

## Q4 2013 Earnings Call

### Company Participants

- Antonio Carlos Velez Braga, Superintendent of IR
- Djalma Bastos de Moraes, Director President
- Luiz Fernando Rolla, CFO, Director of IR

### Other Participants

- Unidentified Participant, Analyst

### Presentation

#### Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Good afternoon. Again good afternoon to all of you. Antonio Carlos Braga, Superintendent for Investor Relations of Cemig. Good afternoon, to all of you. My name is Antonio Carlos Braga. Good afternoon. Again. Good afternoon to all of you. Antonio Carlos Braga, Superintendent for Investor Relations of Cemig. We are now starting our transmission of the webcast with the results of 2013.

Dr. Bastos de Moraes, CEO; Dr. Fernando Rolla, CFO, Superintendent for Controllershship. And our transmission can be followed by this number, the telephone number that's now being given and also through our site ri.Cemig.com.br.

Now, our Director for Investor Relations Dr. Fernando Rolla for his presentation.

#### Luiz Fernando Rolla {BIO 1852035 <GO>}

It's a great satisfaction to be here with you today to disclose our results, complete results from 2013. I apologize for our RI has just replaced day by night. But this is part of our policy to really be so close to our investors wherever they are any time of the day or night. Our investor relations is working 24/7 with that purpose.

Already with the presence of Dr. Djalma de Moraes our CEO, restating our strategy plan for growth. All the results that, you are about to hear, derive from decisions taken within the realm of our long-term strategic plan. It's a plan that has given to us Norte in allowing control of all our decisions over taken over recent years. Growth is the key word here and we really achieved growth in 2013. Isn't that, Mr. CEO?

#### Djalma Bastos de Moraes {BIO 2089645 <GO>}

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Good afternoon, to all of you. It's just like any other event where I have my participation. I'd like to give you a small panorama, strategic panorama of our status right now, our situation and our experts from each area and leaders of each area will keep on talking to you.

So our firm [ph] has just switched night for day or vice versa and that was a clue so that our director could make good use of the opportunity to explain that our relationship with our investors don't depend, or doesn't depend on the time of the day. It can be night or day whatever.

But yes, we should be boasting some 26% growth from 2012. It's important to keep in mind that in 2013 we had something atypical. Our CRC was -- resulted in dividends 2012 to our investors. But in general terms, 2013 was anyway better than what we had in the year before. 20% of EBITDA and the net profits 15%. So that's all intending with what we had promised before. It's important that we understand that and for 2014 we will keep on setting our work on the basis of this firm commitment with our investors. Challenges for 2013 would include our alliance with Renova, also our alliance with Vale, Taesa.

I would like to move onto the next one. So first an important information to you that we are participating right now as part of the controlling majority of Renova. This participation as you have been following up we acquired assets BRL800 million in assets isn't that? Yes. And these newly acquired assets have allowed us to have majority interest in Renova. That includes BRL1.5 billion FIP/Petrobras assets and as a consequence expanding our generation park in a very sustainable way.

Also, alliance generation of energy this new company we are together with Vale rendering this new company feasible, with some BRL250 million we are making it feasible for them to operate and generate energy. 4.1% or 4.41% in Norte Energia in terms of our equity holding.

Also, alliance generation of energy. This new company, we are, together with Vale, rendering this new company feasible with some BRL250m, we are making it feasible for them to operate and generate energy, 4.1% -- or 4.41% in Norte Energia in terms of our equity holding. This gets to 14.18% of equity interest in the company. So slowly. But surely, we are recovering what we use to have as part of our generating park.

More recently, it was a relevant fact we acquired 10% of Santo Antonio as well. So also we acquired just like another Tres Marias inside Santo Antonio. And these new acquisitions, including a new Norte Energia will enable us to set these huge power park to be operational within the near future.

We are having problems litigations in courts with Sao Simao and Miranda. So slowly. But surely, we are expanding this generation park so that it will give us a lot of -- a comfortable position for 2014, 2015 when the concession period of those 18 mills or plants will expire.

