



# Successful Strategy

## Business Portfolio Ensures Results

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# Cemig: The Leading Brazilian Power Utility



**Integrated power utility in Brazil**

**#1**

**Dividend payout ratio**

**> 50%**

**Structured for global investors vs. peers**

**Best  
structured**

**Role in consolidating the industry**

**Leader**

# Business structure with low risk for shareholders



## ✓ Power generation

- Traditional sources, mainly hydro: competitive
- Growth in renewable sources
- Natural gas as an alternative

## ✓ Power transmission

- High Ebitda margins
- Stable returns and cash flow

## ✓ Electricity distribution

- Strongly regulated
- Scale gains are needed for achieving higher returns
- Sector in process of consolidation

## ✓ Natural gas distribution (Gasmig)

- Same concession area as Cemig Distribution (Cemig D)
- Partnership with Petrobras (Petrobras 40%, Cemig 55%)
- Sector in process of consolidation

## ✓ Telecommunication backbone services

- Synergy: use of power transmission lines for fiber optic cables

# Diversity of businesses creates value, reduces risk



## ✓ Principal businesses:

### ➤ Generation:

- Most contracts signed for 5–10 years, with only 5% flexibility
- Almost all these contracts are adjusted for inflation
- Cemig has almost of its output sold until 2014 – reducing exposure to possible downward pressure on electricity prices in 2013–14

### ➤ Transmission:

- Revenue is fixed, and not sensitive to variations in quantity demanded
- 100% of contracts are adjusted for inflation
- Provides almost 20% of consolidated Ebitda (2Q 2011)

### ➤ Distribution:

- Concession area is growing faster than GDP
- Regulated market guarantees price stability
- Demand for electricity is not very sensitive to short-term fluctuations in the economy
- Infrastructure projects in the concession area boost structural demand for electricity

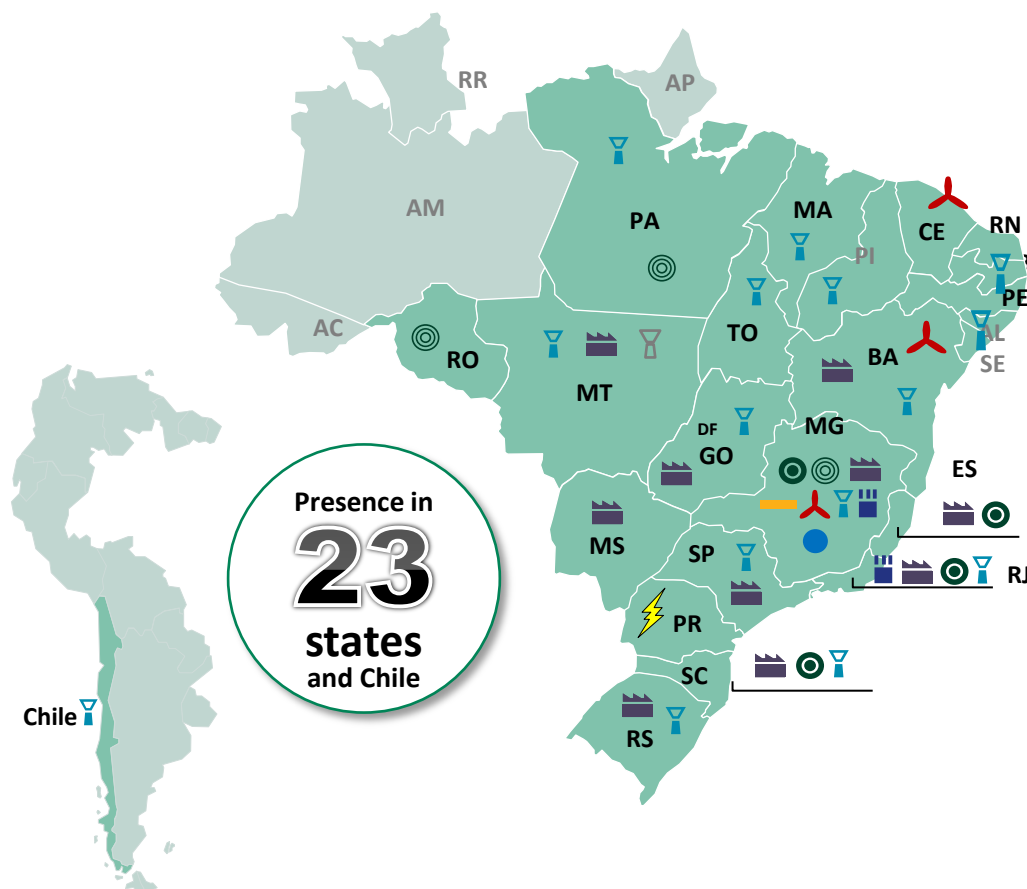
# Leadership in sustainability, a core value at Cemig



- ✓ Social and Environmental responsibilities
- ✓ Long-term vision commitment
- ✓ To guarantee the preservation of our activities
- ✓ Prevent undue costs to be passed to the society through a balanced relationship with the environment and the community
- ✓ Recognition of our actions to ensure sustainability:
  - Selected member of Dow Jones Sustainability World Index for the **twelfth** time in a row, now world leader in Utilities “Supersector”
  - Selected member of Corporate Sustainability Index of the Sao Paulo Stock Exchange (Bovespa) for the **seventh** year in a row.



