Q1 2013 Earnings Call

Company Participants

- Antonio Carlos Velez, General Manager, Investor Relations
- Leonardo George De Magalhaes, General Manager and Controller
- Luiz Fernando Rolla, Chief Executive Officer

Other Participants

- Felipe Leal, Analyst
- Sergio Tamashiro, Analyst
- Vinicius Canheu, Analyst

Presentation

Operator

Good afternoon, everyone. My name is Antonio Carlos Velez. I'm the General Manager of Investor Relations of Cemig. We'll begin the video webcast of first quarter results of 2013 with the presence of Luiz Fernando Rolla, CFO; Institutional Relations & Communication director and Luiz Fernando Rolla, Director of Finance and Investor Relations. The webcast can be followed over the phone 55-1-146-88-6341 and also on our website, http://ri.cemig.com.br. We recommend the use of the new player, where you can visualize it in a more dynamic way.

Now we give the floor to our CFO, Dr. Luiz Fernando Rolla, to begin the presentation.

Luiz Fernando Rolla {BIO 1852035 <GO>}

A very good afternoon, everyone. It is with great pleasure that we opened this webcast for the presentation of our results for the first quarter of 2013, that is the first quarter in which we are applying the new accountancy standards, which affected more specifically the consolidation of our results. Therefore, I think that it is to demand our product for more comments on our part in order to explain exactly what we have as results.

Preliminarily, the results have been very good aligned with all those strategies that we have adopted. And especially there into the decisions have been made in the last months so vis-a-vis the -- now it is introduced by provisional measure 579 that we are quite firm and our steps to try and follow not only the long ends of our customers but also our shareholders.

The result of the first quarter 2013 competitively with the previous year, we had very significant growth not only in our net income -- net revenues, but also our EBITDA and our net income. That is a net revenue as we saw increased by 15%, compared to last year first quarter last year results -- the result upwardly because of the increase of the revenues from energy showed due to the high market prices on the spot market. The EBITDA increased by 28%, which goes to show though we had substantial gains as a function of the reduction of the operational costs. So the company and therefore, we have this greater growth of the EBITDA. And especially, our net income, which increased by 37%, reaching R$865 million, which places us maybe as the best performance in the industry.

Now these results come especially from the strategy that Cemig has adopted in the last years to give -- to do value to its assets. We have tried only to reduce operational costs and to introduce new technologies and new management, managerial practices, so as to guarantee that we're going to have resources in order to be able to invest.

But mainly, the investment discipline which has brought us continuously good results in investments that we have made. We have several examples that we can list and represent to the invested market, the most representative growth which is Tiesa presented a very positive results this last week that there they would light in spite of difficulties that the civilian companies have been go into.

Besides we all have some opportunities doubtlessly very promising launch. So as we increase our growth and cash generation through opportunities that we have been preparing and getting ready for some time and now begin to materialize as natural gas.

Natural gas is an industry that in Brazil is not very well developed, because of the short supply of natural gas will have the opportunity in the state of Minas Gerais especially in San Francisco River Basin, which has a promising province of natural gas. We have obtained four blocks for the concessions to drill four blocks with two wells already drilled. And with very promising results, we are very enthusiastic about it. In the next months, we should provide some additional probation due to the result of the drilling, the investments that have been made thus far are not significant. They are around R$15 million or $25 million. Our strategy is to develop these wells in partnership with investors and it is only to the minority partner in these investments, but the availability of gas is going to allow for significant increase in the supply and the demand, and the supply, which today is somewhere around 3 million cubic meters of gas.

It can reach now higher volumes in case some of these blocks that you see there, which belong to several companies have a positive result. I highlight the proximity of the city of Belo Horizonte to allow these blocks, which places us in a very favorable, competitive situation because of the reduced costs, we may have a connection with Belo Horizonte, which is already a hub of gas pipes, which not only reach the eastern part of the state, but also the southern part of the state.

As you see, the northwest part of Minas is a region, which has agriculture or agri business. It's maybe its mainstay in economic terms with very well-developed agriculture, very efficient agriculture, which needs importing fertilizers from abroad. And the availability of such gas is going to allow for the development of that region with much more efficacy, much more efficiency. Gasmig is going to benefit solidly from this availability of gas. As you can see, Gasmig today has a very aggressive posture in what has to do with the sales of gas to industrial consumers and a vast majority. We have reached 1.403 billion cubic meters of gas sold to these consumers in the last 12 months only.

