

Y 2019 Earnings Call

Company Participants

- Antonio Carlos Velez Braga, Superintendent of Investor Relations
- Leonardo George De Magalhaes, General Manager and Controller
- Reynaldo Passanezi Filho, Chief Executive Officer
- Ronalde Xavier Moreira, Tariffs Manager
- Unidentified Speaker

Other Participants

- Gabriel Francisco, Analyst
- Guilherme Lima, Analyst
- Marcelo Britto, Analyst
- Marcelo Sa, Analyst
- Pedro Manfredini, Analyst

Presentation

Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Good morning, everyone. My name is Antonio Velez, Cemig's Investor Relations Superintendent. We are now starting Cemig's Fourth Quarter 2019 Earnings Conference Call and

Webcast. And we'll have here with us the following executives. CEO, Reynaldo Passanezi Filho; Leonardo George de Magalhes; and also the Corporate Control and Planning Superintendent, Ronalde Xavier Moreira Jr. This broadcast can be followed via the following phones, 55-11-2188-0155 or 55-11-2188-0188 as well as through our website, <http://ri.cemig.com.br>.

I now turn the floor to our CEO, Mr. Reynaldo Passanezi Filho.

Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Good morning. Good morning, everyone. It's a great pleasure to be here with you, and this is the first time me being here as the CEO of Cemig. I'm very honored. It's a challenge, a huge responsibility. And I count on your support, so that we can move forward with Cemig.

So before anything else, I would like to say that we are very much concerned about the current situation. And our purpose today and our main objective here is to make sure all

FINAL

Cemig's employees are safe, our own employees and our outsourced employees as well. Most of our employees are already in the home office schedule, except for the operational staff. And obviously, we want to make sure that we'll continue providing our services, which are essential at this moment. So I would like to ask you all to please pay attention to the situation that we are going through. It's a solidarity gesture. So we have to protect ourselves and to protect our dear ones and also all the population, the groups, the (inaudible). So I would like to say that this is clearly our main concern. And I do hope each one has the responsibility to make sure that yourself are safe and everyone is safe as well.

So I think I should say that we have very good results. We have excellent results, and you will see later on in the presentation in details. But I think we could give you an overview to start, and I feel very honored to bring you these results. So this has been a very professional management, and I usually say that we have the right criteria for decision-making. We are working in line to the strategic objectives for the company and that will create sustainable value for Cemig. When we talk about private criteria to and special criteria to the decision processes start to work, so that the decisions always follow a rationale that is on economic and financial -- that has economic and financial basis, and that's a challenge, so that we are able to do that. Obviously, we have to eliminate any political approaches and we have to work with our corporate interests. Also that I -- also I'm saying, and it's very positive, we are working in order to recover and to help actually our employees and to acknowledge the results that Cemig has reached. And I do see that in our staff and our employees. I am very proud to provide these services, and I believe we have to recover and to even increase the pride about our staff, about our employees, because we do have this purpose, which is the purpose to serve people and also towards that competitive prices, so that we can work in our state and also, we can have a sustainable value for the company. And we are working to have that professional management with private criteria for the decision-making processes. The action plan in fact is -- involves a review of the strategic plan that we have today, as a starting point to align the interests of the Board of Directors, our executives and all the employees. And I think this is a strategic plan that we want to bring to you with all the targets, objectives, KPIs for the market and that is going to be our guideline. That's where we are going to move towards to. We basically have a plan and what we are going to tell you is that we will disclose it, first with a review. But the core of this plan is that as soon as this is public, this is out to the market, it's going to be our commitment in the short and the medium and long run. So this was -- these were my initial remarks. We want to have this management, based on private criteria and also huge transparency, so that the market can understand what is the strategic pathway of this company and which are the challenges that we intend to take up. So these were my initial remarks. And I'll be here and I'll be also available throughout this presentation and the Q&A session. Once again, I would like to thank you very much and to say that I'm very honored and very happy. And thank you very much once again.