# Cemig: Largest Integrated Utility in Brazil



- Power Generation
- Power Generation (under construction)
- Power Transmission
- Power Transmission (under construction)
- Electricity Distribution
- Cemig "Free Consumer" Clients
- Purchase of Energy
- Wind Power Generation
- Natural Gas Distribution
- Telecom Backbone Provider

**#1**

**Electricity distributor\***

**#3**

**Power transmission group**

**#3**

**Power generation group**

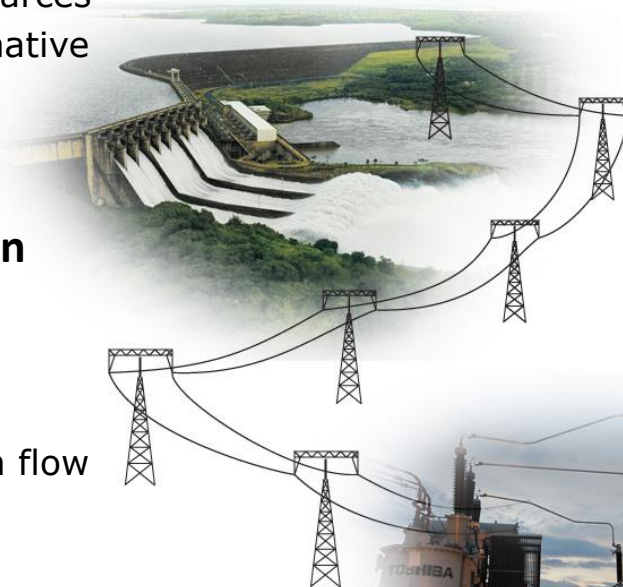
# Cemig: Largest Integrated Utility in Brazil



## Power Generation

6,925 MW of capacity

- ✓ 7% market share
- ✓ Sources such as hydro are still competitive
- ✓ Growth in renewable sources
- ✓ Natural gas as an alternative



## Non-regulated market

25% market share



## Power Transmission

9,871 Km

- ✓ 10% market share
- ✓ Highest Ebitda margins
- ✓ Stable returns and cash flow



## Electricity Distribution

485,046 Km

- ✓ 12% market share
- ✓ Strongly regulated
- ✓ Scale gains to achieve higher returns
- ✓ Sector in process of consolidation



## Retail




Largest distribution company





# Well-Diversified Portfolio, still Evolving



	3Q2011 (% of EBITDA)		Long-Term Goal (% of EBITDA)
 <b>Generation</b>	46%	→	40%
 <b>Transmission</b>	20%	→	20%
 <b>Distribution &amp; Others</b>	34%	→	40%

Note: 1. Including Natural Gas Distribution, Electricity Distribution, Telecom, Services

# Long term strategy aligned with shareholders' interests



## ✓ Value creation is a permanent commitment

### ➤ Alignment with shareholders' interests:

- Corporate governance as a strategic value
- Transparency in the decision making process

### ➤ Profitability metrics to assure attractiveness of projects:

- Strict financial discipline when investing
- Investments that add value to our shareholders
- Best management practices and detailed actions plans to capture synergies
- Continuous technological and operational improvements

### ➤ Ability to create innovative structure to finance expansion

- Partnerships with Equity Investment Funds (FIPs) in recent acquisitions (Terna and Light) to create a new growth driver
- Partnership with FIPs produces a growth strategy that optimizes capital needs

### ➤ Track record of accretive acquisitions

- Growth vehicles to carry out expansion more efficiently

# Long term strategy plan to meet shareholders' interests



## ✓ **Focusing on the power industry to maximize gains**

- Growth within Brazil's geographical area
- First steps toward international investments
- Expansion in line with sustainable growth
- Investments solely in power industry and gas distribution related business

## ✓ **Addressing shareholders' long-term interests:**

- Dividend policy: minimum 50% of payout and extraordinary dividends every other year, provided cash availability (stated in the bylaws)
- Corporate governance focused on respect of minority shareholders' interests