In the first quarter of 2013, we sold somewhere around 374 million cubic meters of gas, which is a very positive performance transforming Gasmig into a very significant company. As you know, our cash flow within its sub-business structure 40% of it comes from generation. And as you're going to see in a while, it remains along on this level and it's coming from transmission and the remaining businesses account for the other 40%. It is very likely, therefore, that within a few years our Gasmig is going to be responsible for much more of the percentage that it has somewhere around 5%.

With such an availability of gas, Gasmig is going to be able to meet demands of the residential consumers Commercial consumers does well in the most important urban areas in the State of Minas Gerais, whether from pipelines or liquefied gas, kitchen cooking gas, which we can also serve other cities of significant urban density, which justifies these investments.

We have a very aggressive plan at Gasmig, and in all certainty, you're going to see this year that we're going to go beyond the revenues of last year. In the first quarter of this year, we've been able to have a 23% gain over last year, which gives you the measure and idea of the growth potential that Gasmig has.

Next one. In the next slide, we have the results of the third tariff revision cycle, tariff review was a long run. As you remember, two years ago, we began the discussion with Aneel, the methodology to implement the third tariff review cycle. And I'm going to ask (inaudible) our superintendent responsible for economic regulation to make a few comments about this third tariff review.

Good afternoon, everyone. Our review process began with an average result of 2.99 correction of the tariffs, remembering that it was limited because of the determination of the federal government to impose a limit up to 3% readjustment in terms of impact for the final consumer. They reminded of these resources coming from partial A, and especially of the great effect of the variation of the energy generated by the thermal plants has come as a function of the CCEE resources, which were around R$715 million, which CCEE distributed -- received 400 to cover the difference for purchased energy and charge and other charges and the remainder to cover the subsidies that were built into their subsidies for the low income consumer, public elimination, water and sewage and sanitation, which was the way the government found in order to solve promise or to fulfill the promise of 20% reduction.

The other important thing was the just adjustment of our new tariff structure and a constant search for the improvement of profitability because of the new roles that have been imposed given them the definition of the methodology of this cycle, as Rolla just commented on. It also shows our continuous dialog with our new in search of another good recognition of our investments.

The object (inaudible) process the way in which recognized on assets and we are very optimistic go the results that must be -- that should be taken to the next annual meeting for the adequate recognition of our investments.

What we have here is another objective that we have been able to reach results for use the improvement of quality and we compare here the CCEE and the reduction already you see when we compared our results of 2012 and '13 of the model.

This performance of 2013, which has a reduction of 6% in deck shows there is also investments originate in the last year's in order to improve the operation performance of Cemig. And in these 3.86 hours of power shortage, a significant plan comes from what we call the program, the cutting - cut off.

This has always been reason for margin, the part of the distributors because those companies that make great volumes of the investments where the purpose of the improvement in the system quality when we do not show to the society the difference that the percentage of the program that has to be external the power shortages. There -- and this goes unnoticed by society, hence, then they take in the parameter the regulation, especially, in Europe, will show that the program outage should be made explicit to the population because those companies that have a great valuable investments, which is our case, which we have been investing in the distribution system a considerable or resources, exactly, so we can improve the quality of the service.

This is not too clear for a society and for consumers and the program outage, therefore, is the one whereby we have to switch off some lines in order to interfere into the system in order to promote investment and the accidental outage when we see it in trial (it's been reducing because of the amount of investments that we have been making implied in our distribution network.

With the employment of new technologies, which are going to give us greater efficiency and continuing also in and taking to you about regulation, we have received recently the response from the Ministry of Mines and Energy about our pledge to renew constructions of the (inaudible) hydroelectric lines. Can you tell us a few details about this.

The Ministry for Science and Energy, respective and there is indication about the -- our plea and we are convinced that our contract guarantees the renewal of the construction Jaguara plant and also Miranda as well and Sao Simao. So we are the as -- our director -- our legal director says we are very aware of the rights that we have and are being positive that we have these plants. Dr. Maria Celeste, our legal director has already seen it that the next steps are taken.

So that we're going to contest the decision on the Minister of Mines and Energy about this construction contract of Jaguara. Our conviction is as Dr. Maria has said, is that we have a right because of the construction contract, which we obtained and this discussion about the Jaguara is going to go over to Sao Simao and is already -- naturally going to be in anticipation of the discussion of the merits corresponding to the other two lines.

Now moving forward, then we now talk about sustainability, because the sustainability for us the size being a commitment a cultural commitment also big itself. So may be -- the addition of this renewable energy company, but today we have included the concept of sustainability in our decision-making process, all every decisions that is made about investments is made in terms of our socially responsible investments. We have as a principle to ensure to the next generations, the resources that we use today, so that all of our decisions actually fall under this principal whether to preserve the economic financial results, to respect the environment and also to meet the demands of the community, which we serve.

