

Y 2021 Earnings Call

Company Participants

- Carolina Senna, Investor Relations Superintended
- Dimas Costa, Cemig Commercialization Director
- Leonardo George de Magalhaes, Chief Financial and Investor Relations Officer
- Mauricio Dall'Agnese, CemigPar Director
- Reynaldo Passanezi Filho, Chief Executive Officer
- Thadeu Carneiro da Silva, Cemig Generation and Transmission Director
- Unidentified Speaker

Other Participants

- Analyst
- Andre Sampaio
- Francisco Navarrete
- Henrique Peretti

Presentation

Operator

Good afternoon, ladies and gentlemen. Thank you for waiting. Welcome to Cemig's Fourth Quarter 2021 Conference Call and Webinar. We inform that this event is being recorded, and it has simultaneous interpreting into English. During this event, all participants will be in the listen-only mode. After that, there will be a Q&A session, when further instructions will be given.

Now I would like to turn the floor to Carolina Senna, Investor Relations Superintendent. Please, Ms.Senna, you may proceed.

Carolina Senna

Good afternoon, everyone. I'm Carolina Senna, Cemig's Investor Relations Superintendent. We now start Cemig's fourth quarter 2021 earnings call and webcast with the following executives: Reynaldo Passanezi Filho, CEO; Dimas Costa, Chief Commercial Officer; Eduardo Soares, Chief Legal and Regulatory Officer; Leonardo George de Magalhaes, CFO and IR Officer; Marney Tadeu Antunes, Chief Distribution Officer; Mauricio Dall'Agnese, Chief Participation Strategy, Environmental and Innovation Officer; and Thadeu Carneiro da Silva, Chief Generation and Transmission Officer.

Now I turn the floor to the CEO, Reynaldo Passanezi Filho, for the initial remarks.

Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Good afternoon. Good afternoon, everyone. It is a pleasure to be here to bring to you the results of the fourth quarter and the year of 2021. These are historical results. As we mentioned here in the presentation, this is an year of major achievements. We are very happy to see the ability of turnaround and transformation that Cemig has, because the results are historical. They are all-time high. They proved the resilience and the ability of being sustainable and to overcome difficulties and whenever we make the right decisions.

So this is a summary of our achievements this year. This is thanks to the review of our strategy and a daily effort, aiming a best management for this company and also bringing in sustainability. This is the first time that we have in the distribution area the fulfillment of all indicators, the main performance indicators in the company. So we met our regulatory OpEx. We met our regulatory losses. Therefore, we are also meeting our regulatory EBITDA. This is the first time that we are able to meet all these three regulatory targets.

So at OpEx, we are almost at 15% lower than the regulatory standards. And not long ago, we were 20% over the regulatory parameters. This adjustment in the regulatory is over BRL800 million a year. This is the adjustment that we are making to place the company within the regulatory OpEx. And obviously, this is a daily effort.

And also, the regulatory losses, we were way above the regulatory losses level. And we are very proud to say to you today that we are meeting the index for regulatory losses for the first time in this company's history. And of course, that if we met the regulatory OpEx and losses, we are having a better regulatory EBITDA as well. We are 18% above the regulatory EBITDA. And we are able to do that by improving the quality of our service.

Here, we bring to you our DEC, which is the best one in 69 years of history. So this is the best DEC in 69 years of company, 9.46 hours, also the best FEC, the outage indexes. And this is the best moment when we have our subset. That's when we were able to meet the DEC by subsets as well. That shows our huge effort to aim efficiency in the company to make operating adjustments and having this company that is healthy operational-wise.

And it is this financial health and this cash generation that you see here, BRL8 billion in EBITDA, this is the highest nominal EBITDA for Cemig. And despite of the fact that in 2015, we had lost almost 3 gigawatts of capacity, 53% in our plants of our installed capacity in 2015. So in spite of a company that has a generation area, which is almost half of what it was, we are able to have the highest EBITDA in the company, an increase of 40% year-on-year.

This is what allows us to think about investments. These results allow us to invest and invest in our core businesses in distribution, in generation, transmission. You will see on the next page that we are going back to the transmission auction. So we have a strategic planning to grow 1.5 gigawatts in generation. And we are carrying out the largest investment program in distribution's history. So in general, we are announcing our investment program of BRL22.5 billion in the next five years. This is almost 4x what we had in terms of investment programs in 2018. So this is a very bold number. And this is -- this

new situation of this company, this is the new scenario instead of investing. And stakeholders out of Minas Gerais that unfortunately did not bring us the expected results, we are now generating more cash, and this cash is fully reinvested in Minas Gerais in the state.

