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Bloomberg Transcript

Q2 2010 Earnings Call

Company Participants

- Djalma Bastos de Morais, President, CEO
- Luiz Fernando Rolla, CFO, IRO
- Unidentified Speaker, Analyst

Other Participants

- David Fajkarz, Analyst
- Francisco Navarrete, Analyst
- Gustavo Gattass, Analyst
- Marcos Severine, Analyst
- Saso Tomajer, Analyst
- Vinicius Canheu, Analyst

Presentation

Unidentified Speaker

Good morning, everyone. We'll now begin the video webcast of the results of the Second Quarter 2010 of CEMIG with the presence of Dr. Djalma Bastos de Morais, our CEO. And Dr. Luiz Fernando Rolla, our CFO and Investor Relations and Interest Control.

The webcast can be followed on the phone, 55 for Brazil, 11-46886341. And also on the internet on our website http//ri.CEMIG.com.br . We inform you that our site made available the PDF presentation for those who have any trouble having access to the CEMIG [ph] presentation. We shall now give the floor to our President, CEO, Dr. Djalma Bastos de Morais, for -- to begin the presentation.

Djalma Bastos de Morais {BIO 2089645 <GO>}

Good morning, ladies and gentlemen. Initially, I'd like to thank all of you and inform you that for reasons of a very complex and difficult agenda at this time, Dr. Sergio Barroso, our Chairman of the board, will not be present here.

Another slight problem is that we are now going through election process in this country and with the care that we have to avoid any connection between this political process in our Company, we are going to, in this presentation, talk exclusively about the published figures, thus avoiding any matter that might bring some problem to our Company in terms of our shareholders and in terms of the election legislation that is in effect in this country.

The Second Quarter, we had a net profit of BRL291 million, falling short of our forecast. However, if we consider non-recurring factors, we will come close to the figure for BRL177 million, slightly less than last year's quarter. But close to what we had forecast. However, we have a very positive fact which is that we had an increase in our EBITDA of approximately 8% right. So the non-recurring factors that I refer above are a judicial settlement within industrial custom and impact of the second tariff review of GT -- CEMIG GT.

Another important fact which the market is knowledgeable about is the possible acquisition of an asset through Taesa that is we want to show to the market and to show to our shareholders that we have a strong acquisition vehicle, which is our Taesa. Our process still not concluded because Van Gogh [ph] could -- can exercise this acquisition by the same figures that we offered, the BRL171 million, is that it -- BRL275 million. It is an important asset about almost 1,000 kilometers of transmission lines with a great synergy. With our Taesa, we can acquire this asset practically without any type of addition to our costs.

And we have been doing this always, concerned with synergies, always having to add synergies, always having in mind that these assets and other assets we might acquire in the future either through Taesa or through CEMIG or through Light, another important vehicle of acquisition that we have. This always comes and adds value, evidently within the prescribed rates by our shareholders and our members of the board.

I would only like to apologize to you, ladies and gentlemen. I'm going to have to retire and I'll give the floor to Dr. Rolla and once again inform you that, having in mind, the election process we've been -- we're going through, we cannot direct ourselves or address strategic objectives of the Company, always with the concern that this might have any connection with the process that is ongoing in this country and to be challenged by the election court in this country. So I ask your leave then to leave and I'm always at your service and I think that Dr. Rolla will run things beginning now. Good morning. Thank you.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Thank you, Mr. President. We -- good morning, everyone. We are going to proceed with our presentation as our CEO has already warned us. So we're going to try to keep within the aspects -- technical aspects of this presentation, trying to explain the results that we obtained, already announced by the President. And beginning there, of course, based on that, we can bring you some additional information for our investors and shareholders that are participating in this conference call.

Another point that is highlighted that I would like to bring to you was the fact that our Fitch -- the rating agency of credit risk has upgraded our classification or ranking going -- making CEMIG go up to a AA group in a national scale. And this has a significant impact for us because it was exactly after our -- the acquisitions that we have made in 2009 and it had already placed us -- our rating in terms of revision and under revision.

And after going through the assessment of all the consequences of such acquisitions, it came to the conclusion that, in fact, CEMIG, because of its strategy to protect the economic financial results, it did reach its objectives and therefore would not have any concern of giving CEMIG an upgrade in this risk rating.