Leonardo George De Magalhaes {BIO 21639277 <GO>}

Good morning, everyone. This is Magalhaes -- Leonardo Magalhaes, and I'll start my conference call as IR officer and CFO. And Reynaldo just started with his remarks. So we are very happy to have him with us in this special position.

FINAL

And now, we have good results to report this quarter. 2019 was a good year for the company. We have improved our operating results. We reduced our leverage and an improvement in process. And just like Dr. Reynaldo has mentioned, this is a growing process that we want to expedite in 2020 despite of the challenges that we are facing right now because of the pandemia of the coronavirus. Our CEO also mentioned that we are alert to the actions that we have to take daily to maintaining the company's liquidity and making sure that our operations are sustainable in such challenging times. So we are very much motivated to make sure that these next three to five months, which will be the most difficult ones, so that we are able to go through them in the best way possible. So let's start the presentation on the slide of credits of PIS/Pasep and Cofins over ICMS. This was an important event in 2019, where the company had almost BRL1.9 billion in its results, because of the positive funds coming from the lawsuit regarding the charges over ICMS -- over PIS/ Pasep and Cofins on ICMS. So approximately we have BRL4.154 billion [ph] and we know that now -- we will now discuss how the funds will be distributed to the society. But I would like to make it clear to our investors that we have enough argument -- merits, arguments to advocate for the company's position, which is the return in the past 10 years is starting when we were awarded -- when we gained the lawsuit. So since 2009 up to 2019, in Cemig Distribution, this was announced, this should be returned to consumers. I think that we are -- this is a great contribution from us to the society. In the period prior to that, obviously, that would be the result of the company and also because of all the company's efforts in the process. And that also has to do with the jurisprudence about the topic regarding the criteria to reimburse consumers in the tariff of any amount. So this was a great event in 2019, and we'll bring you also to other results that we believe are important. I will turn the floor to our Superintendent of Investor Relations, Carlos -- Antonio Velez.

Antonio Carlos Velez Braga {BIO 16813855 <GO>}

In the next slide, we would like to highlight our quality indicators that are in our concession contract, which are DEC, internal one and the internal FEC as well. And as you can see, the indicators are within the regulatory levels, and that is thanks to the investments that we are making, improvement in our grids, also improving our service channels. And we were able to reduce servicing time as well. As you will see, we were recognized, thanks to our customer satisfaction, in our quality indicators, we see internal DEC, internal FEC are within regulatory limits, as I mentioned. And we expect them to improve even more. In the next slide, we want to highlight the recognition the company has received from the market. We know there are many, but we highlighted just a few. And these are the ones that we consider are more relevant and more important. So first, the transparency award. This was our 15th transparency award, and we're very proud of it, because it talks about the quality of our financial statements that's important for us to have received once again -- to be awarded once again with this transparency award. And also, Cemig is part of several indexes, which recognize the company's efforts for environmental sustainability. We have chosen three of them here to talk to you about. One of them is Dow Jones Sustainability Index. This is an index, which Cemig is part of since the company started 20 years ago. Also Cemig is part of the Corporate Sustainability Index B3 since 2005 when it was created. And it's also part of the Carbon Efficient Index. Cemig also has been mentioned in the Canadian survey, Corporate Knights, as one of the most sustainable electricity companies in Latin America and has been recognized by the Carbon Disclosure Project for its water security program. They

have recognized our water management excellence. In the next slide, as I mentioned quickly, some recognition coming from our customers and consumers. The first one is ANEEL's IASC satisfaction survey. We had an approval of over 70% of Cemig's residential clients, which exceeds ANEEL's target and that is the best result for the company since 2009, very much in line to what we have been discussing our improvement in the operating front, but also providing quality services. And another indicator that's very interesting is the Iberian-Brazilian Client Relations Institute indicator

that has been published in Exame Magazine, and it has appointed Cemig as the second company in customer service for a company in the electric -- or in the electricity industry. And that once again shows the satisfaction of our consumers. That's very good to be there among those. And once again, we would love to rank first in the IBRD.

So now I'll turn the floor to Ronalde, and he's going to explain the slide about our investments.