This is the boldest program and the largest program in the company, BRL22.5 billion. A lot of investments and distribution, more energy, Minas 3 phase and Minas LED. I think we already talked about that in our Cemig Day. So we are going to grow in generation in renewable 1.5 gig, and also transmission to be able to go back to auctions. And we are able to do that.

I think that we can go to the next page. We are able to do that and also maintaining our financial health. This is one of the best ratios in the company, and Leo is going to talk about that, but we have a leverage that is close to 1x in EBITDA. That's very controlled, the best rating of our history. And we have other topics that are also important. We also worked on structural issues that are very important for the company such as the adjustment of retirement benefits, an adjustment of BRL415 million, with the adjustment of the retirements.

Regarding life insurance, also the exposure of the company to the FX rate, we bought back \$500 million of Cemig GT. And this will also be mentioned. And we have two additional years in extension of concession for Emborcacao and Nova Ponte plants. So I would like to go back to this topic that our aim is to focus in Minas Gerais and grow. And therefore, we want to divest other stakes that are not in Minas Gerais. So here, we concluded the sale of Light stake. This is only for this, of BRL1.3 billion regarding the 22.6% stake that we sold in January. So now we are -- we have concluded our sale of Light. So effectively, if we had maintained the same stake, we would have to add capital to Light. But now this is a very positive effect. We can use these funds to invest in Minas Gerais.

Also, we have announced the sale of our stake in Renova. This will be signing on this very soon, and we move forward with the divestment plan. This is a public plan. And our objective is to move on with its execution with Alianca, Taesa and a sale of up to 49% of Gasmig, Santo Antonio, Belo Monte and the smaller stakes at Cemig has such as Ativas and Axxiom. This is a strategic plan, strategic for the controlling shareholder and strategic for the management so that we can concentrate ourselves and thinking about Cemig and growing Cemig and its core activities.

We also started transferring the commercialization contracts that were under Cemig GT to the holding company. This will allow us to have a clear view between the -- on generation businesses and generation. This is positive we will generate value.

And another important topic here, which has to do with bringing in a private mindset, a modern management. And we have that possibility up to 40% of the leading professionals at Cemig from -- not necessarily from Cemig. This is a policy that was approved by the Board of Directors. But what is important here really is to highlight whether these leaders come from Cemig or not. We do have a private mindset that is

geared towards results. And I think that's what we are delivering, single results and unique results in the history of this company.

Well, this is what I wanted to bring. And I will turn the floor to Leonardo, and I would like to thank you all very much. This has been a wonderful year. Thank you very much for your support, and thank you who work at Cemig, and you turn the company a great company to be in.

Leonardo George de Magalhaes {BIO 21639277 <GO>}

Hello, everyone. Thank you very much for your participation in our conference call. Now we are going to point out some highlights. Some of them Reynaldo already mentioned in the opening of this conference.

On Page 6, we talk a little bit about our investment program. We invested BRL2.1 billion in 2021. We wanted to invest more. But in the quarter, and I believe that we have talked to you in the prior call and mentioned how difficult it was especially the first half of 2021 and the supply chain. We had FX variation effects. And so investments in the first half of the year were lower than what we were expecting in our planning.

We see that the fourth quarter has already been a great quarter. We were able to invest BRL714 million. Therefore, we ended the year with BRL2.12 billion. And despite of being a number that was lower than what we expected for the year, if we compare that to the all-time average of the company, it was almost 2x more than what we have for 2019. And for 2022, we want to invest around BRL4 billion in 2022.

It's an important year, especially for a distributing company, because it is the year prior to the tariff review, which will happen in '23. So this is a program of BRL3.2 billion in investments that if they happen in the year, we'll be able to have this already remunerated in the tariff in 2023. So we are focused on working in order to invest successfully develop this investment plan in 2022.

On the next slide, once again, I want to stress our commitment regarding the sale of nonstrategic assets. We have already completed sales of Light. We are very close to Renova's closing and this process of sale of Renova. And in line to the strategic planning of the company down here, we have some of the main companies in which we intend to sell. They're smaller companies, but we are interested in selling them, Taesa, Alianca, Santo Antonio, Norte Energia.