## ✓ **Preserve financial strength to secure a broader access to the investor markets:**

- Cash flow stable and predictable
- Net Debt limited to 2.5 x EBITDA
- Net Debt limited to 50% of Net Debt plus Shareholders' Equity

## ✓ **Growth model supports Cemig's leading role in Brazilian electricity**

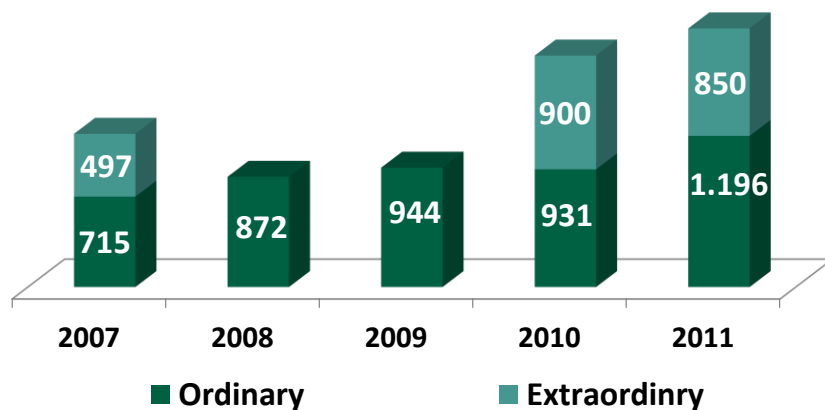
- More efficient projects based on the accumulated expertise in operating electricity facilities
- Acquisition of assets to increase the synergy with and between existing assets
- Experienced project developer

# Strategic Plan Results: Dividends

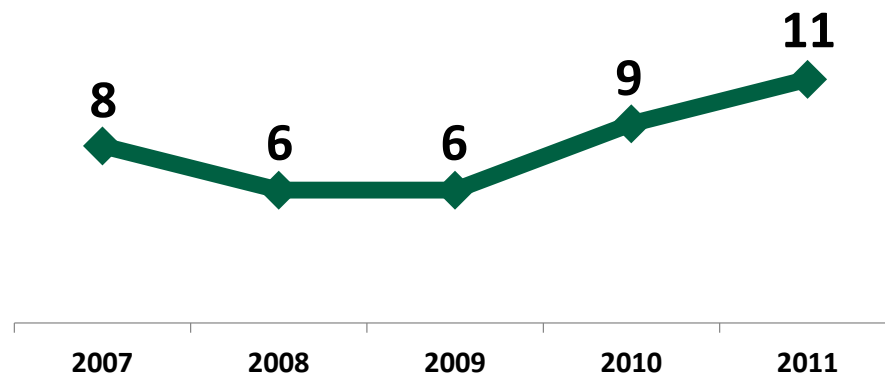


- ✓ Dividends paid in 2010 reached R\$ 1.8 billion
  - Ordinary dividends of R\$ 931mn; paid in equal parts in June and December 2010
  - Extraordinary dividends of R\$ 900 million; paid in December 2010
- ✓ Approved Net Income distribution for 2010:
  - 52.97% of the net profit - R\$ 1,196 billion to payment of dividends - R\$1.75/share
  - Extraordinary dividends: R\$ 850 million, paid in December 2011 - R\$1.24/share