Ronalde Xavier Moreira

Good morning, everyone. In 2019, Cemig has concluded investments of -- in a total of BRL1.235 billion, which is divided in distribution BRL986 million, generation BRL26 million. We did not add anything in terms of new generation and transmission that we are returning our transmission plant. It was BRL223 million. With these investments, we have connected over 200,000 new consumers. We have modernized the asset base. We were also able to reduce costs of operation and maintenance. We were able, therefore, to improve service quality indicators. And we were able to zero out our liabilities in terms of construction works. And everything is already settled and we are working now to move forward.

For the next years, 2020 to 2024, we estimate to have investments of BRL10.4 billion. Only 2020, BRL1.667 billion for distribution in our original planning, in generation BRL95 million and transmission BRL250 million, over BRL2 billion in CapEx. And then in the next years -- in the next four years, we have the distribution of the remaining amount, so that you can total the BRL10 billion -- over BRL10 billion of investments by Cemig.

Now turning to the next slide, the dividends. And as you probably have seen, the management is proposing a distribution of BRL0.50 per share. The total amount to be distributed of BRL764 million. BRL400 million have been paid as interest on equity last year. Of those, 50% will be paid up to June and the remaining amount up to December of this year. And the remaining BRL364 million will be paid in a single installment by December 2020. And these are going to be paid for the shareholders that are holding positions when we hold our general shareholders meeting. This amount of dividend has been adjusted, because as you know, most of the profit of last year -- a relevant share of the profit last year was -- thanks to the funds coming from Pasep and Cofins. And part of that has not been realized yet. So considering the situation we are going through right now where maintaining liquidity, maintaining cash is extremely important, the company has decided to propose the right dividend, so that we can keep up with our commitment of the mandatory dividend, adjusting the dividend to the non-realized profit. Of course, as this profit is realized and the liquidity situation is clearer, all that might be reviewed in the

future discussion. We also show the capital increasing need for this year because of the retained earnings that have exceeded the amount of capital stock. So Cemig will have a capital increase. It's proposing that to the shareholders' meeting. And that is -- that will be enough to settle this issue. So it's a BRL300 million capital increase that is 4.11%. And so the company will issue 60 million of new shares, a little over of 20 million shares ON and almost 40 million shares of PN shares. Now turning to 2019 results. In this slide, we show our EBITDA and our net profit. But we also wanted to bring to you the adjustments we are making that we consider to be extraordinary in a way to present to you an EBITDA and a net profit that are a better reference in the long term. In any case, the growth, as our CEO and as Leonardo have mentioned, did have good results. EBITDA and net profit also had growth of 15.74% and almost 84%, respectively. And considering the adjustments, our EBITDA goes from BRL4.376 billion to BRL4.624 billion and net profit goes from BRL3.127 billion to BRL2.552 billion. Even then, we had a 50% increase when we compare that to the net profit of the prior year. The adjustments are highlighted down here on the slide. Adjustments have impacted both Cemig Distribution, also Generation and Transmission and Cemig Holding. And then some of them just one or another company. So the main effects are the ones we have mentioned here. It's -- thanks to the tax credits, the tax credit provision for Renova that we had in the second quarter of last year and also the provision for the profit sharing program that we had in the second semester of last year. And also in the fourth quarter, we had few adjustments because of generation assets with the write-off of Igarape Plant, also Alianca contingency agreement and also a wind farm that we have in Ceara. All of that is detailed in our financial statements. So these are the adjustments that we consider to be extraordinary and that we are using to adjust our EBITDA and our profit figures. And from now on, the figures that I will bring to you, both for the Holding and GT and D are already considering these adjustments, okay? So for our EBITDA [ph], as I said, it grows 22.3% for Cemig consolidated. For Cemig Distribution, we had an increase of 39% and EBITDA went from BRL1.534 billion to BRL2.133 billion. And Cemig Generation and Transmission, we had an increase of 37.60% [ph], going from BRL1.500 billion to BRL2.066 billion in '19. In the next slide, we have our adjusted net profit just as the same. I already mentioned the consolidated figure is a profit of BRL2.552 billion, a growth of 50.12%. For Cemig Distribution, a net profit of BRL984 million, an improvement with a growth of almost 84%. And for Cemig GT, net profit of BRL1.280 billion, up over 116%. I will ask now Ronalde to comment. The electricity market, this market is a -- you have the captives market, and we have a billed market and the transmission. And in 2019, we have a market of 44.5 terawatt hours that turned to 44.913, a slight increase of 0.9%. On the side bar, we can see the percentages for other markets; and basically all of them had a slight increase. And on the other chart, we can see the variations for the fourth quarter of '19 vis-a-vis the fourth quarter of '18. And we had a slight drop of 0.1%, that is our market is sideways just like the rest of the country, and we have no further comments on this. On the next slide, we have our operating costs and expenses. In 2018, in terms of unmanageable or not manageable costs, that's what we call pass through cost of BRL16 billion in 2018 vis-a-vis BRL18.707 billion in 2019. It's a significant increase, but the main impact here is energy purchase that happened in 2019. And about manageable costs, that's where we are focusing, we went from BRL3.4 billion to BRL3.772 billion, and here we have a breakdown, to the right, of this amount. We can see that people -- personnel cost has dropped, that is because of the voluntary redundancy program, we have a profit-sharing payment of BRL186 million that is our profit sharing, also had followed the results; materials was very much in line. Outsourced services has increased, and we've explained that BRL151 million increase in outsourced services and that was to maintain our grid, our substations, our network, to maintain the whole system, looking for better quality and