This is why we can present a slide were the very significant number and especially very weighty industries are recognition on the part of the market of our sustainability policies. So we reiterate our commitments of socially responsible investments in respect of the environment and to meet not only the community, but also our stockholders.

This is the first part was more strategic and which we thought would be interesting to talk about. Now, from now on, we're going to talk about the results of the first quarter 2013. We as announced that they have been positive. And I'm going to ask Antonio Carlos Velez to talk about a 15% growth in our net revenues. The 15% of revenue in our net revenue is not a normal one, what can you tell us about this Carlos.

Antonio Carlos Velez {BIO 16813855 <GO>}

Well above to all, as you have said the growth of our net revenues have been very robust.

But as we unfold, as we actually go about looking at that, we have several reasons for that. First of all, I would highlight the increase of stop energy sold at CCEE which led the increase of revenues around R$540 million as compared to the first quarter last year. This revenue increase came because of the volume of the energy liquidate at CCEE in the first quarter was smaller than last year, because last year we had a great amount of secondary energy, which as we know did not take place this first quarter, because hydrology didn't allow it.

But exactly for the same reason the price for the liquidation of the energy in the spot price was much higher than last year. Therefore, so the average price of fuel in the first quarter 2012 was around R$66 last year, this year it was 330. So the amount of the energy was not as great as last year's, but the price was very high. Even then, the amount of energy was also benefited because of seasonality. As the seasonality as the energy was very expensive especially in the first quarter. We allocated the energy privilege in the allocation of first quarter in order to maintain a longer position, because of the high price.

Important to highlight that this long lead position -- this long position for Cemig remains throughout the year. It's not in the same proportions that we had in the first quarter, but Cemig has a favorable position in the rest of the year.

About that the average deal date that is forecast for the rest of the year is much higher than the value that initially was considered. In the first quarter, we reached beyond mid-20 and naturally with the changes that were introduced by the National Council of Energy Planning, we're going to have their maybe a greater impact on the price, which is going to benefit us because of the additional exposure that we have through the field date exactly. There is a position is going to be even more benefit there because the price is going to be very interesting.

I'm talking a little bit more about the revenue. We had a reduction and the consumption by consumers, but which somehow contributed to the increase of the supply and other revenues and going to explain why. What happened is because of our sales strategy as we have been publicizing and our annual be there for some time -- some years, our generators, Cemig GT decide selling its own energy, also sells energy, it sells it in two ways. It sells by purchasing energy and then reselling it, which in our demonstration of results of years.

As our revenue from the sales of energy, but we have this part as a purchase. But also we sell by having a contract directly with the generated with the customer and then we have a commission, as we have been commented.

For some years, our policy is to try to sale this energy directly to the consumer, because in such a way we can improve our margins. This has led to the fact that some of the contracts here have had been invest over to our Cemig Trading Company, so it doesn't appear here. As of sales of the energy, but it contributes to other revenues.

Operator

The next slide. We talk about the operational costs. As you know, we have a program of operational efficiency, which is very aggressive in the assess of updating efficiency gains in our operational area of the assets that we operate. This is true for all of the business portfolio. So we're making not only for some Cemig GT but TBE and also like Taesa and other assets, which we are responsible for.

Now these costs have been like we just, recently are concerned and run along with the investments that are made, which has given us also a very good return. As you were able to see through the slides, but this cost reduction shows the engagement, the enrolment of our staff, so as to make our operation much more efficient.

One of the responsibility -- one of the things responsible for cost control is Dr. George De Magalhaes, who has been practically the leader in the analysis of this call. So, I'm going to ask Leonardo to make an evaluation of the results, which we have obtained in the first quarter.

Leonardo George De Magalhaes {BIO 21639277 <GO>}

Good afternoon to all of the participants of this video call. In spite of having presented an increase of cost of approximately 150 million relative to the same period last year, when we make a detailed analysis of such costs, we pursue that those costs have had an increase in this first quarter. 2013, with purchased energy, in the case of distributor is (inaudible) and in case of the Cemig GT, this cost increase with purchased energy has to deliver revenue because it has to do with market growth and in order to supply to the market, we will have to buy additional energy that could be beneficial as that could enable to sell this energy.

Another cost of increase was fuel, but it has to do with generation of what you got at that thermal plant, which also positively reflect in the net because it increases our revenue. And lastly, our program of redundancy, which had a significant reduction. These employees, which are going to be resigned, they're until the month of June, are going to have a reduction in the payroll.