**Dividends paid (\*) - (R\$ Million)**



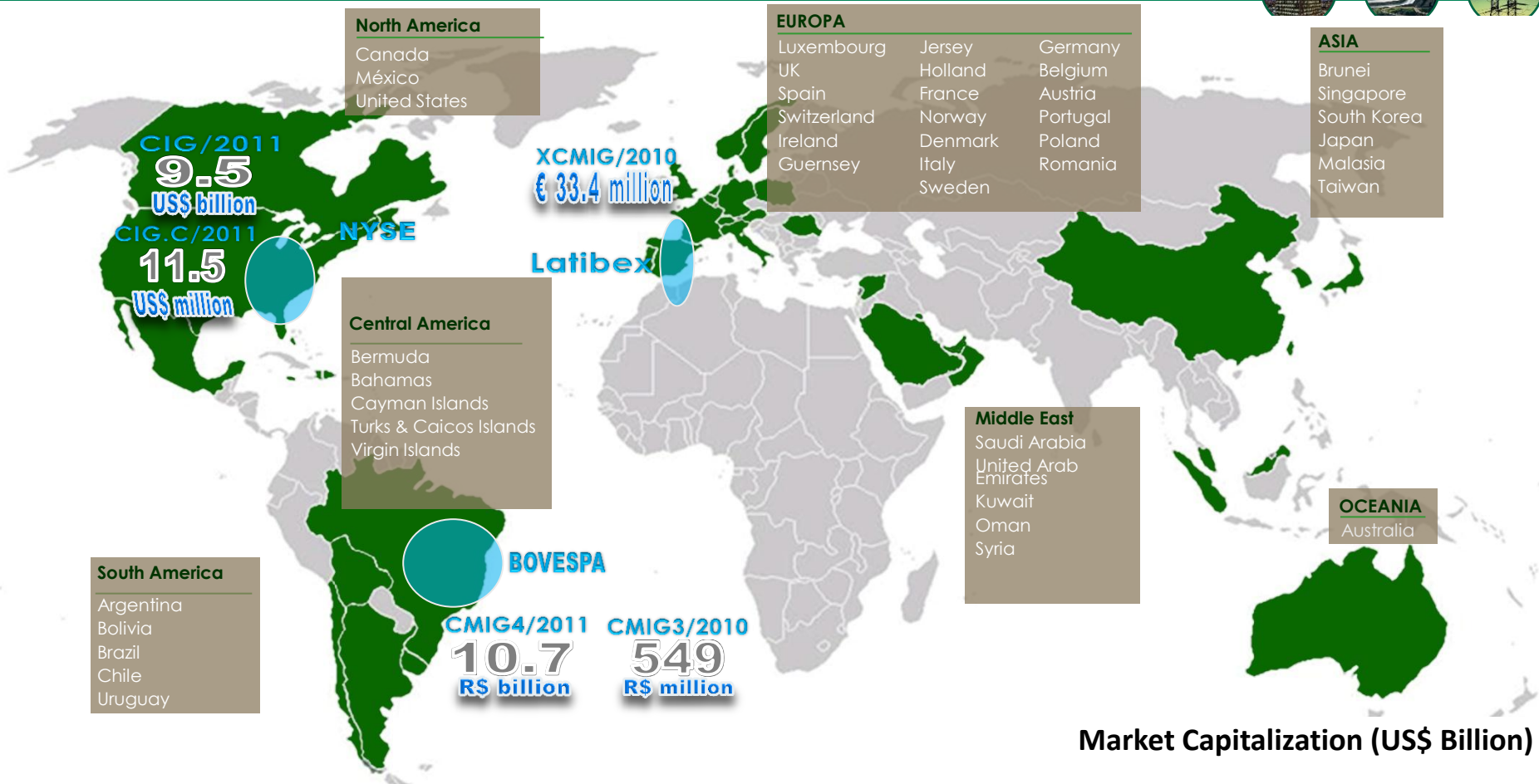
**Dividend yield (%)**



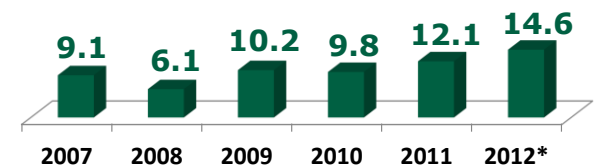
\* Dividends approved for the year's net income, paid in the coming year in semi-annual basis



# Strong shareholder base assures liquidity



Market Capitalization (US\$ Billion)



\* At February 10<sup>th</sup>, 2012

Average Daily Trading Volume – 2011

**Bovespa:** R\$ 43 million

**NYSE:** US\$ 38 million

➤ Our Shares are traded in 3 Stock Exchanges

➤ More than 115,000 shareholders in 44 countries

# Priorities reflect long-term commitment



- ✓ Company's business structure oriented toward electricity sector consolidation
  - Operational excellence aligned with costs reduction
  - Scale as a mean to capture synergies
  - Risk management ensures reliable processes
- ✓ Investment criteria defined by Strategic Plan to add value
- ✓ Corporate governance as a corporate value constantly evolving
- ✓ Financial management to improve credit quality and cost reduction
- ✓ Provide return to the investors' investment

# An outlook of opportunities



## • At short term

- ✓ Update the long term strategic plan to review shareholders' alignment.
- ✓ Improve operating performance to capture gains and synergies in all businesses:
  - Reduce energy loss in Rio de Janeiro
  - Refurbishment of the old power plants
- ✓ Enhance service quality to meet the requirements of the concession area:
  - Soccer World Cup
  - Olympic Games
- ✓ Incorporate operationally the acquired assets
  - Transmission facilities
- ✓ Keep big eyes on the regulatory front:
  - 3rd. Rate review cycle
  - Renewals of the concession contracts to expire in 2015

## • At long term

- ✓ Keep on consolidating power industry assets to gain scale
- ✓ Develop skills to compete in the concession contract auctions
- ✓ Develop the natural gas business:
  - Carry on the expansion of the gas distribution business
    - Residential client supply will require additional gas pipeline network expansion
  - Natural gas pipeline construction
  - Studies on natural gas drilling





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