FINAL

Bloomberg Transcript

service according to the regulatory requirements. We also have connections, and the connections, I think that was an all-time high in the company. And we are always aiming to reduce delinquency. And also, we had tree pruning and powerline pathway cleaning that is outsourced and we aim here to reduce interruptions or disconnections in our network. Also, we have other expenses, BRL95 million, with the decommissioning of Igarape Thermal Plant. We considered possibilities for this plant and the best decision -- the best alternative for many reasons was really to turn it off. And we have to write off that asset, because -- so only the thermal plant corresponds to BRL70 million out of this BRL95 million. And then BRL71 million, we had an increase there in the post retirement. We did have expenses here with insurance, retirement and also our voluntary redundancy program. These were our operating costs and expenses. Now on the next slide, we have the debt profile for our consolidated, that we ended the year with a leverage lower than 3%. So in general -- well, this is a sustainable process. We aim to continue reducing our leverage in the next years, so that the company can have new investments, reallocate capital, making sure it still has its cash generation. The debt profile is very adequate. We have here -- except for 2024, where we have highest amount of maturities, but for 2020, you can see that we are in a comfortable situation. We don't have any problems for 2020. But considering the current scenario, we are taking measures to make sure that we have the highest liquidity possible. And here, we also have Eurobond. And I think it's important to say that for Eurobond interest, we have hedged that. And about -- we have a partial hedge about this principal. We know that today we have a pressure on the dollar, but it's important to highlight that this investment is for four years. And we understand that as high dollar is, it's a very specific situation, but we are not underestimating the scenario. We are paying attention to it, so that in the continuous process we can manage that debt, we can manage those maturities in a way to allow us to re-profile these loans, so that it's in line to our annual cash generation. So the message here is we are at a good leverage level. Our major concern right now is to guarantee cash, so that we can sustain our maturities for 2020, 2021. But we are comfortable with the cash that we have right now, but because of the scenario, probably we have a market reduction. So we want to make sure we'll have cash, so that we can move through the next months easily. And about the dollar, we are paying attention to the market. And we are also aware of this term in 2024, so that we can take early measures if needed. And we'll be keeping an eye on the Eurobonds, and we will -- we want to remove this wall that we have in 2024 and work on it ahead of time. So we'll be here available to answer any questions you might have in the Q and A session, if you have further questions about other profile.

Questions And Answers

Operator

Ladies and gentlemen, we will now start the Q and A session. (Operator Instructions) Our first question is from Gabriel Francisco from XP Investments. Mr. Gabriel, please, the floor is yours.