So, the net effect of this redundancy program is going to be around R$60 million we commented in the previous presentation of fourth quarter 2012. This is not going to be relevant, it was going to be lower than 100 million. So, we are now showing a figure that is quite lower and that is 60 million of net effect this year, after the reduction in the payroll throughout the client. Also, we're talking about is the outsourcing, which are costs that are controllable by the company, the hardest ones, which even if without making the comparison updated by the inflation of the value over last year, we were able to present a reduction.

Dr. Rolla has been talking about this cost reduction and the opportunities that we'll have to communicate with the investors. We have talked about these programs of efficient management that the company has been developing internally and we understand that the results that we've been presenting now in this Investor converge with the communication, presenting an improvement of efficiencies in our operational results.

Now, well, last year, in our meeting with investors and analysts, we have made a commitment to reduce about R$200 million in 2013. Do you think that with the initiatives to reduce costs, especially, this one to reduce personnel costs we're going to reach this goal?

Well, I think that the last results that have been presented relative to cost reduction and the company's commitment especially distribution to become more efficient within its tariff review processes in accordance with the regulation landmarks and the efficiencies challenged (inaudible) us, we understand that we are on the correct track. All of our actions and our planning have been made within this line of becoming more efficient and be able to deliver the results that we promised to our investors and stockholders Thank you, Layal [ph].

Moving forward in our presentation, we have the profile of our consolidated debt, the debt of Cemig, the consolidated Cemig reached R$9.8 billion. Now remember, Layal, that we have been applying here IFRS 11, which makes a little, slighter different from our usual practice. So then could you talk little bit about this?

Yes. Actually, the first quarter, yes, we have interest in other companies in which the control is done jointly our balance sheet has a great reduction on the batch presently because we do not consolidate that especially in light and Tyres [ph] and the TBE companies. So our consolidated debt, which in the last year was approximately 15 billion. It was reduced to 9.8 billion. That presented in our balance sheet.

Use of this opportunity, we understand this is the amount of the market representation of such information of the previous criterion so as to allow for comparability for the market. So the adjustments are made and the market is just slightly more used to the new -- having those standards of accounting, we understand that up until next week we're going to make more information available to the market about the consolidated data and perform it with the previous criterion just to allow for better comparisons.

At any rate, we are going to say that the company when managing instead it had the reduction of this profile even if we had used the criterion that we used to use until last quarter to consolidate totally the older debts (inaudible) Annual Meeting, which is going to take place by the end of the month, after this vision of the debt as compared to what represent. Certainly we can do this in our Annual Meeting, which leads us naturally through reiterating addition to the analysts and investors that may and that may -- that can come to event and registration is open already. We have our Annual Meeting in (inaudible) that's going to lead from the 28th this month. On the Sunday 26 we going to have the opening ceremony with the dinner presentation of our Chairman of the Board Dr. Dorothea Werneck. Next morning, we're going to have a roundtable with all the Directors, talking about their strategies and their initiatives with extra time, with expected time and watch -- actually they are focusing our plan is going to very interesting.

In the afternoon, we going to have some technical presentations. We're going to have a presentation of the management of interest and participation, another one about tariff reviews, one presentation about natural gas.

And additionally, we're going to the traditional presentations of the energy balanced and our financial project and our projections and our guidance. On the next day, we're going to have a technical visit to the hydroelectric plant of (inaudible) it's going to be an interesting one. And finally, after 12, we are going to have lunch and those who have to go back home, they will be free to go. This is going to be very interesting event.

Now let us go back to the debt slide, it is an interesting in order as you can see. If you compare that that is in the first chart on the left top, which is quite different from the past. This difference has raise of debt which were the strategic management of the debt of followed one is the superintendent on the financial management and he is the person today responsible for the implementation on this strategy to manage the debt. And so I'm going to ask him to make a few comments about the slides.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Thank you. Good afternoon to all. All have mentioned the important point in our policies, which is to elongate the profile of our debt.

This debt today is at the level of four years as the has a many times and our purpose is to make it even longer and this has been made with the operations that we have been making in the capital market, we've been offering investors the opportunity to invest in a great quality asset with the long time and longer term comparable with the expectation of returns for institutional investors I remind you again we've talked about this last meeting, and we're talking about this, the IPO of Cemig distribution in the beginning of this year, there was the branches we always offer a series in CDI in order to make the demand of the banks and asset and also in IPCA series to meet the demand of the other institutional investor especially pension funds.

We have done this (inaudible) deal last year and Cemig this year, we always place a third series with the longer term read in the market here that so as to be able to elongate the debt. But assuming that last year longer series which was the third one was able to get a demand, a very significant demand, which was where we allocated most of the volume of the operation.