Taesa, since 2021, we already announced that we were interested in selling it. It didn't happen last year, but I stress that we intend to sell the stake -- our stakes in these assets, especially because we believe this is going to bring us a very positive return, and it's going to generate value for our shareholders.

Now moving forward. This was something new and very important. That's an index that we have. That's an achievement that we have to celebrate in this fourth quarter of 2021. We were able to reach and be below the loss standard, the loss parameter. We had total

losses of 11.23, and the regulatory coverage for losses is here 11.28. And we have been talking about that every quarter, and we are stressing our commitment that thanks to all the actions that we developed throughout the year, we wanted to meet this index or this standard. And we were able to do that by the end of 2021.

And on the right side, we can see several actions that have been taken to prove that this is a sustainable effort and this is a sustainable result. And it happened, thanks to our efforts. And especially when you compare that to 2020, 2021, because we are able to reduce over 1% in terms of regulatory losses. This is over BRL200 million EBITDA a year. So it's really a reason to celebrate these results by the end of 2021.

Now on the next slide, we have DEC and FEC, our outage indexes. We already had the best DEC in 2020 when we continued to have that objective. And the results were great. But also, we were able to improve service to clients in addition to our good financial results. Our DEC and FEC are lower than regulatory limits, and these are the best results that we have reached in the 69 years of existence.

Moving forward, fighting delinquency. Collection, not only the losses came down, the quality of service was maintained, very good at the best levels of all time. And also collections did bring great results, 98.66% in terms of receivables collection index in 2021 and possibly one of the best indicators among all the energy distributors in Brazil. Also, thanks to many actions, we increased the number of disconnections, 1.4 million disconnections, probably much higher than what we had in prior years, and we expect to have 1.7 million connections in 2022 in order to maintain these levels of collections in 2020 -- that we had in 2021. And we expanded the means of payment so that our clients could have the opportunity to be on time with the company.

We were well succeeded. Not only collection improved, but also we are able to maintain our ADA at very low levels. We had here reviews of some of the criteria. But regardless of these reviews, you can see that the figure is much lower, lower than the 1% of revenue that is usually used as a reference. So you can see that the indexes for 2020, 2021, both were very low, and we expect to have something similar for 2022.

Moving forward, we have great financial results. And this is a company that historically is recognized by its indicators, by the sustainability. Sustainability is in our DNA. We are part of all the main sustainability indexes, both domestic as well as the international ones.

And we highlight some of our actions during the COVID pandemic where we analyzed over 400,000 the state of Minas Gerais. And we offered co-chambers refrigerators, freezers. And there is a volunteer effort of our employees so that those small towns could keep the vaccines well-refrigerated. And that was very important. We are very proud of the support that we are able to provide to the state of Minas Gerais, which is our concession area to these over 400 towns.

On the next slide, this is our proposal for allocation of our profit -- our net income. We are proposing 52% payout of the net income to pay dividends. This is a dividend yield of 8.8%. We understand this is very attractive. So we believe that the company has an

attractive dividend, and it also allows for a retention of part of this net income to provide sustainability in order to bring in the investment programs and generate more revenue. We believe it is balanced out, and it's a very attractive dividend for our shareholders.

So now we are going to analyze the results, and Carolina will talk about the results of the fourth quarter and also for 2021. And then we'll come back at the end.

Carolina Senna

So moving forward about the main results in 2021 and separating those by companies, the highlights that we have for the Cemig Holding and we mentioned those in the third quarter, is the transfer in the commercialization contacts from Cemig's GT to the holding company. And the objective here is to provide greater visibility in the commercialization business. In 2021, we transferred BRL233 million in EBITDA and BRL115 million -- BRL154 million in net income.

We also highlight the significant participation of Gasmig in the consolidated results. In 2021, its EBITDA was up BRL681 million. And also the adjustment of the retirement benefits for life insurance only in the amount of BRL415 million in the results.

For Cemig Distribution, we already mentioned, but I would like to stress that we were able to deliver the EBITDA above the regulatory EBITDA and the OpEx below the regulatory OpEx. And also our losses were within the regulatory parameters.

For Cemig GT, we would like to highlight the buyback of \$500 million of Eurobonds, also the GSF renegotiation with an impact of BRL1.3 billion in the results. And we have a negative adjustment regarding Santo Antonio in the fourth quarter of 2021.