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But then, I think, this is a very strategic decision on the part of our Company. I would like to make us -- you gentlemen very comfortable about our prospects, even though or in spite of our possible problems and distribution problems. And we are working hard to maintain the balance. And from 2015 we expect to have -- we expect to be more at ease in both our transmission and generation structure.

Yes, just it's important to also stress that all the projects that we are involved with, they aim at ensuring a stable, long-term or stable and predictable cash flow in the long-term. That means that our contracts with Renova and the ones we are also making feasible for Renova, they are very long-term contracts and that will secure our cash flow in a very objective clear way, not only in Renova but also Alianca Geracao, whose potential for new acquisition is very huge, well Renova, alone is 600 megawatts in addition.

So that's what we wanted to convey. We will be available. But now, I'll hand over the floor to our professionals, IT professionals. But I remain available to you for any questions or any issues that you might raise. Thank you, again. Good afternoon.

### **Luiz Fernando Rolla** {BIO 1852035 <GO>}

Thank you, again. And I thank you for your presence, our CEO. And now moving on with our presentation already now narrowing down to some details and some themes. Our CEO has already mentioned the generation investments. But of course, transmission is also a very important sector for us for cash flows, for generation to -- the slides referring to generation.

We have managed to make projections of our growth, including opportunities for mergers and acquisitions and new projects. We haven't had -- well, we have had success in recent auctions due to our discipline of investments. And this has insured a robust cash flow in recent quarters. And that enables us to keep a very stable and robust dividend policy with enough cash to remunerate our shareholders. This is a very strategic segment for Cemig as well.

Just like transmission, we also are pretty much convinced that we are qualified in our assets, our qualified assets that generate value to our shareholders despite all difficulties that distributors are now going on because of the high cost of the bought energy. Some results have already been directly impacted by this situation. But we have absolute conviction that -- and we really trust that our results, the results we aim at, we will be obtained also in this segment.

And we'll keep on investing and revamping our distribution park and improving our operational conditions for distribution so that our operational indicators will hit the levels that we really want. These indicators are really important for us, especially in terms of frequency of downtime or power outages and intended with ambitions of Aneel as well. So that puts us in a very favorable condition in terms of performance in our distribution.

Our SAIDI by the end of the year, we have 12.11, rather, it's the opposite he said, yes, 12.49 was our performance. What makes it clear that our investments really resulted in

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improvements in our performance in the -- and of course, for 2013 we had this improvement. And this year we expect it to have an even stronger gain.

In terms of results, the net revenue of Cemig has grown 3.5%. It's a consolidated value. EBITDA has grown by 22.4%. Those are the numbers for IFRS. It went up from BRL4.238 billion to BRL5.186b. So that was a very substantial move.

If we look at the numbers, the 2012 figures had been inflated by our negotiations of the service with the State. If we remove that from the scene, the adjusted profit for 2012 will be 2 point something and for 2013, the difference will be still wider. So the gains that we have attained and all the efforts that we made were in the -- to the fact that we had constant growth in operational profits, just like we have seen in recent years.

Gasmig, as well, natural gas is a very positive prospect for Cemig. We have a very demanding market. High demand is pressuring it. And growth in the supply of this type of fuel has not been big enough to meet that demand. But we are now having a series of negotiations with Petrobras for a further increase in these gas volumes to supply to the market.

We have been conducting exploration and drilling of gas in the San Francisco Valley. Gasmig has invested a lot in recent years to the fact of extending that supply to new industrial clients and residential clients as well.

We are extending our gas distribution pipeline crossing urban areas. And we'll be in better position to meet the demand into the coming years. We have started, not only Belo Horizonte. But also in other regions, like the Triangle and Center-West regions of Minas Gerais. Our investments are aimed at meeting that growing demand. And we really strongly believe in the reliability of this supply, the source of gas to us.