Q - Gabriel Francisco {BIO 20569389 <GO>}

Good morning, everyone. Thank you very much for taking my questions. My first question has already partially been answered. It's about extraordinary effect of PIS and Cofins. And I would like to know how comfortable are you about your cash, considering now you're

FINAL

going to have a public hearing by ANEEL to deliberate on this topic, and also a position of the regulating agency saying that these are benefits that should be fully transferred to consumers? This is my first question. My second question, considering the scenario that has changed, not only about the market, but also financing conditions, I would like to know about your investment plans. Do you have any sensitivity there? Do you have anything being worked on the strategic plan, especially about distribution, because you are going to invest almost all your EBITDA in your distributing company in the moment where we are living right now. And this -- and the conditions for the investment could change at least in the short term. Can you have any changes in those investments? So what are you thinking? Thank you.

A - Unidentified Speaker

Gabriel, thank you for your questions. About Pasep and Cofins, when we defined what we wanted to return and what we should return to consumers, we considered already the jurisprudence, and we are very comfortable about Cemig's decision. We understand the regulating agency has its own understanding on the topic, but we expect that we will take advantage of this contribution period. We have also other coverage and results and we will do the best contribution possible, and there's a democratic process that have been established by ANEEL, so that we can show them that the criteria defined by us to reimburse consumers are very much in line to our civil culture's prudence. And we understand that it represents justice. And the company is benefited because it filed a lawsuit. It was very diligent in the process, back there in 2008. And also, consumers will have a huge benefit with a significant reduction in the tariff for a long period of time. We understand that this is balanced out. It's abiding by the law. And as I said, we now want to provide a very robust contribution and allocating for our own criteria.

About our investments really, we had forecasted investments of BRL1.7 billion, very relevant for Cemig Distribution. We understand it helps in reducing OpEx, the improved reliability in the system. But we know that right now, and even because of all issues regarding coronavirus pandemic, it's important that Cemig in the next few months is more conservative and maintains -- preserve its cash. So we understand that in the long term

we are going to maintain a robust investment program in Cemig Distribution in a way that we can improve the quality of indicators, reduce operating expenses, but in the next few months, we'll be more conservative about our cash. And then we understand that a CapEx reduction for the next few months, because of all this that's going on, that's going to be needed. But I think that meets the expectations of our investors and how we are going to have to deal, and it's right now all the challenges that we are facing.

Q - Gabriel Francisco {BIO 20569389 <GO>}

Well, maybe I didn't express myself correctly. About this Cofins, I would like to understand if these funds are already available for you as cash and if you were comfortable about maintaining it.

A - Unidentified Speaker

I'm not mentioning anything forward. Okay? You're talking about the escrow deposits, right?

Q - Gabriel Francisco {BIO 20569389 <GO>}

Yes. That's it. Yes, I forgot to mention.

A - Unidentified Speaker

Yes, about the escrow deposits, we have (inaudible) of Cemig GT, we know the transfer from GT; but for distribution, they are -- part of them are 10 years behind and more or less BRL100 million are prior to those 10 years; and BRL800 million are regarding the criteria that should be returned to consumers. We understand that after this process that ANEEL is holding and after -- with the fine the distribution, or the transfer criteria and as it's defined by the regulating agencies, the company will return part of this amount to consumers.

Operator

(Operator Instructions) Next question is from Marcelo Sa, Itau. Please, Marcelo.

Q - Marcelo Sa {BIO 16454581 <GO>}

Hello, everyone, and thank you for the call. I have two questions, the first one is about energy loss. The reported loss for energy at Cemig is higher than the regulatory one. I would like to better understand what do you expect to have in terms of losses for the next years and how the coronavirus issue can impact your strategy to reduce losses. And also in this first question, if you can talk about delinquency and what do you expect to happen about delinquency vis-a-vis the coronavirus problem?