And this makes us very happy because it meets our purposes and our strategy was exactly that of adding value by means of those acquisition and what we see and being recognized by a risk-rating agency as important as Fitch is in the financial market. And this is exactly the conclusion that CEMIG is on the right track and making the investment decisions that are adequate and add value to -- for its shareholders.

During our presentation, I'm going to show you some figures that really substantiate these comments and ensure to our shareholders and investors this quality of credit. We had a performance that was very positive also from the point of view of -- the technical point of view in the distribution CEMIG. This comes from the electricity system was pretty positive.

I made a point of mentioning this fact because last summer we had some problems vis-a-vis power shortages and we had a very quick response to those problems and today we are already with a 14% improvement, which is -- it refers to this index of service quality.

These figures come from the investments that we have made and the actions that we have taken, among them the setting up of reconnectors, which are automatic equipment's that do not depend on human action, which correspond to a growth maybe of 200% vis-a-vis the present park. And this will allow for more automated operation and much more quick in terms of response when any interruption or power shortage happens.

These investments that we are making have already presented results that are extremely favorable. You can see that the SAIDI period from January to June 2009 was seven hours interruption per consuming unit and now we are already six -- at six hours, already presenting, as I said, a 14% improvement.

Naturally, this is within a context in which we had, in the recent years, a great number of consumers -- of low income consumers who are located and more distant from our network, which naturally exposes our electricity system to meteorological unfavorable, meteorological conditions. And so this is a very relevant gain to our Company.

Our sales volume, we also had a very expressive increase in the consolidated -- the consolidated sales volume. We're talking about not only GT -- CEMIG GT, which had a very good performance as compared to last year and also the distributors, especially the distributor who had a significant increase of sales. We had a reduction in the supply as a result of those contracts that were obtained in the adjustment auction 2009 and -- but amply made up for by the actions that we have taken at CCEE, even, in order to maintain the sales volume at a level that was quite high.

The growth of these two segments, both residential and industrial, practically all of the final consumers had a very significant growth in this quarter and shows exactly that the measures that we have made -- that we have taken so as to increase the effectiveness of contracts for our customers in spite of the crisis that we had the beginning of 2009, we have gotten the results in naturally.

There was a relocation of those volumes of supply -- supply volumes that were the object of sales in the adjustment auction to the CCEE market in such a way that we had a significant increase in this situation. Naturally, the sales volume was very positive and naturally within the regulation conditions we had really an additional benefit.

As you can see, the sales volume of CEMIG GT had a significant increase on the part of the free consumers, in spite of the fact that the supply still has a significant component, naturally made up for by the decline of those contracts that I had mentioned before. And this has made the percentage of power sold to free customers has increased significantly in relation to the total, thankfully today we have a greatest part of the power sold to free customers.

And in the regulated market, the -- it's slightly less than we had in the First Quarter, especially relative to last year. Exactly because of this strategy we had a migration from the regulated to the free market. And this has brought along more benefit to our GT, which compensated in a certain way for the reduction of revenues coming from the contracts of the adjustment auction.

The distributor also had very positive result -- a market growth around 15%, which from the point of view of our distributor, a very good performance. As you can see, we left a 5,519 gigawatts hours to 6,364 gigawatts hour, representing then an increase of 15%. This 15% increase naturally within what we can see here in our chart per class, you see the growth of residential, commercial. And rural classes naturally had the greatest growth. But if we compare this growth of 2010 with the one effectively had in 2009, we had a growth of around 15%. So naturally we had some sales.

The CCEE, done by our distributor. And this sales naturally as a result of the access supply because of the 2009 crisis. Naturally, this has helped us complement it so that today if we look at the distribution mix of our sales of our distributor, we have a very well balanced mix headed by our residential sector, which has a growth potential that is quite strong and we are now trying to serve in our market.

Now the consolidated revenues has a small reduction, especially because of the fact that the revenues of our GT was reduced around -- by BRL98 million. And these two indicators of the use of the network show that the impact really came from our industrial customers which naturally were made up for a little by the sale of the final customers through our distributor and naturally practically zero -- actually even to the balance vis-a-vis these supplies. We had some other revenue reductions because of some adjustments that we had to make.

In general, though, all of these figures are extremely positive. We have shown on our first slide that the adjustment on revenues surpasses -- goes beyond BRL3 million in the quarter. If we didn't have those non-recurring items, the results would have been extremely positive.