Last year, in our annual report, we highlighted the award of Abrasca. That's the listed companies, Brazilian Association. And that's a very important award. It qualifies and really reflects the level of our communication with investors, the excellence of information contained in our annual report.

Also, Dow Jones, it's extremely important to us to have this recognition from the DJSI that also proves that our practices are aimed at sustainability and the fact that we belong and we have been in that index for the last 14 years, which is another reason why we are convinced that our strategies for sustainability are correct and have been well implemented in Cemig has its sustainability assured for the future as well.

Some other recognitions the ISE from BM&FBOVESPA. We have been included in the index for the ninth year running, also for the BNDES/BOVESPA ICO2 Carbon Efficient Index, also the Corporate Knights award and also the Dow Jones Emerging Markets Sustainability Index and the CDP; London. All of this attests to the sustainability of Cemig.

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From now on, we'll focus on the 2013 figures. We will present the consolidated figures for 2013 as compared to 2012. Consolidated net revenue, for example, as I said already, we had a growth of 3.5%. Even if we had industrial consumption going down during the period because of the slowing down of the economy but that was superseded by the high prices in the spot market.

We had a substantial gain in terms of megawatts that derive from our strategy of not only preserving our Jaguará plant but also to provide hedging against the hydrological risk that really happened in 2013. This strategy really allowed us to have this increase in volume of energy sold in the spot market and this meant a gain in revenues.

A very strong growth in Cemig GT in terms of new clients. 42 industrial clients of these were obtained outside the concession areas. And Cemig D also showed some growth of 3.3% with some 250,000 sig -- see presentation slide 11 "250" [ph] new users connected. Operational expenses were reduced overall.

Last year, under our disconnection program or our downsizing program rather, meant that we saved a substantial amount. But we had substantial gains indeed in terms of reduced costs involved in using the network, the grid associated to 579 Provisional Measure of the government regulating the new contracts. But overall, we had a very good result in terms of reduced operational expenses.

We focus on cost reduction very strongly. And this focus has been a constant feature of recent years. If you compare recent years, the costs over the last five years, for example, we have obtained substantial reductions in operational expenses. And this proves that our Company is focused on our -- the creation of value with the new acquisitions and the existing assets.

Of course, EBITDA already calculated on the basis of IFRS we have already exceeded BRL5b. That's the best performance in the sector, some 22% plus in terms of growth as compared to 2012. And if we make the adjustments considering asset -- regulatory assets and liabilities, we will see a reduction that's around 9.7%. So it would be BRL4.7 billion in 2013 against BRL5.2 billion in 2012.

But what really matters is the managerial EBITDA, the one that we provide to our investors and shareholders during our annual meeting. We explain all the difficulties we faced in 2013 associated to the major impact from the increase in the bought energy in our distributor.

We hit the lower limit of our guidance. But that means some almost BRL6m [ph] of the management EBITDA guidance. If not for this impact, I mentioned on our distributor, Minas distributor, as a whole, we would even have hit the upper margin of our EBITDA. A very solid performance, as you see. And this has enabled Cemig to forge ahead with our expansion plans.

Another number that's very important to our investors because this results in payment of dividends, we had this apparently almost 27% drop to BRL3.1b. But if we adjust that figure

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considering the CRC and the regulatory liabilities, we had a lower number in -- than in 2012. But given that that it's the first time that we operate under the Provisional Measure 579, it removed from us some BRL400 million of revenues. But even in spite of all these adjustments, the performance can be seen as very positive. It puts us on the top performance in the sector. Very few companies in the sector had comparable profits to ours.

The consolidated debt profile is very reasonable BRL6.2b. According to IFRS, we only consolidated those companies where we have 100% participation or interest. So EBITDA is very comfortable with 1.2%. Net debt is also very comfortable. We are in position to keep on making our investments with a leverage that will really allow us to even invest more in view of this rather low leverage.

IPCA and CDA, you can see the numbers -- CDI rather, we are in a very comfortable position as far as risk is concerned.