A - Unidentified Speaker

Thank you, Marcelo, for your questions. Yes, really, this is a major concern that we have right now. Once we face a national -- worldwide systemic crisis, the whole economy weakens, and we won't have much money moving around. So we are working and considering several scenarios, and that's going to be a challenge. What we are doing to reduce losses is that we have a robust plan with several initiatives. And we have a goal, and we already had that before to zero out these losses in the regulatory level. These initiatives are being worked on, especially regarding inspections and smart measures -- measurings for all average or medium voltage. The contracting improvement system to identify consumption, all of that is ongoing. And some of these measures have already been taken. And to avoid losses is one of the pillars of this management. We want to bring the company to the regulatory levels of EBITDA.

And for delinquency, just as the same, we also have all the initiatives ongoing. Of course, that -- everything is very similar, right. When you reduce delinquency, you also reduce losses, and we have a system that is already partially implemented to be able to manage and have that target, that goal to zero out, both of them in 2020.

Operator

(Operator Instructions) Next question is from Guilherme Lima from Santander. Please Mr. Guilherme.

Q - Guilherme Lima {BIO 21017551 <GO>}

Good morning. I have two quick questions. The first one is about the mandated dollar and your hedge. Your FX hedge has a limit, right? Can you comment on how that works or how this mechanism works? From what I understand, it does not have an impact in the short term, am I right? And also about possible effect on contracting, considering the current coronavirus scenario, can you consider involuntary over-contracting?

A - Unidentified Speaker

Hello, good morning Guilherme, thank you for your question. Well, our hedge

was the following. The interests have a full swap with CDI. So we do not have any short-term risks. The principal -- and remember that the bond is due in December of 2024. The principal has a structure in the hedge and a spread that is protecting us in BRL3.45 to BRL5 per dollar. So these are the option covers. And if the dollar and the bond maturity date is below the three-something limit -- BRL3.45 -- and so between BRL3.45 and BRL5, we are going to pay BRL3.45, using the exchange rate at BRL3.45, and above BRL5, it's going to be BRL3.45 plus the difference that -- whatever is above BRL5. So it's on the maturity date of the bond in December of 2024, the dollar is at BRL5.10, we are going to pay BRL3.45, plus BRL0.10, that's BRL3.55. That is the hedge that we have. That's one thing. I think it's important to say that this bond that we have it has a no-penalty clause starting on December 5, 2023, that is we do not need to have the dollar below BRL5 on December 2024. We have flexibility. If the company understands that it's better to make a prepayment, so that it's not incurred to any FX risk or if the exchange rate is at a nice rate, we can pay from December 5, 2023 to December 5, 2024, with no penalties or no fines. That's an additional option. But now the results end up being impacted or benefited because of the dollar variation, or the future curves for dollars and interests. But in terms of FX in the short term, in terms of cash, it does not have a relevant impact.

About other contracting and the distributing companies, Cemig is always aiming to be below the 105, 106, but Cemig and all distributing companies will be in a difficult situation. And that is only natural with the load reduction and with the favorable hydroelectric situation that we have in the country. And what is happening at the same time is that both ANEEL,

as well as the Ministry of Mines and Energy, (inaudible) distributing companies are already tackling all of these effects that we will have coming from the crisis to -- aiming in the industry sustainability. That's not going to be applied only to Cemig, but rather to all the electric industry and we should have some indications and some reliefs, I would say, to be announced in the next few days. And I don't know how long they will take to come into a consensus and to flexibilize -- return flexible several rules, because companies will have to face challenges.

Operator

(Operator Instructions) Our next question comes from Pedro Manfredini, Goldman Sachs. Please, Mr. Pedro, the floor is yours.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Good morning, everyone. Thank you very much for your time and congratulations on the new position, Mr. Reynaldo. I would like to talk about the question of my colleagues from Santander. How are we looking at the forward curve for 2024? Are we looking at a curve closer to BRL6? If you have to do a mark-to-market in your results, and this curve is higher than your hedge. I know it's not cash. But do you have any effect in the short term, this potential mark-to-market?