And what has to do with operational expenses and this is a very important item for us because we have worked very diligently in order to reduce operational expenses because, not only of performance gains but also because of the tariff revision, especially of our distributor, which was what happened in the year 2008, 2009. And despite all of the efforts that we have made, the average -- the increase of these revenues -- of these operational expenses, that is, was over 8%.

But as you can see, all of this comes from the non-manageable expenses, especially the sales of purchased power. Third, the outsourced services because of our improvement in our operational performance, we had to invest a little more in this direction. We had those provisions that had the adjustment made because of the judicial agreement of the settlement which was largely made up for by the personnel reductions. So layoffs.

So all of these factors are positive and naturally we are confident that we are going to still have very positive results. As you can see even in our balance, in our explanatory note vis-a-vis personnel we had a very significant reduction in that respect as well, which naturally reflects the previous -- the decisions that we had previously made vis-a-vis our voluntary retirement program, resignation program, which brought about an operational expense reduction.

The impact upon the EBITDA naturally is not adequately reflected in the figures that were published, exactly because of the fact that we had those non-recurring items, especially the impact on CEMIG GT because the tariff review of our transmitter. This was the second tariff revision. In this aspect, we're talking about the tariff review of CEMIG GT and not the other transmitters, which do not -- the contracts do not include this revision. This review has to do only with our -- the transmission that is operated by GT, who had some compositions which were not enough.

I remember, for example, that in the case of Light in the First Quarter, we were consolidated about 13% and now we're consolidating 25% in the Second Quarter. TBE we had already -- we have already had a significant increase this semester -- this quarter, that is, because of the acquisitions we made last year of the additional parcels of the interest. And especially Taesa, which begin in the Fourth Quarter 2009, we included there the investments that we made. And in this Second Quarter, do not reflect 100% of the impact to be positive.

But it already brings in some additional benefit for the results of 2009. And this has made the percentage of our GT increase to 51%, CEMIG D with 15%. And the other companies, they're well within the expectations that we had placed for them in terms of cash generation. It's an extremely strong cash generation as you're going to see. The added -- the resources added by CEMIG in each quarter has been very strong and recognizably positive, as I mentioned in what has to do with our credit quality improvement.

If we look at our EBITDA, which was adjusted as a function of the factors that I've mentioned, we would have a value that is pretty close to BRL1.2 billion -- BRL1.256 billion. This is an amount that investors and shareholders must consider what was published was affected by the non-recurring items. And naturally, we're going to surpass the market expectations which was around BRL1.22 billion. This adjusted value is the one that should have been reported were it not for those non-recurring items.

So this is a very good result and we believe that it's well in line with the expectation -- market expectations and it's naturally going to be reflected in the next quarter's -- in our results. Likewise, we can assess the net income, as naturally you received there the financial demonstrations showing that the net income is BRL291 million in the quarter.

Compared with the First Quarter last year, we had a strong reduction there. But the adjusted results already shows resulted is very compatible with the market expectations. We understand that the correct results would be the one that gives us a net margin close to 16% and this is exactly what we expect to happen in upcoming quarters.

Now naturally, what we see today corresponds to the strategy that we have adopted. You see that the contribution of each one of our -- the businesses to the results, especially for the cash generation has been very strong. One sum affected by, in the case of CEMIG GT, was strongly affected by, in the Second Quarter, because of the exceptional performance that we had in the Second Quarter 2009. The result of the distributor also had significant impact because of the non-recurring items.

But we have already had a very strong growth in what hinges on Light because of the acquisitions that we have made and especially Taesa, which left zero and is now presenting a quarter results of BRL74 million, which is still halfway through to the value that we intend for it as a function that -- of the fact that, in the Second Quarter, does not reflect the interest of what we have already acquired vis-a-vis our Taesa.

Because of that, the structure of cash generation by business comes very close to our ideals in what we are actually intending to do vis-a-vis our business portfolio already reaching a generation, practically half of the cash generation with a substantial growth, I would say, of the participation of transmission with the distributor and the other business still falling slightly short of what we intended.

But as a trend in the long run, as you can see, as you know, we intend to have 40% of generation -- of cash generation coming from a generation of power and 20% of our transmission from the remaining business, thus reaching the other 40%. Our debt has also shown a strong performance even though it was affected by the Second Quarter results. Because of that, our consolidated debt is at 2.2 times the EBITDA. But still below the 50% that was authorized by our board.