Moving on. Here, we have the results for the fourth quarter of 2021. For Cemig Holding, we can see that EBITDA, both IFRS as well as the recurring one, was up. The recurring one for 30.3%. And the net income, if we remove the non-recurring effects, we had an increase of 68.3% in our income. The main highlight for 2021 of non-recurring, the largest ones are down here in this chart, the negative adjustment for Santo Antonio and the write-off for this life insurance for retirement -- retired employees.

Now results for the year. We can see that there was a significant growth in the IFRS of 40.5% in the EBITDA. Our CEO already mentioned BRL8 billion, and the recurring result for the EBITDA, 21.7%, reaching BRL5.9 billion. And the net income, there was an increase of 31% in the IFRS result. And net of the recurring effects, 49.8% in 2021. We already mentioned Santo Antonio, the adjustments for the life insurance of retirees and also the renegotiation of the hydrological risk of GSF.

Now for Cemig's GT results for the fourth quarter, we can see and we are now highlighting something that we already mentioned that part of the results of Cemig's GT are being transferred to the holding company. So in the fourth quarter, there was an effect that was BRL108 million of EBITDA and BRL71 million in the net income. So analyzing the EBITDA, we can see that the IFRS came down. But if we analyze the recurring EBITDA of

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the company, we see that there was a significant growth of 27.8% even with this partial transfer of the commercialization activity to Cemig H. Net income under IFRS had posted a negative result of BRL51 million. But net of the non-recurring effects, there was a growth of 56%. And in the last quarter, we had the negative adjustment of Santo Antonio.

Now looking at 2021 for Cemig GT. Once again, we have the same commercialization strategy being transferred to Cemig's H. The effect on the year-to-date is higher. There was an effect of BRL233 million and -- for EBITDA and an effect of BRL154 million in the net income. EBITDA IFRS was up almost 37%. Net of the non-recurring effects, the growth was of 2.2%. And remember, the main effect in the non-recurring year is the renegotiation of hydrological risk, which had an effect of BRL1.3 billion. Net income was down, 17.5% in IFRS. But net of non-recurring effects, there was a positive result of 30.7% even after transferring part of the commercialization activities to the holding. Even then, Cemig GT had significant results.

Now moving forward. For Cemig D, we now see the market. And remember that in the fourth quarter in the state of Minas Gerais, we did have a lot of rainfall, therefore, cooler weather. So we had a reduction of the residential in rural volumes. But when we compare quarter-on-quarter 2021 to 2021, considering transport and captive market, we see there was an increase of 0.6% even with the result of added energy distributor generation, which has grown in Minas Gerais when you compare quarter-on-quarter. There was a growth of 79.4%, and that represents 4.8% of total market within Cemig's Distribution concession that related to injected energy.

Now fourth quarter for Cemig D, there was an increase in the EBITDA of 113.6% of IFRS. Now net of the recurring effect of the life insurance, we see that the growth was robust, 46.8%. Net income was up 112.5%. And removing that effect of the life insurance, it was up 35.2%. Over 2021, we had a growth of Cemig D of 33% in EBITDA and net of the non-recurring effects of 25.4%. For net income, growth was 41.5% and recurring was 32.6%, the same effect already mentioned. This -- the main impact here was the life insurance issue.

Now moving to OpEx. We already mentioned that our performance is below the regulatory OpEx, and we are delivering more than the regulatory EBITDA. So we see that over 2021, OpEx was below BRL448 million, representing almost 15%. And I should highlight here an important reduction in the PMSO.

Now looking at the EBITDA and performing higher than the regulatory EBITDA, BRL473 million, and that represents 18%. That is Cemig D is doing its homework, and it is delivering not only quality energy to its consumers, but also significant and important results to Cemig's group.

Now turning to consolidated operating costs and expenses for the fourth quarter. We can see that there was an increase of costs, but that was because of the energy purchased and -- that were purchased for distribution, energy, but -- and transferred to consumers. Now in PMSO, we had a reduction in the fourth quarter of 32.6%. And here, the main contribution to this reduction was the life insurance benefit that we mentioned. We also

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had a reduction of 2.2% with personnel, with headcount. It's important to mention that. And also, there was an effect of BRL40 million that is regarding to Itaocara.

