

Q1 2016 Earnings Call

Company Participants

- Antonio Carlos Velez Braga, Investor Relations Officer
- Fabiano Maia Pereira, Chief Officer for Finance and Investor Relations
- Leonardo George de Magalhaes, Controller

Other Participants

- Maria Carolina Carneiro, Analyst
- Pedro Manfredini, Analyst
- Unidentified Participant

Presentation

Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Good morning everyone. My name is Antonio Carlos Velez Braga, CEMIG's Investor Relations Officer. We'll now initiate our video webcast of CEMIG's results relative to the First Quarter 2016, where the presenters are Dr. Fabiano Maia Pereira, Chief Officer for Finance and Investor Relations; and Dr. Leonardo George de Magalhaes, Controller. This broadcast can be received by phone numbers 55 (11) 2188-0155 or 55 (11) 2188-0188, and also through our website, ri.cemig.com.br.

Let's then begin our presentation. This first slide shows in a summarized way the results of first quarter 2016 as compared to the same semester -- quarter last year. Both revenues and EBITDA and net profit have seen reduction, and the main factors affecting results in the quarter includes a very important one, changing the allocation of supply in 2016. In 2015, we had the seasonality factor, we allocated much more for the first semester, and in this semester -- in this year, it's exactly the opposite. Less energy in the first half and the more energy in the second half of 2016.

And if you also add a reduction in average spot price, well also the sales of gas, natural gas, Gasmig also saw a strong reduction in sales both to thermal plants and industry. Whole market for us or resident market is growing, but still not to match those two first one.

Also, negative equity contribution from Renova had significant effect, and because of this acknowledgement [ph] of Renova, it showed a negative result which we -- Cemig consolidates directly or indirectly via Light company, that amounts to 152 million. Also along the comparisons, we can say that we recognized in the first quarter '15, the fair value gain of Alianca business with Vale, which implied a fair value gain of BRL735 million.

And I now hand over to Dr. Fabiano Pereira, our Finance Officer.

Fabiano Maia Pereira {BIO 19066644 <GO>}

The quarter -- the quarter's highlights. First, the Energy Ministry has set the criteria for indemnity of transmission assets, Leonardo will talk more about that later on. Also Taesa won the auction bid, one of the Lot occurred recently. We capitalized Cemig D along the lines of lowering the leverage of the company, also capital increase in Renova through Cemig GT, also we summoned an EGM for later this month related to our negotiation with the banks with regard to FIP Redentor. Also, our meeting -- our Annual Cemig-Apimec meeting is set for May 24 at the same venue.

Leonardo George de Magalhaes {BIO 21639277 <GO>}

Good morning everyone. A little bit about indemnity of transmission. Its known by the market that the Ministry of Energy defined criteria for updating and payment of transmission, that was demand from the sector, we had been discussing with Aneel ever since 2013 with -- below the actual 73. These criteria go through the inflation [ph]. Amounts in our balance by 31st March 2016 is around 1,090 million, that's updated by IGP-M, up to this point.

Then according to this order of the Ministry, it was defined and updated by the IPCA, it was going to be remunerated based on the cost of capital, which is around 10.44%. It is just an estimate, initial estimate and it should be -- it might be affected by other calculations, but they've had a relevant effect to the company showing revenues, financial revenues amounting to 500 million this quarter, and I believe it was -- we believe that it was really a gain for the sector, although it's a long period for receiving eight years at least our cash is well defined, and I think this was good news that came out in April.

A little bit about the disclosed data as Velez had mentioned before. Consolidated net revenue saw a drop of almost 24%. Lower volume electricity sold in the first quarter also associated to the spot price, they were lower than in the -- the previous year. Another point, that also impacts net revenue, is the drop in supply. The situation has come all the way from last year. Sao Simao is now transferred to the quota regime, and these are the main points I believe for revenues.

As for operational expenses, we should stress again as we have been doing ever -- ever since last year. The intension and the planning of the company seems as reducing PMSO, and we keep on bringing it lower than inflation. Also lower cost of purchasing supply due to a price drop, and two provisions that were kept as in the report, the Parati and SAAG, Santo Antonio -- Santo Antonio.

Our main point is with regard to provisions, well, I'd like to add anything. Well, I think as we see the evolution of operational expenses of Cemig consolidated with -- we see our great effort to reduce costs, and provisional amounts related to Outsourced services, also highlighting a real increase in personnel, that's the one-off effect, because it had to do with this collective agreement with employees and even if we have provisions to cover the

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effects of that agreement, in November as it was signed, it had retroactive effect, and it had some impact due to that. This will be diluted throughout the year as we expect to add 2016 agreement retroactive to 2015. We have seen increments in -- we've seen that part of this effect is associated to tariff impacts, almost 50% last few year, and the other provision is associated to the age of these debt, and the company is taking internal measures involving this -- the four issues and how to deal with that. So that it want to be perpetuated to the coming semesters, and it was more significant in this semester -- in this quarter, but it tends to fall down. We'll see already in the next quarter, efforts -- the results of the efforts made by the company to reduce the fall, and also cost associated to labor claims.