We had a coverage of interest that was quite strong and probably, already in the Third Quarter, with the improvement of our -- the EBITDA performance, we should have these factors there, especially the net debt over the EBITDA returning to values below two times. And this practically reaches or meets the requirements that we have in our bylaws for this debt issue.

The debt had a very good performance with the main results of cost around 6.48% a year at constant prices, naturally, which represents the effort that has been made by the Company so as to reduce this average cost and which shows -- which contributes evidently to maintain the excellent credit quality -- credit rating that we have presented in the last years. And this is all part of our strategy in the long term.

This long-term strategy aims at the elongation of the debt in the long term without us having short-term pressure. So we don't have any trouble rolling over this debt. The limitation of the debt to the levels that we have already established in our bylaws. So we are already practicing that -- we have exactly practiced that which we understand to be the best position for CEMIG. You can see that this is reflected in our cash flow.

Our generation of cash in the Second Quarter 2010 was pretty strong, as you can see in this chart. We had there a cash generated by operations around BRL600 million, which is quite similar to the one that was generated by CEMIG in the Second Quarter 2009, showing -- thus showing, naturally, that in spite of the significant reductions that we had in our profits, we still had preserved our cash generation in such a way that, at the end of the period, even having made investments in the order -- very high order, we had a final cash around BRL3.7 billion, which goes to show that CEMIG is entirely able to naturally generate those resources and proceed with its investments.

That is why the credit quality of the Company is maintained at a AA level, which give us the tranquility to continue going and making the investments that have already been provision -- provided for -- we had provisions for. So we are in the acquisition level at very significant values in this quarter, somewhere around BRL1.548 billion.

We are talking about investments up until July 2010 and therefore accumulative until then, we have reached BRL1.548 billion. The greatest part is Taesa and for the acquisition on the parcel of 13% of interest in Light, which prior was -- previously owned by Andrade Gutierrez.

Those are extremely high values. But as you can see, the cash generation was sufficient, together with the capturing of resources, the procurement of resources to pay for all of these investments still preserved in our credit quality at the level of AA. And this is the result that we naturally would like to present and we are then presenting to our investors.

You already know our goals, our planning for the long run in terms of reaching significant position in the electric industry in this country. We are already present in 20 states and we intend to expand this participation to each state where we have had a very significant action, not only with generation of power. But also transmission.

And as well as also trying to find, maybe, a result that is more positive and what has to do with sales -- power sales to other customers. We already have an interest of 26% in our market. We have a market share of 26% in our free market, naturally substantiated by the CEMIG's generation capacity. These were the slides that we would like to present to you.

I brought some other slides and to add to our presentation only to demonstrate to you those adjusted amounts, not only the EBITDA, how we reached it, exactly to show in a very transparent way what the figures are that we are talking about. Likewise, the net income in order to show to you that these items are non-recurring and throughout the next quarters we are going to have values that are closer to the ones that we have had already presented. So I believe that we can now open for the question-and-answer session and I will be at your service for any doubts you may have.

Questions And Answers

Operator

Prior to moving onto the Q&A session, I would like to announce the phone number 55 for Brazil, 11-46886341 or send your email to RI at cemig.com.br. We are going to try to close this transmission around 12 noon. It's now 11.34. So we request -- we ask people to be very objective and brief in your questions. And if possible, two questions for each person at the most. (Operator Instructions) We have a first question coming from Vinicius Canheu.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Good morning. Thank you for your presentation. I have two questions. The first one has to do with the generation. In the Epimec [ph] event, you showed a more conservative position in terms of generation and a perspective of lower prices of what had been announced before. Has anything changed vis-a-vis the last quarter?

There was competitors announcing new contracts. The second question has to do with the heading to a fund. What is the position vis-a-vis -- what's the status vis-a-vis this project and what would be the possibility these funds would have in terms of the growth of CEMIG's interest in the Light fund if there is the -- this is marked -- the decision is set for October, if you divest or not.

A - Unidentified Speaker

Thank you, Vinicius, for your questions. The first question, how -- as we had -- have done in May, our sales director in May is very comprehensive presentation about the price outlooks for power in the upcoming months. And we understand that, because of the trade environment, the prices would undergo a reduction relative to our previous forecast.

Naturally, this does mean a bad result to our generator. It's simply an adjustment of expectations. We had higher expectations -- high expectations in the First Quarter 2009 and now we made the adjustments following our guidance.