Now the facts over the year of consolidating and operating costs and expenses. We also had a growth and expenses here because of purchase of energy in the fourth quarter. And looking at PMSO, there was a reduction of 4.8%. And part of this reduction is also related to the life insurance benefits already mentioned. And we also had third-party expenses, and we say this is good because it brings in an added revenue. This was because we have had an increased number of disconnections. They were higher than 2020, 685,000 in 2020 and over 1.3 million disconnections in 2021. And that extra expense also bring in extra revenue. So it has built in an added value.

Also important is the participation of Gasmig in Cemig's Group. Here, we show the expansion and growth of Gasmig. We can see that it has -- had an increase of gas sold of 19.5% for industrial class of 205 for thermal because of the water drought that we had in the second half of the year. We can see in the EBITDA that it increased 57.6% from BRL432 million in 2020 to BRL681 million in 2021. Now looking only in the fourth quarter, we can see that EBITDA was up 25.1%, reaching BRL174 million in the fourth quarter of 2021.

Now moving on. We are going to talk about the debt profile. And I will turn the floor to Leonardo, our CFO.

Leonardo George de Magalhaes {BIO 21639277 <GO>}

Now talking about the company's leverage is very close to 1x to its cash generation, it's measured by total net debt over EBITDA. It's a very comfortable situation for the company.

Looking at the debt profile, we see that in 2024, we have a larger amount, BRL6 billion. These are the bonds, and we are constantly talking about that. We are following up the market and also following up the premium of our securities in the secondary market and the extension for FX protection and all the opportunities and products available in the market so that we can keep on working on our liability management. What we can tell you is that we are following up this topic up and closely. Now the dollar rate is at 4.70. So it makes it easier because the cost is lower, and a possible additional buyback cost is a little bit lower. So we are paying attention to the best opportunities so that we can work on our liability management.

Now in terms of cost of debt, those increased by the end of 2021, but that is because of macroeconomic issues. All Brazilian companies had that because interest rates increased and also inflation increased, and that -- all of that has affected the cost of debt for the company and for all Brazilian companies. So we believe that 2022 we'll have these high rates. We understand this is temporary if we consider that long-term trajectory that we have of interest rates going down in Brazil. But right now, we have higher rates that are more challenging and higher than what we have seen in the past few years.

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Moving on. We have our cash generation. It's very nice that -- and it shows our cash generation capacity, which is wonderful, over BRL6 billion. Even with the CVA of BRL2 billion that we will have in the next tariff adjustment in the distributing company. By the end of May, we were able to amortize BRL4 billion in payments and loans, and most of them are regarding to the buyback of the BRL500 million of the bonds. Even with this buyback with the CVA and with this amortization payment, we end the year with cash of almost BRL3 billion. And I think that's a very comfortable position for the company in order to face its financial obligations.

Now and in the year, we always like to show this slide. I think it's good to bring a balance of all commitments that we have made with our investors and all stakeholders. Since 2020, we are stating that we are committed to this transformation process and taking actions that will generate value to our shareholders. And these are several of our actions that have already been achieved, and they are thanks to our efforts, and they have good results. You can see that we are bringing consistent results to the market.

In our earnings call, you can track that. Here, we have several of these actions already achieved. We have here this negotiation of the retirement benefit plans. We already -- we were able to make the reversal of almost BRL400 million, and we were saying that this was something important. It was structural. That demanded a lot of effort. And we were able to show the initial results in this fourth quarter at this rate of life insurance, but we are committed to reduce these costs also in terms of the pension plans and also health care plan. We are still working on that. We are motivated, engaged in the restructuring process for these plans so that we can reduce the actuarial risk for the company and bring benefits in terms of cost reductions as we were able to do in this fourth quarter regarding the life insurance and also other ongoing actions.

Once again, divestment in Taesa, we already have already been able to divest from Light and Renova, it's concluded. And other actions that are ongoing, we are paying attention to growth in retail, energy, commercialization. This is an opportunity for the company. As we had the free market a few years ago, we understand that this is an opportunity to create value. We have expertise in this topic, also investment in generation from renewable sources and concession renewals.

So in a very brief manner, we just brought to you the main highlights for 2021 and the fourth quarter, and we are available to take any additional questions that you might have. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. So now we are going to start the Q&A session. (Operator Instructions)

Q - Andre Sampaio {BIO 19422379 <GO>}

Good afternoon, everyone. I have two questions. The first one is about Gasmig. If you can comment how the process was for the tariff review and the public hearing. And when do you expect to conclude the process?