Now, about EBITDA, that reflects what we have been seeing so far. Reduction in the liquidation of spot prices, allocations in the first quarter as compared to last year the same period. Fair value also increased 643 million or 735 million rather, and if we compare EBITDA to last years, the drop is 75%. Those are the diagram by company that's more like an EBITDA, a managerial EBITDA, it's not an accounting figure, but to show the flow -- the cash flow of each company of Cemig, Cemig GT, Cemig D, Taesa, Light in consolidation with Renova, Alianca and Gasmig also contributing to generation of cash of the company.

With regard to consolidated net profit, we saw a drop, a 99% drop to 1.4 billion to nearly 5, that's 500 million, that is -- that has to do with Renova negative equity method contribution, if you compare to last few year also considering the stock holding transaction with Alianca that increased first quarter 2013. We had two main points to be commented upon. As for debt profile, during this first quarter we proceeded to most of the rolled over -- rolling over of the company debt with maturities to come in 2016.

And say from -- those are 3.9 billion, 600 million have already been rolled over in April, this is partially in -- as a result of the higher interest rate -- Selig [ph] rate. And leverage is now a little above what we saw last year, also due to this EBITDA figure that should be recovered along the year.

As for Cemig GT, the debt maturing in 2016 is 2.9 billion, most of it in December. We have to assume that debt to pay the granting, and we -- banks that we're dealing with are already negotiated, they take out of that debt. A good deal of the debt is already rolled over to 2017, '18 and '19, and this remains our strategy to seek extended tenures to settle that debt.

In terms of investments, what has been planned for the year is 4.7 billion, of that we have already done in the first quarter -- quarter, and has mostly to do with the auction that we won last year by -- or -- by the -- the grant of hydro plant.

As for our cash, closer to the end of the quarter, that was almost 2 billion, I think that's more than 2 billion, that's an important highlight, and that helps us to go through this delicate moment from the macroeconomic point of view.

Also, the net effect of CVA and other financial operations, we got more from the Tariff than from CVA this quarter. The Tariff Flags also helped, and also distribution had less pressure

from demand as compared to 2015, the price were too high that were resulted in an additional CVA, and just reduction of this pressure in the first quarter, and we saw it as an positive phenomenon.

We are concerned, as said before, we're rolling over our debt and keeping it intending [ph] with our cash generation. It's a stable portfolio, not very -- had relevant variation from earlier this year. And 1.5 billion that we applied in our grant, concession granting, that adds up to almost -- a little more than 2 billion in investments, that protected us from any effects from last year. Our main concern is with protecting our cash flow, and I think that this year we will keep adequate levels and perhaps even reduce our leverage as we have today.

So these were the highlights then. Thank you, Velez [ph].

Questions And Answers

A - Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Now let's move on to questions and answers. Ladies and gentlemen, we'll now start the Q&A session. (Operator Instructions) Our first question comes from Ms. Carolina Yamaguchi [ph] from JP Morgan.

Q - Unidentified Participant

Good morning. Thank you. What about the negotiation, the Jaguará, Miranda renewal, and the negotiations with the government. Any new update because it's been canceled. Thank you.

A - Leonardo George de Magalhaes {BIO 21639277 <GO>}

Thank you, Carolina for your question. Negotiations are still ongoing. We are talking to the government, seeking a solution to Jaguará, it's already at the Supreme Court, and to represent the others. We are giving it some time because of this recent change in power and the ministries, we should resume the talks within short time.

Q - Unidentified Participant

Thank you.

A - Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Our next question comes from Mr. Marcelo Alencar [ph] from UBS.

Q - Unidentified Participant

Good morning. Along the lines of these -- this question, and about leverage, 4.4 EBITDA, I understand that you must be keeping it below that level from the December position, then what about the next stockholders meeting? It should be reduced to 4.14, is this really falling down over the year? The EBITDA seem to be strong, and if you compare with the new basis for EBITDA, this will make it hard for you, even harder for you to comply -- to

comply, perhaps you should renew that and pay some extra to do that. And -- in view of your super high leverage, do you still expect to come to some agreement?

A - Leonardo George de Magalhaes {BIO 21639277 <GO>}

Yes, to the agreement. We understand that we have good conditions to reach an agreement. As for the leverage, we have already mentioned -- in our last presentation we mentioned that Cemig is reassessing its portfolio, which allows us to reduce our debt within the mid-term. In addition, we should remember that, specifically with regard to covenant -- covenant is a statutory covenant, it's read in December, and as we submit the budget through our General Meeting, we have already brought to them a request to keep that covenant little above the statutory level.

