow in a very sustainable way, in a very conservative way in the sense that we want to preserve our quality of credit. So based on these premises we have no difficulties in absorbing new investments. Of course the transactions, the upcoming transactions are extremely significant ones. But we have the adequate strategies to achieve for the commitments we have included in our bylaws.

And regarding concessions, we've recently had our concessions extended for a further 20 years, which was the result of precisely an action, a managerial action. We have an

agreement that guarantees us that concession or the extension of the concession. We have had a very effective participation of our controller in making this feasible, making this extension feasible. And regarding the new period we're going to take a step at a time. So it is very likely that if you analyze our contract, we have the right to do it. But we are going to take one step at a time. We got 20 years and in 20 years from now, we will be concerned in extending further 20 years in our concessions.

FINAL

A - Djalma Bastos de Moraes {BIO 2089645 <GO>}

Let me just add up to that. Sergio asked if we had any concession for this renewal, not at all. I would like to highlight that the action of our governor, our state governor worked along with the Ministry for the extension of the deadline, which was a matter of concern for us. We don't know if we will have further 20 years after these 20 years. But it is certainly not this Board sitting here, at least myself I will not make that request. Regarding the power, the hydroelectrics, we have a project, the hydroelectric plant. (We want) project to a larger diversity. For the amount of the plants that we have here in the state. And regarding (inaudible) I would like to give the floor to Dr. (inaudible).

Bernardo Afonso Salomao de Alvarenga: Good morning. Regarding energy sales, we always try to do it in the way as the most value possible for the Company. The results of the last sales we did, can show you now, the correct price today was BRL147 which is well above the results of auctions including the conventional energy sales. The result of the last auctions which was the thermal sources were in the order of BRL137. So sales are usually done for special consumers and the sales deadlines are in accordance with the financing. Those are the financing that are made to make the (PCHs) feasible.

Bloomberg Transcript

A - Marcio Araujo de Lacerda {BIO 15840099 <GO>}

Now taking advantage of that issue that has been raised and in a very positive role, our governor has helped during the process which brought a lot of ease to the market not only regarding CEMIG but also other companies that are in similar conditions. I would like then to take advantage of the question to highlight a point which is that many times there is a very legitimate concern by investors regarding the fact that we have the state as a controller of the Company, of the nature of CEMIG. So we are able to confirm that because of our Minas Gerais tradition of having very well managed public companies or government companies. We have for example, COPASA as the best company for sanitations in the country. And we have a management model which is recognized by all and is a very modern one.

I, as the development secretary have an agreement to have results and I signed that with the governor. And results and indicators, we have very clear strategies for that. And the only orientation I received from the governor, the most relevant and emphatic one, when I was invited to assume that position of the President of the Board, which is the role of the Secretary of Development. So he requested to have a reduction in costs. So this clearly demonstrates the vision our governor has as a manager who's absolutely responsible in managing the public machinery in a company as relevant as CEMIG.

Q - Sergio {BIO 2274485 <GO>}

Okay, just a follow up. When Luiz Fernando mentioned about the flexibility. So could I also tell that about the payout rate and the level of leveraging that was a little bit increased. And about the price that was around BRL127. Can we also imagine that range of -- the price range for the contracts that are due for our free customers?

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

Sergio, naturally, we have a lot of concern regarding the economicity of our projects. All of our projects present within our strategy a return which is coherent with the minimal return requested by our Board.

Regarding price vis-a-vis PCHs, they have a little differentiated component. Regarding normal negotiations as you know. PCHs they have subsidies for transmission which allows them to have ventures with a slightly higher cost to be economically feasible. So we cannot make a projection of prices for the upcoming contracts, based on the figures you are mentioning. So we have to be cautious when projecting.

We have publicized what we think about the price tendencies through our guidance. You can observe there a growing curve in the energy price based on the perception or that tendency that we understand to be the most current one. And this does not reach the values you are mentioning but they are part of our portfolio. So of course consumers that want to pay that price are consumers that have a very -- a slightly differentiated tariff structure as compared to the consumers that are usually understood as being free customers. So we have to be very careful in projecting that.

In that respect the indicators we naturally have included in our bylaw the situations whereby we are able through the approvement of our Board to request for a little flexibility. And regarding dividends we have as a minimum our commitment to pay 50% of our net profits. What we can make more flexible is the payout of extraordinary dividends which are going to be paid according to our cash availability, which in turn depends on the investments program we have ahead of us.