And the second question, if you can talk more about the next steps for arbitration in Santo Antonio. Which is the next step of the company to try to avoid consequences of the first conclusion of this arbitration. These are my first two questions.

A - Mauricio Dall'Agnese

This is Mauricio Dall'Agnese. I am responsible for CemigPar. About tariff review for Gasmig, this is an ongoing process still, but it's already at its final stages. Public hearings have already been carried out, but we are still waiting to -- for the final disclosures of the decisions. There was a -- we already saw a small reduction of around 10% in the rate, but the final result is still yet to be published.

The other question was about arbitration and Santo Antonio. Yes, we do have this arbitration. It started in 2014. And questions events related to the construction works and contracts signed to construct to build this plant, I think these are contracts for 2009. And this is a topic that has been discussed for a long time now. In February, there was a decision by the arbitration that determines some payments, but this has not been concluded yet. So we have requested more explanations, and Santo Antonio is already preparing its arguments to better position the company. This process is confidential in the courts, and we do not have schedule of when this is going to be concluded.

A - Unidentified Speaker

An additional comment, Andre, thank you very much for your participation in this meeting. About the tariff review when the process is concluded, we will come forward, and we'll disclose the process and its conclusion because I think it's important to bring visibility to Gasmig. This is a concession that we have up to 53. It's an important asset for the company, and it became relevant to the company within our results. So we'll have -- we'll disclose the results as soon as they are out.

About the arbitration, Mauricio already talked about that. Just to make it clear that in the worst-case scenario about the arbitration and this is still in the process of clarification. But all of that -- we are not expecting any other relevant effect related to Santo Antonio in our financial statements considering that the main impacts are already recorded in the fourth quarter of 2021. This is our expectation. And of course, Santo Antonio's management is working on this topic and with the relevance -- a lot of care because it's how -- it needs to be tackled.

Q - Andre Sampaio {BIO 19422379 <GO>}

Just a quick follow-up about Santo Antonio. Just in case the arbitration does not come with a positive resolution, are you going to court? Or are you just going to work with the arbitration?

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A - Mauricio Dall'Agnese

It is possible. I think there are several avenues for the company, but this is still being analyzed. It is too soon to tell you, which is going to be our final decision. Well, we are stakeholders in the company, we do not have vital power there.

Q - Andre Sampaio {BIO 19422379 <GO>}

Thank you very much.

Operator

Now Antonio from Athena Capital. (Operator Instructions) Next question from Henrique from JPM. We have no sound.

Q - Henrique Peretti {BIO 18446440 <GO>}

I apologize. I have two questions. The first one is about the movement from Cemig GT to Cemig Holding. That has to do with the potential of using tax losses of the holding. If that's the case, what is the size of that? And what is your timing to recover it?

And second is about Taesa sale. We know that this isn't -- the shares are at a good moment because they are high. That would be a good moment to sell your stake in the company. So it would be better if you were able -- if you had been able to conclude the process last year. Unfortunately, it didn't happen. Is it still possible to sell Taesa this year? And how are you going to tackle the tax issue if that happens?

A - Mauricio Dall'Agnese

Henrique, thank you. Asking about Cemig's commercialization company. Well, there are two things here. First, we want to provide more visibility to our commercialization business. We always say that we are also a large generation company and commercialization been -- with generation, sometimes it's difficult to have the right pricing to our commercialization business. And we understand that if commercialization is under Cemig Holding, at least most of it, we can have a better visibility of that to show how this is relevant for the company. And thanks to our expertise and relevance when compared to the free market, how we can generate value in this business, and we are talking about hundreds of millions every year just for our commercialization business, not talking about generations gains. So this is one of the main drivers that will help the market price Cemig in the more (inaudible).

And second, considering all the possibilities that we have regarding to tax credits and the holding company and also we -- interest on equity, which is a possibility, an alternative, and the company can keep using under Cemig holding, so we understand that tax-wise, it makes sense to have commercialization under holding -- the holding company because it's going to add more value to our shareholders because we are able to have a better use of these tax credits and reduce the cash impact because of the interest on equity amortizing the impacts related to possible tax payments.