GT results of 2013, I recall that it's a very relevant impact from the new measures. So the EBITDA was reduced by 8.6% meaning BRL2.9 billion plus in 2013. Net income fall by 5.6% because of debt reduction in transmission already referred to. But still already at a very positive level. And this was achieved by our measures taken to protect our cash flow. So even so, even if we had this very small growth in the volume of electricity sold of 2.2%, we had net revenue growing by 12.7%.

The commitment with our shareholders is to keep the company sound, financially solid. And that's what we have to say about Cemig GT. It ensures us growth resources in the long run. Even in the worst possible situations that we have referred to, we are still very comfortable in the next years. There's no risk of pressures constraining our cash. We can even leverage a little bit more, Cemig GT, as it grows. Yes. If we reduce even further the level of debt, it would be already -- it would start underperforming in terms of capital cost.

Cemig D, these are the figures. EBITDA going from BRL889 million to BRL1.2 billion plus that's a growth of 44.8%. Well you could see the effect here of the increase in bought energy. We could see how the PLD [ph] growth impacted here. 2012, 2013 was a little better because we had that subsidy -- subsidies provided to the consumer to the effect of re-compounding their costs in 2013 to buy energy days.

So that level enabled us to go through 2013 with a little better position than expected in spite of all those difficulties. You can see the net income as compared by 2012. In 2012 we had a much stronger impact. Net revenue, it falls a little bit by 3.1%. And the volume of electricity sold growing by 4.1%, which is really rather positive. I believe that with what we had in terms of tariff reduction and also the climate conditions that were not typical, a very warm summer leading to higher consumption by the increased use of air conditioning, for example by the consumers.

That's the debt profile for our distributor. In normal conditions, this debt would show no problem whatsoever. Its basis is on investments made in recent years. But as cash generation fell down a little bit and as a function of growing costs, especially the

uncontrollable costs the performance was a little worse than expected. But in 2013, even so we had a substantial improvement. You can see the figures that allow us to face up to worsening conditions or to any conditions in the future.

In spite of our investments made in 2013, these were rather substantial, BRL2.5b, which was very positive and consumed a part of our cash. But despite all the changes in regulations we kept our cash at a very strong position. The dividends paid in 2013 were quite relevant as compared to 2012. And even so, we managed to keep a very strong cash.

This is the performance of the shares. You can see the yields, very attractive in spite of devaluation of the shares. Cemig preferential -- preferred shares rather. And the ordinary shares showed positive variations in spite of the reduction in the BOVESPA performance. You can see the numbers here. The yield in terms of ordinary was above 13% and preferred, above 9%. In view of all the hostile environment, those figures are extremely positive I guess.

These are -- were the points we would like to discuss with you. Of course, you may have a series of questions. And we are here precisely to answer all your questions. We now move on to the Q&A session.

## Questions And Answers

### Operator

(Operator Instructions)

### Q - Unidentified Participant

I'd like to make two questions. First, I'd like to have you comment on the strategy of Cemig GT. You said that debt indebtedness would be low. There is room for leverage. Are you talking about levers pure and simple or really growth in Cemig GT? And how does that fit with your strategy for growth involving the other joint venture?

I'd like to hear your vision of the upcoming auction. Can you enter the auctions selling energy? What would be the strategy for buying Isagen in Colombia? And now would that fit into your portfolio?

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

Thank you for your question. It allows us to focus on our strategy for growth with Cemig GT. As our CEO said, our intention is to recompose our plant portfolio handing over 1,000 megawatts of capacity to the government, this federal government, we decided not to renew our concession contract. We have to re-compound that somehow.

And those investments made in Cemig GT are the figures we've shown in the beginning. We have increased participation in Renova, Brazil PCH as well. And we use PCH assets to

invest in Renova. In view of this capital increase Renova can now have this.

By 2016, it will get to almost 2,000 megawatts of installed capacity in this participation together with Light and other participants. We would have an additional capacity that will be pretty substantial and will make up for this capacity that we are transferring now to the federal government.