And second question, I have seen in the distributing result that the non-invoiced revenue is important, it's significant, overall BRL100 million. And I think that also has helped your EBITDA, right? Can you tell me why there's such a large non-invoicing, there was a mistake in provision there? What is the concept behind that high result in the non-invoiced, please? Thank you.

A - Unidentified Speaker

Hello, Pedro. Thank you for your questions. About the hedge, on your first question, let me explain it further. In the short term, our cash -- that we have that impact, our working capital is hedged on the CDI. So, about your question, in the mark-to-market adjustment, we do not have any expected short term mark-to-market adjustment. In the long term, we know that right now it's very difficult to forecast the future dollar rate, because we are in a atypical scenario. We know that after the moment that we are going through right now, we will have a new level for the dollar and we will have to see

how it's going to behave. But the message here is, we have a dollar-denominated debt in 2024, and we have to wait to safely manage this maturity, so that after this period of the pandemic, we will seize the best opportunities possible in the market, so that we can swap the debt and stay on it in a way to preserve the company's cash and remove the barrier or that wall from 2024. So we are paying attention in the short term. It does not have an effect in the results, nor in the company's cash, the fact that the dollar is at a high rate.

About the non-invoiced, I cannot bring you the specific details here. But that non-invoiced revenue varies, depending on the rating schedule. Sometimes a schedule at the end of the year has a high-impact, and then you sometimes cannot have that rating in the final days of the year, and it end up impacting the results. So it could be related to that type of situation, but we can run an analysis in detail. And if it is more specific issue, we can book that to our upside.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Thank you. And another question, if you allow me. Not on our contracting, we are talking about coronavirus and a reduction in the demand and so on. I remember when we were

FINAL

Bloomberg Transcript

discussing the take or pay generation, and we have to discuss the same thing right now. If you can remind us that how Cemig GT contracts are in terms of flexibility. If you have an average figure of flexibility in your contracts, can you tell us?

A - Unidentified Speaker

Well, as you know, we are basically contracted. In the past years, we have been working on that. But each contract is different. But in general, we have little flexibility. I cannot give you specifics on an average flexibility. But I can tell you that it's low. But in the past, I should say that Cemig had the capacity to sell energy. It's difficult to say anything right now, because this is a systemic situation, but in other crisis situation, the client would not use the full contract and would be below the contracted flexibility and Cemig has helped those clients to commercialize, to sell that energy in some cases.

Also, there is some type of fee for the company. So it's a type of a service or that the relationship that Cemig has with its free clients that shares the prices, because we know that Cemig is able to sell energy in the free market. But I can tell you, right on the top of my head, that we have little flexibility.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Okay, yes. And since you also have an important purchasing portfolio, you also have the same flexibility in buying [ph] Cemig. When you consider the other generating companies, do you have contracts with Santo Antonio, new contracts with smaller players? Do you have flexibility in those contracts or something that you can mitigate? So I don't know if that's the case, but you might have a significant reduction of a certain percentage. Can you offset that with the return of purchased energy, so that you are at the same contracting level that you had before all this crisis?

A - Unidentified Speaker

Yes, I understood. Well, we also have the similar flexibility levels that we offer. But in the current scenario, maybe we -- the more applicable situation is majeure force. And so they -- because of majeure force, they cannot really move through the contract. That could be an argument for our client and for ourselves.

Operator

(Operator Instructions) Next question is from Marcelo Sa, Itau. Please, Mr. Marcelo.

Q - Marcelo Sa {BIO 16454581 <GO>}

I have another question. This week, the Rio de Janeiro Governor talked about the possibility of not paying electric and water bills in Rio de Janeiro. I understand that this is something that can only be decided by ANEEL, because that's the federal regulating agency in the conversations that we were having with ANEEL and the associations. Is there a measure, similar to that not to receive payments, or people not having to make the payments? And if there is, this type of situation, how would you receive this? How would you understand the problem?