Bloomberg Transcript

So I can't tell you exactly how much of tax credits we were able to offset because, obviously, in the year, you could offset all tax credits with the interest on equity, but it is a relevant effect in terms of tax reduction, considering that in the holding company, with the interest on equity, we are able to have this relevant tax benefit for the company. So both things, greater visibility for the business and also tax optimization for the commercialization business.

The other question regarding Taesa, I will turn the floor to Reynaldo.

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

I think you already mentioned. Our objective is to move on with our divestment program. Really, I am more and more convinced that we want -- I want to move on with this divestment program. And I have one question to be about Cemig. And the questions are about Taesa, about Cemig, and this really proves that we have to concentrate our efforts in Cemig. Our objective is to move on with the divestments program. And we have, yes, positive expectation to conclude Taesa just like other assets still now in 2022.

Q - Henrique Peretti {BIO 18446440 <GO>}

Thank you very much, Reynaldo.

Operator

Next question from Daniel from (inaudible) Investments.

Q - Analyst

Congratulations on the results. Can you give us an update on the pension fund of the company?

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Hello, Daniel. Thank you for your question. We have been talking about the retirement benefits. And that rounding up, we have around BRL3 billion regarding pension funds and three regarding our health care plan. The company is now discussing with the retirees and employees associations, the possibilities for these plans. About the pension fund specifically, the company aims to restructure this plan. Currently, it has no new participants. But because of the participants -- of the current participants of this plan, we do have relevant financial obligations for the company. Therefore, we do have actuarial risk, and we want to create a financial contribution plan and to allow these participants to a new plan. This is an approach, a methodology that has been used by other companies in Brazil. So we are not doing anything that is new, but it is feasible, and we see that the other companies were successful in the process, and that's what we expect to have as well. And we understand that with this possibility, we will have two positive effects.

In addition to removing the actuarial risk from Cemig, it can also generate positive effects and the obligations already posted to the balance sheet of the company. Considering these are relevant amounts over BRL3 billion and a reduction of 10%, 20%, 30%, will be

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significant values in terms of cost reductions, and that can also apply to health care plans. We have over BRL3 billion in our balance sheet. And in this restructuring process in the health care plan involving the creation of our plan and conditions that will be different such as more affordable health care plans. With last participation of Cemig in the total share of these obligations, we also will have benefits then. So as I said, in 2021, we have taken an important step regarding life insurance, and we are very optimistic about the pension funds and also health care plans.

Of course, that -- regarding the pension funds, we have a regulatory schedule. But I think that by 2022, 2023, we'll have good news on this topic.

Operator

Next question from Joao Victor from Bradesco BBI.

Q - Francisco Navarrete {BIO 15936808 <GO>}

This is Francisco from Bradesco BBI. Can you hear me well?

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Hello, Francisco. Yes. We can hear you great.

Q - Francisco Navarrete {BIO 15936808 <GO>}

My question is about Cemig, and this is a topic that is being discussed, which is the exposure to renewables and incentive-based energy and which is the exposure that Cemig has. I understand that there is a portfolio of PPAs that you have put together over the years. And so you have an interesting position on incentive-based energy. There is a spread of around BRL35 now, but there are a number of theories saying that this could substantially increase and might even double because of a four clients flow from the regulated to the non-regulated market, creating a demand for these incentive-based assets. And there is a limit, which is March 2026. I would like to hear from you. I believe it is very relevant for all players and generating companies in Brazil, and I don't know if it is very clear for those that follow up Cemig in terms of the size of this exposure.

And now -- so the risk in your portfolio that you have, if all the players that are developing these projects, we'll be able to deliver that on time and with no delays. So -- and what would be the problem if that were to happen?

A - Dimas Costa {BIO 19927096 <GO>}

Very well, Francisco. Good afternoon. Thank you for your question. This is Dimas, Commercialization Officer. Yes, we purchased, and Leonardo mentioned and also Reynaldo talked about that in 2015, we lost over half of our generation capacity. And in order to maintain the leading market in the free market, at the time, we could make no investments. So we chose to buy energy and repurchased around 1.5 giga. And this energy is already being delivered this year, some of it was delivered earlier in 2021. Of those, I can tell you that we had delays and problems of only 20 mega. So we have the

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performance of all these generators that are ongoing, some of them already have been concluded, and others are ongoing.

About discount, this is an incentive-based energy. And Cemig now -- the main consumers are working mainly with self-production. So in the past few years, we started directing this energy to a more attractive market, which is the A4 group, which is this incentive-based energy. It not only maintains our market, but also we are prepared for the transition, which is going to happen to the retailer commercialization.