Also, this agreement with Vale has resulted in this new company with 1,100 megawatts of capacity a very solid structure and zero debt, virtually, to be able to grow not only by means of acquisitions but also projects of new plans. Within the new perspective -- or prospect for the power sector, including thermal plants, we can invest these new resources.

The GT strategy is to recompose its cash as we make new investments and also seeking new acquisition opportunities. Our CEO mentioned our participation in Santo Antonio together with other investors. This is a very important point we would like to stress again. Always, we will proceed with -- in partnership with private investors with more transparent, clear results that we are obtained as we communicate them to the market. And that's how we always do it.

Isagen, you mentioned, Isagen in Colombia that's a privatization project of 2,200 megawatts of installed capacity practically all have hydraulic and also a new project going into operation next year. Sorry. But the stability of my seat is -- does not suit our -- the performance of our company. I'll have to move to another seat.

But we are seeking a new partnership with a local participant, a middling public company, a very well reputed company. It's a multinational investor with investments in other foreign countries. And together with Cemig, we'll make a proposal to the government of Colombia for acquiring the Isagen shares.

Isagen to us will mean a unique opportunity to enter the Colombian market. The Colombian market, as you probably know, is not that big if we compare it to Brazil. But it represents a good opportunity for us to achieve the necessary scale for an effective operation in Colombia.

Together with that, Isagen has this feature that regulations in Colombia are much more favorable to investors than currently you find in Brazil. So it makes a lot of sense that we should make some investment in Colombia with that very long-term view.

## **Q - Unidentified Participant**

And all this movement would explain some nonpayment of additional dividends.

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

No. We'll pay it, according to our policy for dividends. We have paid BRL4.2 billion or BRL4.6 million in dividends last year. This year, we'll schedule our dividends with 50%. We



have to be conservative at this point when it comes to dividends because the scenario is not very clear for 2014, be it from the point of view of acquisitions or from the point of view of operational performance of the companies involved. As you know, it has to do with the present hydro-energetic situation of the country. But if we have cash availability and if we can -- if it happens that we can postpone some of the acquisitions, we can declare extraordinary dividends by the end of the year. Pardon me?

## Q - Unidentified Participant

(technical difficulty).

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

What's our strategy? We'd like to sell energy for the NCA minus zero? Well it depends on the conditions set by the federal government. Last year, that was not -- the auction was not made feasible because the price was not attractive to operators and investors. Now if the conditions are more reasonable we, for sure, may participate. We do have a generation capacity to sell in 2014.

If there are no more questions, I'd like just to say a final word here, restating our commitment to our shareholders and investors. We are seeking the best possible opportunities for new investments so that we can achieve good returns to our shareholders. These investments are, as usual, carefully analyzed before we go for it. And we are studying the best assets where we can capture the best synergies.

All the projects that have been described to you during this conference are sure to add value to our shareholders and bringing also additional benefits on the course of this -- the capture of these assets, we can enjoy additional benefits.

Taesá is the best example. Initially, the investors were a little skeptical about that acquisition. But as our plans were implemented in terms of assets management we achieved a performance level that will be hard to beat by any other company.

We have strong confidence in our investments in Renova. Renova will mean a similar gain to that we had in Taesá. It has all the characteristics required from a successful project for the future. Cemig has a strong confidence in the management of the Company and the policy and strategy for growth adopted by that Company. We are entering now the controlling block. We'll oversee their business plan implementation much more closely. And we are sure to have a lot of success with that and other investments we made.

So my final message today is that you saw in 2013 the good results from our decisions. BRL3.1 billion in profit and that's a proof that our strategic decisions have been correct. And the results will be even better, we hope, in 2014.

We'd like to thank you for your attendance and for your patience to listen to us for nearly 60 minutes. And we'll make ourselves available to any more detailed questions that can be raised by you subsequently. You can contact our Investor Relations department and -- by phone, by mail, any time you wish. And I'd like to thank you again. Good afternoon.

## Operator

This webcast is now closed. Thank you for your participation and have a nice afternoon.

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