A - Unidentified Speaker

Well, Marcelo, thank you. I think everything happened too fast in this pandemic. And right now, we understand that the Ministry of Mines and Energy, ANEEL and distributing companies and other companies, we are still in the process

to look for solutions for problems that were happening very fast, that is the market reductions, possible increase of delinquency. We believe this might happen in a temporary fashion. We believe it will happen in the short term, and distributing companies are working with ANEEL and with the Ministry of Mines and Energy to look for solutions, so that we can find ways to face this situation, catering especially to low income consumers.

We understand a few measures might be taken, but we're still analyzing how the process will go. We agree another reduction in tariffs would not be the most recommended situation, the best would be to come into a joint solution to the industry. We understand these would be structural solutions, the right way to go. So right now, we want to come into a consensus and in a regulatory fashion to find measures that can be taken to protect the low income consumers that might have a hard time paying the tariff in the next few months, without creating an unbalance of -- a financial and economic unbalance for the companies. We believe this is the way to go. We are having several meetings about the topic between all the agents and the granting authority -- the granting power, and that should happen very fast. So we should be taking measures about energy efficiency resources. Also, as we said here, how to deal with delinquency in the initial moment. So it's too early to talk about these measures today. But in the very short term, we believe some measures will be taken in order to protect consumers and also to maintain the financial health of this industry.

Q - Marcelo Sa {BIO 16454581 <GO>}

Great. And if you allow me another question on the company. Over the years, we have seen an increase of your expenses, pension funds, also you have changes in the life expectancy of people. So are you negotiating anything to migrate pension holders -- pension fund holders to another fund, so that you can stabilize that line, which is being constantly growing, which is being constantly up?

A - Unidentified Speaker

Yes. In all the fronts, where we have these expenses, we have specific groups working on them. We already contracted and delivered consulting services, legal services, so that we can design the best option for all parts, for everyone. Of course, both employees, retirees and the company will have to come into an agreement. We are designing an ideal proposal. It's too early to say once again, but this year, we expect to offer something different, so that we can tackle this topic, which really stands out in the market and it makes Cemig stand out in the market.

Q - Marcelo Sa {BIO 16454581 <GO>}

Okay, that's great. And also, anything for health insurance plan, because when you see, the cost that the company has is much higher than other companies in the market that are

listed companies. So are you negotiating anything for health insurance plans as well?

A - Unidentified Speaker

Yes, perfectly, you are right. And that's the same thing. We also are working with consulting services. We are developing internal works that will be discussed in groups, but the objective is the same, just to balance that out. Okay.

Q - Marcelo Sa {BIO 16454581 <GO>}

Okay, thank you.

Operator

Next question is from Marcelo Britto from Citi. Marcelo you may proceed.

Q - Marcelo Britto {BIO 15393330 <GO>}

Good afternoon everyone, thank you for the call. I have a simple question. In the past, Cemig's generators had the supply contract indexed to the dollar rate. I would like to know if these contracts are still valid, if there is any way to have that dollar indexation and if that is being practiced by Cemig? And what is the size in average gigawatts that you have in the contract, that is if they still exist? Thank you.

A - Unidentified Speaker

Marcelo, thank you for your question. No, these contracts have already been renewed with other indexers, other prices. In the past, we did have a part of consumers that were electric intensive that would sign a contract with Cemig at \$21 per megawatt hour, but we no longer have that type of contract in the company. Okay. Thank you.

Operator

We now end our Q&A session. I would like to turn the floor to Mr. Leonardo for his final remarks. Please, Mr. Leonardo.

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

We thank you very much for participating in our conference call. As a final message, we once again, would like to make it clear that we are working hard right now. We are interacting with our regulators. We are making sure the company will maintain its liquidity, and we are available by our Investor Relations website and e-mail to answer to your questions. We understand this is an uncertain moment, because no one knows how to deal with all this situation, but we want to make it clear that the company is prepared to face the challenges. We are motivated to face them, and we will be fully available to answer any questions that you might have.

Thank you very much, and have a nice day.

FINAL

Bloomberg Transcript

Operator

This concludes Cemig's fourth quarter 2019 earnings conference call. Thank you very much for your participation, and have a nice day.

FINAL

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