Q - Unidentified Participant

Yes. In your remarks you said that you are considering selling assets for exhibition [ph], or stockholding in Taesa could be considered. What's exactly on your mind, selling some assets or what?

A - Leonardo George de Magalhaes {BIO 21639277 <GO>}

Yes, we are looking at other assets as well, fundamentally assets, we have no control over that. Our company is planning -- includes focusing on these cases and put them on sale, of course to good profit to the company, as for the hydro plants auction.

Q - Unidentified Participant

What's the next step for solution to pay some (inaudible) or --

A - Leonardo George de Magalhaes {BIO 21639277 <GO>}

Well, precisely that point is still being negotiated.

Q - Unidentified Participant

Thank you. Excellent.

A - Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Our next question comes from Mr. Pedro Manfredini from Itau BBA.

Q - Pedro Manfredini {BIO 21633245 <GO>}

I have a question. On the line of this investment, we've seen Cemig talk about that since a long time. What has evolving in the recent months? We understand that this will to be a unique opportunity perhaps to sell assets that you don't control. What has really evolved over the last six months with that regard? Also another question related to that, why is it that -- you took contrary position instead of disinvesting, you had inject more capital into Renova, that -- that's going against the market trends within more money in a company that will not generate cash in the short run. Renova would be perhaps one of the assets to be disinvested given what we've heard in some of the media relationships within Light --

Light and Renova and perhaps Cemig should file a suit and terminate its participation in Renova.

A - Leonardo George de Magalhaes {BIO 21639277 <GO>}

Well, Pedro, first of all, we must be aware of the fact that Cemig is a large company with a very compliance governance. So in recent months, we had this very strong work strategy - - convincing people internally to the correctness of our strategy. Some projects have already been approved by our Board, and we're still negotiating for Renova negotiations, specifically that's contrary to what I have just said. In Renova, we are co-controllers or co-owners, we are -- have an interest to see that the -- keep strong and get stronger, that has not to be mixed what I have said before.

Q - Pedro Manfredini {BIO 21633245 <GO>}

So any discussions going on about the portfolio, you have Alianca Energia, you have pretty highly leverage balance. It was said some time ago that there was this possible arrangement with Lights, what you have at Belo Monte, Santo Antonio, which is -- I don't -- I am not sure if it's under Alianca, but any other possibilities and perhaps Alianca could absorb some of these assets and reduce leverage of Cemig.

A - Leonardo George de Magalhaes {BIO 21639277 <GO>}

Well, the strategic planning with Alianca, we are discussing that with our partners there. We are convinced that they are an excellent business with a great potential for growth in brownfield rather than greenfield. If we look at Belo Monte, Santo Antonio, that's still a greenfield, that we will take a while to restart generating cash, that's not the way to follow by Alianca in principle.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Very clear. Thank you. Thank you for answers.

A - Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Our next question comes from Ms. Carolina Carneiro, Santander.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Good afternoon. I would like to hear your comments on cost performance, especially in the distribution, despite the fact that you have reduced part of the agreements you had for profit sharing. We saw that there was this pressure on supply. I would like to understand better this cost profile, and if you are working on any better way to improve cash generation? Thank you.

A - Leonardo George de Magalhaes {BIO 21639277 <GO>}

At Cemig D, we are looking strongly. We have extracted resources to reduce the leverage of the company. We are focusing now on productivity and operational efficiency. We've just completed an internal effort, and we are proceeding with that into the next years. We expect that to increase substantially, some studies already down straight, then this is

possible. And this is one of the point we have been dealing with. We have additional budget approved by the Board, seeking reduction in that provision. We are seeking also strong reduction in this specific point.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

That's all right. If you allow me one more question only, about the impact on the volume of the distributor, especially evolving an important industrial client. We have seen that with other distributors, if you're -- you see any movement, any expectations from the market with regard to distribution of volume for this year?

A - Leonardo George de Magalhaes {BIO 21639277 <GO>}

If I'm not mistaken, next week in our General Assembly Meeting, we will produce that to you. Can you expect -- can you wait until that?

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Yes. Thank you.

A - Antonio Carlos Velez Braga {BIO 16813855 <GO>}

(Operator Instructions) We now close the Q&A session. I'd like to hand over the floor to our Chief Officer for Finance and Investor Relations, Dr. Fabiano Maia Pereira for his final remarks. Please Dr. Fabiano, you may proceed.

A - Fabiano Maia Pereira {BIO 19066644 <GO>}

My final message is here, I would like to reinforce our willingness of our top management, our Board, our employees to reduce the leverage and to improve operational efficiency. This is the focus -- our focus for the coming years, and as we've shared last year, well, some analysts predicted that we wouldn't be able to deliver, but we did deliver and we'll keep on delivering, that's our main message. Thank you, and see you next time.

A - Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Video webcast with the First Quarter 2016 Results of Cemig is now closed. We thank you all for participating. Good afternoon.

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