This year maybe instead of Cemig V [ph] we had more than twice the number of offer so we had a very great interest on the investors by IPCA series, which were eight years and 12 years so that our objective to elongate the profile of the debt is very coherent with dollar less than (inaudible). Our effort to make the capital market more active with more liquidity is exactly aiming at gaining smaller costs in longer terms, which we have already got with cost of 5.3%, the weighted average cost of capital. You see that the strategy that Cemig has adopted has pleased the investors, especially the debt investors, as you can see, that our management aims at guaranteeing giving the credit quality, which is quite superior so that the investors have a total trust when they buy our papers.

Today, our debt is around 36%, which places us in the very, very comfortable position and preceding our growth, seeking the little opportunities so that the results are such as the one for the first quarter 2013. It's is a sequence -- a growing sequence and a normal sequence in our results.

Okay, let us move on. In our next slide, we have -- now the results of the Cemig GT. Cemig GT had very positive results and will have an EBITDA around almost R$900 million in the first quarter, which also very significant growth when it comes to comparing with 2012, already coming from factors, which we have talked about.

And income also showed exceptional growth reaching almost 500 million net revenues because of the recognition of the revenues of the seasonality in the first quarter, as we talked about (inaudible), we had extremely positive results. Therefore, our GT proceeds show an coherent results with its philosophy of action and have cost reductions and improving its efficiency and especially with the management of sales of its capacity that is one of the most competitive in the electrical industry in Brazil.

In the next slide, we have GT debt profile and GT profile has very interesting feature because it is already -- does its all of the policy that Paulo Eduardo has described to you. We still have do this year around R$840 million which resulted in a very comfortable percentage when it's fully compared to the cash generation, 800 million debt is not actually significant that as you can see that this debt is decreases up until 2015 and it's not for no reason that is like that we have our strategies, our continuous plan to meet all the requirements that are going to be the mandate of us when we renew the concessions.

We are already with the debt profile which is a very optimized but it is a result that pleases us the following year exactly this result shows us the great capacity that a company has to pay the debt. I'd like to highlight if you allow me the movements an important movement of our debt which is the migration to a greater participation of the IPCA components in my debt profile. At each mission of the ventures that would make as have those CDI series we are gradually going to increase the percentage that IPCA component has in the debt profile which is in alignment with the remuneration allows which is connected to the inflation rate.

And naturally links to the fact that we are looking for a secondary market for our debentures which is very, very, relevant factor for us to obtain longer turns for our debt and longer times for our debt so that our -- because our progress are in the terms of long maturation projects.

Now the mission as you last year was the first one in the fixed income markets, which was the initiative to make the debentures a little more elaborate so the contracts in other markets, former declares secondary market that began more in the secondary market than we believe that with those active market going to have a greater base of investors and the greater demand for our paper.

So that we can have longer term and lower costs. So this naturally gives us an extremely favorable condition to use our growth vehicle that is range for bill opportunities not only during large installed capacity, through acquisitions, but also the construction of new capacity. In spite of the fact that this year we are going to have the effect of the transfer of (inaudible)/ We are already at the final stages of the conclusion Cemig D. Well, naturally because of IFRS level, we are not going to have any impact on our results in the first and the second quarter, but from the point of view of management, this is going to bring about greater liquidity to Cemig GT and this is going to allow our hedge to have more resources without the needs to act through Cemig GT.

But at any rate, we have one of the pillars of our growth, which is exactly the financial capacity of our GT.

Let us change gears a little bit and move on to Cemig D, Cemig D which also had a very positive result and which this year will have an impact of the regulation impact, which was quite significant, we had all this discussion about the price of energy in the short-term, this discussion, which has been (inaudible) everything since the end of last year, the concerns largely about the impact of this additional energy cost that's going to have about the distributors. We had a decree, a law that allowed the costs to be observed by funds through CDE and these funds naturally resulted not -- no additional revenues of our Cemig R$715 million about. Do you have comments about that?

What I said, that 715 represents around 400 million relative to the parcel of the thermals and the energy and charges and the reminder of the reverse (inaudible)tariffs that were built in. So that the government obtained a 20% and promised to reduce the cost for the final customer. They removed the subsidy now, it comes through the CDE. In spite of that, we had some reduction of 20% the tariff last February and the correction of April has not still reflected in the first quarter, but we have already had a revenue increase of approximately R$148 million and our revenues come in from the application of this loan just degree. So growth also will have a growth in the consumption.

In the next slide, we had the debt profile of our distributor, with that profile also reflects the application on the strategy that we adopted for major three. We are trying to look at the profile of our distributors' debt. Remember in the follow that started about the debentures that we launched into the market last March. This deal has dropped strong benefits to our distributor, because of the cost obtained is much comparative and naturally it is going to do gave this cost reflect.