However, for the time being we have no evidence that scenario may change. So we are maintaining our view as to this point. Now in what has to do with the FIP, F-I-P, the fundo

[ph] fund, as announce before, it is already structured and organized in such a way as to absorb all the investments that are necessary to maintain the CEMIG strategy.

That is to make light our growth vehicle in the segment of distribution and this vehicle naturally has all the necessary mechanisms in order -- first to finance itself and to finance itself and to seek more efficient opportunities in the market in terms of financing. So the FIP -- F-I-P is still under preparation.

We still have some -- and what has to do with the roles and the agreements and documentation that has to be signed. It's already constituted. The investors are already lined up and they are already willing to bring in the necessary resources so that even if there is some exercise on the part of the Luce fund, we still have assured the results. The structure that we have already determined is going to make us able or make CEMIG able to make this acquisition in the criteria that we impose ourselves.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Okay. Thank you very much.

Operator

Excuse me. Our next question comes from Gustavo Gattass from BTG Pactual.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Good morning, Augustine. I have two questions also. The first one in the presentation of the guidance, we had an indication that the parts of the reduction of the contract prices had to do with the expectations of the realization of the adjustment action. Now the spot is coming back strong and I'd like to know, in your generated today, the GT, can you give us an idea of how much it would be contracted, that is are you exposed to a spot or a short-term power for the free customer for the Second Quarter? This would be my first question.

The second question. I would only like to understand, Luiz, how do we have to think in terms of the Taesa consolidation, maybe minus take [ph]. I was expecting to see a greater consolidation of Taesa now. And I'd like to understand what is the pace -- the entry rhythm for the Third Quarter, Fourth Quarter -- how is this going to be?

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

Let me begin with the second question, which is more direct, Gustavo. In fact, because of the schedule of acquisitions of Taesa, in this quarter we are including only those amounts that come from the first parcel. The public offer was done in April, May. So the reflections upon the Second Quarter were still relatively small.

However, in the Third Quarter, it's going to be reflected very close to the value that we had already estimated for the whole year of 2010. Naturally, we had an impact that the public offer was not 100% feasible. We had a 4.7% parcel of shareholders that did not exercise their rights. Therefore, we cannot consolidate these 4.7%. However, at any rate, in the Third Quarter we're going to have especially 100% consolidated in the way we had envisioned. That is, you can never forget that the FIP has 51%.

Therefore, in spite of the fact that the economic value, we will have somewhere around 60% to 62%. So what we should be consolidating at the end of the Third Quarter, considering these 4.7% that are in the hands of minority shareholders, would be somewhere around 60%. It's not going to reach 60% -- a full 60%. It's going to be 58%, 59%. But it will be quite close to what we had envisioned because of what I have said about the minority shareholders.

As for the power, what did happen last year was an exceptional sales. It was non-recurring because of the circumstances and of the scenario that we had obtained favorably in the First Quarter 2009. You remember that there was consumption reduction on the part of the customers -- the industrial customers. And this is a favored circumstance that we had surplus power that we could purchase from those customers and resell in this adjustment auction.

You remember the tariff was BRL145 megawatt per megawatt hour. As our projection for 2010 was a significantly lower value, naturally, there was a reduction in revenues and this reduction is reflected in our results. We have 100% of our capacity sold in 2010 and 2011, according to what we had already announced in May in our meeting.

And what may happen is a generation of secondary power above what was predicted and has happened in the First Quarter 2010, which may bring about an additional sales for the second semester, who's price on the PLD market is today quite attractive, if I'm not mistaken, around BRL140 -- somewhere close to that.

And in this case, we could be -- we could benefit from it. The distributor is going to benefit little because it still has surplus power that is selling on the PDL. So the distributor may be benefited -- they benefit also in this aspect. But aside from that, no great novelty.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Thank you, Luiz.

Operator

Excuse me. Our next question comes from Mr. David Fajkarz from Raymond James.

Q - David Fajkarz {BIO 16675965 <GO>}

Good afternoon, Luiz. Good afternoon, everyone. I would only like to know about the news story that came out last week that CEMIG is making a proposition for some assets in Brazil and the latter, I'd like to understand if you confirmed this proposition and this would be done through procurement of resources over FIP or debentures. Thank you.