In terms of the schedule, of course, all this purchased energy has a discount. And now -- and the legislation changed a little bit, right? Because in the beginning, if you were to submit the concession request by February, would have a discount, but it looks like there was a change in the law. And now it is if you submit it in the next four years, you will be able to seize the discounts. So now from March up to March of 2026, that's a period of time when we could go in.

Now we are no longer purchasing energy, and now we are investing because of possibilities of investment. We are investing, and we are acquiring pipelines. And we have some ongoing undertakings. But to meet that 1.5 giga, we are buying pipelines. And within these pipelines, of course, that we are looking for those that already have the concession grant and can have any possibility of providing discounts. I don't know if it is clear.

Q - Francisco Navarrete {BIO 15936808 <GO>}

Yes. Just to make it clear, maybe I have not understood you, but do you have PPAs of 1.5 giga? Or you sold the equivalent to 1.5 giga and you have to find energy to cover for that?

A - Dimas Costa {BIO 19927096 <GO>}

No, we acquired -- we purchased this 1.5 giga, and it's 1.40 something. And out of this 1.40 something -- and if you consider the four years from now, five years from now, we have already 80% of our energy sold. Of course, that you do not sell the full -- all the energy for 20 years. We have -- in terms of the PPA, we have around 20% sold. So this is what we are working on it. Every year, we add more sales to our portfolio. So we have the energy in our portfolio, but we do not have it all sold. It will be coming in, in the next three years, but we'll be selling it and delivering it within a specific schedule. So when we are able to sell it for 10, 15 years, it's wonderful.

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Okay. Dimas, I think we have -- it's a coincident because we -- it's the same figure. We have 1.5 giga that we bought in PPA last year and we have 1.5 giga, which is our strategic plan for growth. And that's what was Dimas was telling you, and we have a pipeline to build another 1.5 giga. So this would give -- that's our stake in the market. So it's just a coincidence in the figures. And part of those will be projects that are being developed at Cemig, and part of that will be from other developers, projects that we'll be purchasing. Thank you.

Operator

Next, Mauricio (inaudible).

Q - Analyst

I would like to know more about divestments. If there is any perspective of moving forward over 2022, especially regarding the companies that you've already mentioned.

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Mauricio?

A - Mauricio Dall'Agnese

Yes, Mauricio, this is our objective. We do intend to conclude these divestments over 2022. As I mentioned here, we want to concentrate ourselves in Cemig.

Operator

Now (inaudible).

Q - Analyst

Good afternoon. I would like to know if Cemig is interested in participating in the transmission auction that will happen in the middle of the year and if the company can give us more information on that.

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Yes. Go ahead.

A - Thadeu Carneiro da Silva

Good afternoon. This is Thadeu da Silva. I am the Officer for Generation and Transmission. Thank you, (inaudible), for your question. And the answer, yes, yes, we will be participating on that auction. And in line to our strategic planning, we are going to look for lots here in Minas Gerais and looking for synergies with our operating assets, established engineering, both implementation and OEM and the knowledge that we have about this stage. We do have that competitive advantage in the market.

Operator

Next question from Roberto (inaudible).

Q - Analyst

Congratulations on the results. Your retained earnings are a little bit higher than your capital. Are you going to distribute dividends on part of this profit? If yes, how?

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Thank you for your question, Roberto. Well, we do have that information in our financial results. But this is a very extensive. And of course, probably -- and we will have to submit to the shareholders assembly a proposal for bonus share of 30% so that the retained earnings are below our capital stock so that we can meet the law.

Operator

We may now end the Q&A session. I would like to turn the floor to Leonardo George de Magalhaes for the company's final remarks.

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

I would like to thank you all very much for trusting in our company, for participating in this conference call. And once again, I'd like to say that we understand that 2020 was a great year. 2021 was a year of great achievements, and we understand that several of our commitments have been fulfilled. And we are very optimistic about the company's future. 2022 is a year in which we are continuing investing in operating efficiency. And of all our commitments, we will never let go the quality of service and within our area. So this is an optimistic message from the whole management. And we hope that in the next quarters, we bring back to you more consistent results. Thank you very much.

Operator

Cemig's webinar has ended. Thank you very much for your participation, and have a nice afternoon.

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