After 2020 -- we are going to have a significant volume of debts that are due and this places our distributor in the very favorable condition and payments on the paying off this debt. Of course we intend to see that's around the 50% to 60% which is a percentage of the regulation capital. We are trying to optimize that. The net debt over EBIT[ph] 3,000 is going to be significantly reduced in the coming years. But is already inserts the distributor within the market on the debt markets which is quite positive right.

Yes, I think that's proof where is that the great demand that we had in the book billed and when we issue the CMIG3 debentures.

The demand was twice that of the book also allowed for the efficiency of book build into a current and reducing the interest rates to below the ceiling rate, but also allowing us to create an additional batch of debentures, because we intended to capture R$1.600 billion that we actually captured 200 -- 2.060 billion. So, this was the roll out of two promissory notes, which we had issued last year with the purpose of being refinanced with the debentures. They totaled R$1.200 billion and the remaining resources are going to be given over to the investments program via CMD and these resources came at a very timely time when the cash flow of the company was being pressured by the increased of the purchased energy. This allows us then to have some comfort for the cash flow of Cemig D throughout this year of 2013.

And naturally this leads us to a slide of the cash flow, which is the one that all of us would like to talk about. Our cash, which -- the slide shows a very robust cash in the standards of IFRS, R$2 billion. When we add the short and mid-term, we've reached R$2.140 billion. This shows the ability that the company has to generate cash and the ability to continue financing its own growth with great efficiency and maintaining its indicators within those limits as required by our by law.

So, we have a great investment program in the last year's and this investment program naturally is being revisited because of the regulatory changes. And when we have our meeting, we are going to show what the investment is, what is the investment program there. We are going to be applying in the next years, but it's never excessive, in a such beautiful slide, such as this one on the cash generation of Cemig.

On closing our presentation, I'm going to give you just a few more figures. In terms of Cemig, we have total assets there around R$30.8 billion, stockholders' equity 12 million, with a consolidated revenue, very significant and a market value naturally quite modest, pretty big and real. We understand that further results that will have continuously presented to the market, we would have a better performance, but we understand the markets reasons, the market is subjected to fluctuations and oscillations and perceptions that not only regulatory matters, but also economic issues and therefore we are patient enough in order to wait for the market recognition vis-a-vis our market value.

I'm going to close this presentation right now and at this time and open the floor for our question and answers time.

Questions And Answers

Operator

Ladies and gentlemen, we are now beginning the Q&A session. (Operator Instructions) We have our first question from Sergio Tamashiro from Safra.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Good afternoon, everyone. First, I would like to congratulate your initiatives to publicize this financial data in a consolidated away remembering that all of the type of help to the investors and the community of analysts that they are work easier is always welcome. And now we have three different accounting procedures, the old one is the CA and then we have this IFRS without (inaudible) which was there was an abbreviation and this new one which is does not consider consolidation.

So if you publicize this financial data and also the EBITDA about the old procedure will helps a lot.

The first question is about (inaudible) August 2013 but they have different mandates. But the question is during this period of litigation in which you're going to file this administration process. What regarding to them in terms of revenue are going to charge at the current prices or (inaudible) working in terms of the operation as like the fully budget plans had been going through and how long should it take.

Second question has to do with concession renewal of the distributor. They have been saying that if you're also filing (inaudible) about the recognition of the remuneration basis.

And now remembering that, this is a NASDAQ that is going to redo in July 2015 and how (inaudible) is going into such a long time dispute when you have the credit (inaudible) consolidation becoming (inaudible) federal and say we're going to open the asset base now and for concession renewal and all of this (inaudible).

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

Thank you, Sergio for the question, especially for -- your initial words are praise to our commitment, which is always to bring information to the market in the most transparent way so that everyone is able to make their investment decisions about not only our stock, but also the factors go with all other markets.

So, this is a commitment that we have made and we have (inaudible) reaffirmed through the financial market. It's for no other reason that our financial results have been for 10 years already along the most transparent lines in Brazil and I was going to continue finding ways to inform more and more, and more and more data in case it is necessary to planning the further clarification and then you've got, as in the case, the consolidation for example.

Now, about (inaudible), we naturally adopted a continuous plan for (inaudible). We took the (inaudible) portfolio and in it's placed out with many contracts of capacity that were acquired last year. By doing this, we meet every requirement of our contracts of supplied without any problems. So, we had even the benefit of the acquisition also because of our initiatives such as (inaudible), but we already have the solution for this (inaudible) issue. Naturally, we're going to file suit, we're going to try and defend our own rights, and as long as we responsible for the El Dorado operation. We are going to live with Taesa, El Dorado in the markets. So naturally this is going to give us some compensation for the margin loss in the acquisition of the capacity that we mentioned. So, by means of that make the result of our Cemig GT is not going to have any impact now or to suffer any impact.