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

Thank you, David, for your question. Unfortunately, because of the very rigid instructions of the Securities Commission, we did not talk about rumors. Everything that is -- in what is concrete is what is publicized in our relevant facts as we did last week. What is published in the press, unfortunately, we cannot comment.

Q - David Fajkarz {BIO 16675965 <GO>}

Thank you very much.

Operator

We have another question from Saso Tomajer [ph] from Saffron [ph].

Q - Saso Tomajer

Good morning, Luiz. Good morning, Augustine. Also about the possibility of an acquisition more [ph], could you tell us what is closer in terms of all the activities distribution -- private companies distribution -- the state-owned companies? We would like to see if there is any type of change of focus what is closer to your appetite and especially if the competitive scenario is changing. If you today see that we are back to competition, competition is getting fierce?

If there is any indication of beginning to show if there -- investors are beginning to show their claws, as it were. So it wasn't very clear in what -- having to do with this market. That is, in the end, what are the prices like, the updated prices in the free power market? If the rates have been longer, what the energy contracts.

A - Unidentified Speaker

Saso, thank you for your questions. Let us first answer your first question. We can say that we have a long-term strategy already amply negotiated and announced to the market of a focus in the electric sector. So for any of the three segments of the industry, we have a very strong focus, the generation transmission and naturally confirmed by the last relevant fact that we have published.

The distribution is part, also, of some focus. We're looking for opportunities in this field as well. So our focus remains the same. Our strategy is reaching a market share around 20% in each one of those segments and maintain our cash generation within a portfolio that gives us 40% cash generation coming from generations, 20% of transmission. And 40% from the remaining businesses. This is our focus. And we are seeking for opportunities in the market within this strategy.

What unfortunately we cannot disclose and we cannot comment on has to do with specific companies because this would generate undue speculation and naturally we would be challenged by our regulator. But the focus is exactly that. We are not move away from it -- we're not moving away from it. We're still seeking opportunities.

Your second question had to do with prices. Now prices is what I expect to go pass -- it still prevails and this question we have our guidance, which was given in May this year and this guidance, we had no evidence that tells us change in scenarios. So the price is already within that level -- on the level that we announced last May. And naturally, we are following very closely the evolution of prices.

PLD went up significantly and this, as a function of hydrology, we had a delay in the beginning of the rainy season. The expectation is that it will take awhile longer and this will imply -- this will imply the deployment of thermal plants and this is going to increase PLD. This is the scenario that you see and we count on the fact that it will naturally be realized until the end of the year. So without any comments about the companies, what would be the rate of return for the investments superior to our weighted average cost of capital? The idea is to add value.

Operator

Our next question comes from Mr. Francisco Navarrete from Goldman Sachs.

Q - Francisco Navarrete {BIO 15936808 <GO>}

Luiz. Good morning. Thank you for your call. I have a question about Light. In case the exercise for Luce -- the exercise that's about sales rights is -- would this generate rights for the minority shareholders of Light? What would happen to them?

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

Now I have to thank you for your question. Naturally, as I said before, the structure that was put together will meet these requirements of first keeping the company private. Second, preserve the control group exactly in order to avoid the possibilities of public offers. It's not because we would have anything contrary to the presence of minority shareholders. But we do need those minorities for the future because we're going to transform Light into a growth vehicle.

So we are now quite tranquil vis-a-vis the structure that we put together and we should not have any problem. Even if the Luce fund exercises its option, we believe that this exercise of option will not come about because of the good prospects that Light, as an investment, offers to investors in general.

Q - Francisco Navarrete {BIO 15936808 <GO>}

Thank you, Luiz.

Operator

Excuse me. We have a question from Gustavo Gattass from BTG Pactual.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Just a follow-up question. To use what Navarrete just asked. But would you have a way to tell us the level of that -- of these transmission companies that were acquired by Taesa or is it still too early to tell us about that?

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

Gustavo, we will have the -- a great pleasure to give you this information -- this piece of information if we already had finished -- closed the deal. That is, we still have some steps to take which may still make the acquisition viable. We only publicize because of the Securities Commission instructions.

So I cannot really give you this type of information. But as soon as we close the deal, we're going to, as we as always done, to open up all the figures so that you can really assess correctly the consequences of the investments that we understand are extremely positive for CEMIG.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Thank you very much, Luiz.

Operator

Excuse me. We have a last question from Marcos Severine from Itau Securities. Please restrict yourself to one question.