So we are going to perform that very -- with a lot of criteria in using that flexibility. That is when we have projects which we understand are going to add significant value for our shareholders, we are going to propose to our shareholders that instead of extraordinary dividend we make investments necessary. You all know and we publicized that very widely that we understand that the best acquisition opportunities are going to happen over the next two or three years. And we have that scenario coming now. We have large assets being sold and we cannot not participate in these acquisitions. But within what strategy predicts because our final goal is to grow sustainably. And for that we have an entire structure and internal confidence so that we creatively generate structures that allow us to use those -- take advantage of the opportunities adding significant value to our shareholders.

Operator

Our next question comes from Mr. Eduardo Haiama from UBS Pactual.

FINAL

Q - Eduardo Haiama {BIO 7279971 <GO>}

Good morning, to all. I have basically two questions. The first being to Dr. Djalma regarding the acquisition of (inaudible). And I would like you to comment more about that, that I read in the newspapers.

And the second question, one of the comments they said that there was a possibility coming from the governor to reduce costs -- a request about the government to reduce costs. And I'd like to understand that a little bit further. If you have a policy to be implemented now at CEMIG to reduce operational costs. And whether there are studies that already indicate percentages so I can have an idea. Thank you very much.

A - Djalma Bastos de Moraes {BIO 2089645 <GO>}

Eduardo, the press has publicized that we and Voscom were to pay for the acquisition of this asset of (inaudible) and this is true. We are closing our contacts with (inaudible) local unit. And one month ago, we had a very pleasant surprise when we were talking to (inaudible) which is the President of the Board. By coincidence our Board was talking to that of (inaudible). We were deciding the final numbers of sales by their part and purchases by our part. And I was very gratified because precisely we close our macro numbers for the acquisition.

And tomorrow -- we had a few meetings in the past few days with the legal team and the technical team between their employees and ours. And even though it is a holiday here in Belo Horizonte, we'll have a meeting here with (inaudible) and the people from (inaudible) to close the numbers. And as soon as we close the numbers, I'd like to publicize that in the market. I find it difficult that this multinational that was competing with us formalized another bid because the meeting we had via phone with (inaudible) was practically a definition for us. So this is an asset which is practically with us already and evidently has a good (mineral).

I'm going to publicize that only after we close the deal. But we have only a few problems and I believe these problems are going to be solved tomorrow in our meeting at 11am. The legal teams are going together tomorrow Rio de Janeiro. I don't see any (impairment) with the exception of some catastrophe, that's going to change what's going to happen. And the second question was regarding costs. Is that it?

Q - Eduardo Haiama {BIO 7279971 <GO>}

Yes, precisely.

A - Djalma Bastos de Moraes {BIO 2089645 <GO>}

So indeed we have talked to our governor and this has been transmitted to our directors as well as to (Dr. Marcio) so that we should make an effort to reduce internal costs of the Company. We are already in contact with a company that has a management team with that kind of problems. And I believe that this year we will have the very well (fundamented) decision and that goal decided by our governor which is to reduce costs either operational or with employees.

Bloomberg Transcript

Q - Eduardo Haiama {BIO 7279971 <GO>}

Great, thank you.

Operator

(Operator Instructions)

A - Agostinho Faria Cardoso {BIO 20495015 <GO>}

We have received a question over the Internet by (Alejandro) (inaudible) from (inaudible). Dr. Djalma de Moraes talked about participating in the large assets that are being made available or will be made available over the second semester. Besides (inaudible), what other assets is he referring to. And how is the Company going to participate in the (inaudible) bid?

A - Djalma Bastos de Moraes {BIO 2089645 <GO>}

Alejandro, I believe part of it we have answered. We are going to participate. During my visit with (inaudible) who's with the Ministry, last Thursday, we will define the basic premises to participate in that. And we intend as minority shareholders to take part in the (Brasiliano) auction. We have been to Citibank and verifying the basis, the initial basis of this pre-qualification. I believe we have the basic fundamentals for the pre-qualification. And after this pre-qualification we're going to seek partners so that we have -- so that we will be able to have success in acquiring that asset.

A - Agostinho Faria Cardoso {BIO 20495015 <GO>}

Okay. If there are no further questions, we thank the participation of all of you and wish a good day to all.

Speaker statements on this transcript were interpreted on the conference call by an Interpreter present on the live call. The Interpreter was provided by the Company sponsoring this Event.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.