So the distributor naturally, there are still pending of the renewal of distributor, we have already manifested to the federal government.

Our intention to remove the contract under the conditions naturally they are going to be established by the federal government search conditions simple as -- are going to be it seems those are going to be the similar to the present ones with the very little actual challenge. But -- we have just gone through the process of the review.

Of course that some things may change, we have heard rumors in the markets that there could be the revision of the asset base that we have no fear about that. A result of the third review shows that we have maybe more to withstand, more to gain with those opening up the base, then the question by them fetch them all the investments that we have already made. And as a functional reflector that we have. Things that mentioned with the consider and we are up today, we would has a greater benefit in this evaluation.

So, this does not frighten us. On the contrary, that actually gets us more enthusiasm to discuss within there is also some issues that remain from previous reviews. Now when it comes to the work reduction, we don't need to have the new contract in order to reduce the weighted average cost of capital. It has already been done. So, I believe that today there are few of our regulators. This was slightly more pragmatic because of the sector and the industry. Several other industries are already negotiating returns although higher than the ones previously mentioned by the Federal Government. So, I believe that given the strategic position of our distribution as a whole, the government is going to be more lenient and it's going to allow as (inaudible) returns than the ones we have obtained during the third part of review are maintained. Do you have any additional comments, would you -- I think that I've answered all of the questions.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Just a follow-up. When you got to replace Eldorado [ph], how long -- does that extend to (inaudible)?

And another question, just to understand, in the redundancy program of 155 that came in the first quarter, what is the potential for cost reduction in the mid-term?

We have two questions then, the last one about our voluntary resignation program, our redundancy program (inaudible).

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

This year, it was 145 million because that 10 million which was from the previous plan, which was ineffective the beginning of this new plan. The net effect of the redundancy plans, some people are leaving in April, others in May and June. The net effect, it's going to be approximately 60 million because we had a provision of 145, but there is going to be a reduction in the payroll because of the reduction -- because of the resignation of those employees, around 90 million.

Therefore, it's going to have a net effect of approximately 60 million. But, next year, 2014 -- and I was going to say that's about 100,000 employees leaving will mean a reduction in the payroll of approximately R$140 million. Of course, the company is going to (inaudible) those is already going -- undergoing this process for a long term. Other the employees are going to come in because of public selection processes that the company has offered. But the cost of the new employees is much smaller, down the senior employees that are leaving the company. So the tendency is to have more and more efficiency and to reduce this costs We saw reduction amount of revenue of the company, our present result structure.

Let's remember and also that in previous years, we made many agreements with our employees and the elimination of some benefits, which the new employees of the incoming employees are not entitled to. So this makes for a further reduction of cost. And not as though, we are not just stimulating the new employees that are coming in because they are going to be part of a vision of the remuneration, variable remuneration which is quite modern and based upon performance and we will now joined fixed benefits.

Our benefits, which will depend upon performance which are going to lead us to an extremely, their performance which is much better than we had before.

Now as for your first remark, has a lot of issues solved on the basis of the strategies that are mentioned to you and but we can say the same kind of formula and ends. We are going to preliminarily make acquisitions of capacity, which is able to replace the capacity that is going to be under dispute that we're going to have.

We have many plans that are doing commissions going into operation. We have not only wind farm, wind farms that we made an agreement remember with Renova to acquire significant amount of capacity which is going to effect in the upcoming years.

Likewise, the plants that we have building in (inaudible) are also going to add significant values for the cash generation in the future, in the short future. So this making up for it is being made. So in case this dispute is for long, for a long time, we are able to replace the left over contracts with the balance of our contracts at very competitive costs. Okay, thank you very much.

Operator

(Operator Instructions) We have a question from Vinicius Canheu of Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Good afternoon to everyone. As to do with the CDE accounting and the solution, you received a compensation for the shares and expenses, but you also received the reimbursement vis-a-vis the difference in the past tariff review. Now, in the result of this quarter, can you identify some compensation for this past results or this has already been recognized in the first quarter? How much it was?

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

Well, as it's been talked about by the (inaudible), our tariff review if we did have the CDE cover fund, it would be approximately 6%, but it was 3% because 3% of the advancement, which corresponded approximately to 500 million. We instead of receiving this in our tariff, we received that all at once in a single lump by the (inaudible) power through the CDE fund. Out of the 650 million, we have (inaudible) million, which are relative to the value that we are monthly receiving from the CDE. So, this is approximately 100 million per month.