Q - Marcos Severine {BIO 3322666 <GO>}

Good afternoon, Luiz, Augustine. Very simple question. You just mentioned the possibility of using Light as a growth vehicle. Now the matter -- the question is do you envision their acquisitions and also projects -- generation projects in the case? And the second question has to do with financing. In Light, we could consider those -- they have access to the equity markets and the debt markets.

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

Thank you, Marcos, for your question. I am going to respond to that by showing what we have been doing at Taesa. In Taesa, likewise, we had already assured to the market that -- assured the market that we would use Taesa as a growth vehicle and that's exactly what is going on. That is we have made really an operational restructuring that resulted in an increase of operational performance of Taesa. Just to remind you in the First Quarter 2009, Taesa operated at 86% of its EBITDA -- EBITDA margin, that is.

And in the First Quarter 2010, four months after we took over, we were already operating at 88%. In the Second Quarter this performance went up to 88.5%. So we are affectively increasing our operational performance of Taesa, which is going to result in cash generation that is quite strong -- strong enough in order to be used in new projects.

We have tried to participate in some auctions in the First Quarter. We were not successful because of the circumstances of very strong competition. The investors were already accepting returns that we would not go for. So we were not successful in these auctions. And the first opportunity that we had to acquire for acquisition, we are practically closing depending upon how, as we announced it upon the exercise of the preference rights of the partners which is not within the sales process.

So we are exactly carrying out that which we had said we were going to do and what has to do with Light. Not necessarily it's going to be an acquisition. It could be also projects -- new capacities as we are already working on through Talcada [ph] (inaudible) and Lages [ph]. Therefore, we have projects which we're going to bring to Light so that Light can also grow and generate necessary resources as we have been doing in Taesa.

So the message is one of growth and the message is one of add-in value. It is a message of cash generation at the level that is possible to pay for this expansion in an extremely conservative way. However efficient and add-in value. So we are managing those assets that we have acquired to the benefit of our shareholders. Those who were benefit from this management, please keep our stock and buy more of our stock.

Q - Marcos Severine {BIO 3322666 <GO>}

And the financial part -- is this for cash generation and debt or is that a possibility of equity. Just to close here.

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

We may use not only the cash. But also debts, as long as observing those minimal criteria of credit ratings and credit quality that is the maximum debt in -- as established with the stockholders of any -- of each one of those companies. If it is -- if at all necessary, we will increase capital. That is the shareholders are already willing to increase capital in case the volume of investments is -- justifies the equity increase in the sense of preserving the quality of credit of those companies.

We -- in the same way we did in CEMIG Holding, we managed those companies in such a way as to maintain access to the investment market and to maintain this access to the market -- the investment market, we have to maintain our debts within the limits established by each one of those companies.

Q - Marcos Severine {BIO 3322666 <GO>}

Okay. Thank you very much. It was very clear.

Operator

We are now closing the question-and-answer session. I would like to give the floor to Luiz Fernando Rolla for his concluding remarks.

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

We're going then to close this conference call. Unfortunately, I cannot be very emphatic in our message because of the warning that our president made at the beginning of this video webcast. The period of elections in this country prevents us from talking about topics that may be understood in a way different from the one that we tell the markets. So this condition of a state-owned company forces us to follow such rulings.

Now. But we would like to say, especially, in what has to do with growth plan, that we are exactly on track carrying out that which we have proposed, which is to grow in a healthy way, to grow in a way so as to add value with an investment discipline that is quite rigid and seeking the best possible opportunities to invest.

We have made -- we have done this in what has to do with what is our first investment. We have already purchased, as programmed since 2006, parcels -- additional parcels of Light and we're not going to proceed following the criteria in the upcoming months. We are seeking opportunities for growth, not only in the auctions that are organized by the government. But also the opportunities to make acquisitions that may present themselves to CEMIG.

Always within this focus of the electric industry in the three basic segments of the electric industry and with the concern that is always taking care to add value. We're not going to invest at any price. We have a very selective set of criteria for the assets that we seek and we do not move away from such a policy.

And I would like to thank you for your presence and your participation. And I'd like to say that we are still at your service, at your disposal, our investor relation area which works seven days -- 7/24 at your service, whatever is the question that you may have, even after such a presentation in a more detailed analysis of our financial statements. And I'd like to thank all of you and I wish you all a good afternoon.