STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

November 11, 2009

Research Update:
Companhia Energetica de Minas Gerais And Its Subsidiaries Rated 'BB', Outlook Stable

Primary Credit Analyst:
Juliana Gallo, Sao Paulo (55) 11 3039-9728;juliana_gallo@standardandpoors.com

Secondary Credit Analyst:
Marcelo Costa, Sao Paulo (55) 11 3039-9731;marcelo_costa@standardandpoors.com

Table Of Contents

Research Update:

Companhia Energetica de Minas Gerais And Its Subsidiaries Rated 'BB', Outlook Stable

Overview

- Standard & Poor's assigned the 'BB' corporate credit ratings to Companhia Energética de Minas Gerais and its subsidiaries Cemig Geração e Transmissão S.A and Cemig Distributição S.A.
- The outlooks are stable.
- The ratings reflect the group's integrated business operations in electric generation, transmission, distribution, and commercialization, which contribute to its steady cash flow.

Rating Action

On Nov. 11, 2009, Standard & Poor's Ratings Services assigned its 'BB' corporate credit ratings to the Brazilian electric utility Companhia Energética de Minas Gerais (Cemig) and to its direct subsidiaries Cemig Geração e Transmissão S.A (Cemig GT) and Cemig Distributição S.A. (Cemig D). At the same time, Standard & Poor's assigned 'brAA-' Brazil national scale rating to Cemig and Cemig GT and 'brAA' to Cemig D. The outlooks are stable.

Rationale

Even though the 'BB' ratings are based on the companies' stand-alone credit profiles, they are in accordance with our criteria for government-related entities. Furthermore, in our opinion, there is moderately high likelihood that the government of the state of Minas Gerais (not rated) would provide timely and sufficient extraordinary support to Cemig and its subsidiaries in the event of financial distress. This extraordinary government support is based on our assessment of the following companies' characteristics:

- "Important" role to the state government, given the group's subsidiaries provides essential services to the state; and
- Strong link with the state government, given its 50.96% voting stake in the Cemig's capital and its indirect control of Cemig D and Cemig GT through Cemig.

The ratings are supported by the group's satisfactory business profile due to the synergy among its four businesses (generation, transmission, distribution, and commercialization); integrated operations in the Brazilian electric sector; and adequate operating performance demonstrated by the efficient quality indicators compared to its peers. The group's robust cash generation and liquidity position derived mainly from its stable and predictable electric distribution and transmission segments and from its electric generation businesses that resulted in solid cash-flow protection measures. The ratings also reflect the companies' positive track record for liability management, including favorable access to credit lines and debt and equity capital markets. Those strengths are partly offset by the group's expansion strategy that will increase its leverage profile, which will result in the weakening in its cash-flow protection measures, capital structure profile, and liquidity. Other risks include the high dividend distribution; the inherent political risk due to its public control; its exposure to the Brazilian electric sector's regulatory framework, although it has showed a positive track record during the last five years; and its exposure to the uncertainties related to the concession renewal on some of its assets that are expiring between 2015 and 2017. However, even if some of Cemig's concessions are not renewed, we expect the company's capital structure to manage the impact, and would still be in line with the rating category, as the company has enough room to strengthen its financial profile in the next six to eight years and might receive some indemnification for some assets.

Short-term credit factors

We consider Cemig's consolidated liquidity to be adequate, given its cash position and access to credit lines. At the end of June 2009, the group reported BrR2.3 billion in available cash and closed BrR2.7 billion in promissory notes (through Cemig GT guaranteed by the group). Cemig has BrR1.7 billion in consolidated short-term debt and an expected BrR2.2 billion in disbursement for the acquisition of Transmissora do Atlântico de Energia Elétrica S.A. Cemig could partly use the remaining liquidity for other potential acquisitions and investments. The group's total debt was BrR9.2 billion (including pension funds). Seven percent of its total debt was denominated in foreign currency, which is partially protected through hedging mechanism.

Outlook

The stable outlook reflects our expectations that Cemig and its subsidiaries will continue working on its debt liability management to maintain its financial profile commensurate with the ratings. We expect funds from operations to total debt to be at least 20% for Cemig and Cemig GT and 25% for Cemig D. A weakening in Cemig's financial profile, due to large debt-funded acquisitions and/or a high short-term debt exposure, would put a downward pressure on the ratings (FFO to total debt persisting in 15% area over the next years). Conversely, a further sustainable improvement in the group's and subsidiaries financial profiles could result in some ratings upside (if FFO to total debt is sustaining near 30%).

Related Research

Enhanced Methodology And Assumptions For Rating Government –Related Entities

Ratings List

New Rating; CreditWatch/Outlook Action

Companhia Energetica de Minas Gerais S.A.	
Cemig Geracao e Transmissao S.A.	
Corporate Credit Rating	
Foreign Currency	BB/Stable/--
Local Currency	brAA-/Stable/--
Cemig Distribuicao S.A.	
Corporate Credit Rating	
Foreign Currency	BB/Stable/--
Local Currency	brAA/Stable/--

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.