And the CDE fund, we understand that the value should be maintained at this level. (inaudible) and thus we understand that this result is going to be received monthly, thus reducing the expenses of purchased energy and also reducing the value of our CDE stock, which should be calculated next tariff review of our company. So, it was received just a single time, and the others values of CDE, which are R$100 million, which we received from January 1, every month, (inaudible) of purchased energy.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Thanks.

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

Thank you. Just the net figures that is shown here, if we try to look the result of the distributor in the first quarter, we had the similar adjustments as other companies showed, (inaudible) an idea of how you or in light showed very gloomy. Do you have an idea of how much of this readjustment would be in the results Cemig distribution?

It is unfortunately we had not been able to understand the question.

Q - Vinicius Canheu {BIO 6300903 <GO>}

The point is with this company and it show this in your results in light of their debt. Do you show how much it would be this -- we really adjusted for the results. Just to have an idea what was the recurring results in the evolution of the quarter as of it could recognize the regulatory liability. What was this extend of further results of this distributor in the first quarter?

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

If I understood your comment was, what was the effect we see in the first quarter, if you had been register in accounting. The information is like the debt we can also during the events I will be an analyst that is our first (inaudible) we can talk about this.

I'll just add in a little bit more. I think that your concern is to know whether this results that we've had in the first quarter is repeatable in the upcoming quarters. I think your concern is and of course we had this benefit of the recognition, the needed recognition of a volume of revenues which would be received in the next 12 months which was the CVI balance from December. Now this December balance and this from January on we also received that because of the CVA.

But we have not had an impact of the significant impact upon the results which was fixed and let's say the non-recurring is too early to digest all CVA, to finalize CVA in the end of last year.

The fact is that we still have due to the seasonality of the results of our distributor, we have means to the minimally maintained the results of the distributor within this level, because of some other actions mentioned the cost reductions relative to personnel. There is a results of the first quarter, therefore on the one hand, other was the CVA. On the other hand, there was the bid, which made up for it. So, in the next -- in the upcoming quarters, we'll have benefit of the reduction of personnel and our (inaudible) and we do not have the impact of CVA, but that anyway, the results should be quite similar as a function of the other initiatives that we have about in the operation, including (inaudible).

Q - Vinicius Canheu {BIO 6300903 <GO>}

Thank you very much.

Operator

We have a question from Felipe Leal, Merrill Lynch.

Q - Felipe Leal {BIO 2015017 <GO>}

Good afternoon everyone. When do you expect the close of transfer PDE (inaudible). What was your -- and please remind us to what is the impact that this should have upon the results when it does happen?

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

Probably our schedule until the end of the March, it should be concluded all of the necessary approvals on our creditors, CMBS because they already signaled positively. Yesterday, we had a credit (inaudible) end of the month. Till the end of the month, we should be finishing this transaction. It has a cash impact, which is going to be very positive because of the value of the transaction.

Q - Felipe Leal {BIO 2015017 <GO>}

And the impact on the results, we're going to -- I can offer you an estimate as well. Can you do this right now?

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

Well, as (inaudible) commented, the greater impact is the (inaudible) cash. Now, the results are not just that great because we've been talking about the results of the company corresponding to our interest (inaudible). So, it is somewhere around 100 million maybe, slightly more than that, but not a very significant, which is going to alter the results of the company. We have better things in order to add such a small revenue coming from the sales strategies that we have adopted very successfully in the last year.

Q - Felipe Leal {BIO 2015017 <GO>}

Okay. Thank you very much.

Operator

Ladies and gentlemen, we will now close the question-and-answer session. I would like to give floor to Dr. Luiz Fernando Rolla for final remarks. Dr. Luiz Fernando Rolla please proceed.

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

Very well, I would like to reiterate our invitation to you ladies and gentleman to come to our annual meeting, Annual Meeting. We're looking forward to it because of the topics that we're going to cover with you, ladies and gentlemen. We'll have our guidance, which also is very naturally actually remake all of our calculations, the calculations we have made thus far because of the new scenario of the new regulations situation, the new growth prospects and this is going to move very interesting the discussion with you all and I would like to count on your presence there so that there is discussion is very profitable one and can results in a very clear understanding of this strategy that Cemig is going to adopt for the upcoming years in order to be able sustainability through its growth.

We would like to close this teleconference by thanking my fellows of here of our daily struggle and for having given your time to this conference call which is went for one hour and a half in that time which we tried to give you the most so we could understand our results. Thank you very much. Have a good afternoon.

Operator

With webcast of the results, we made it now closed. Thank you for participation. Have a good afternoon.