

Q3 2007 Earnings Call

Company Participants

- Agostinho Faria Cardoso, IR Superintendent
- Bernardo Afonso Salomao de Alvarenga, Commercial Director
- Djalma Bastos de Moraes, CEO
- Luiz Fernando Rolla, CFO
- Marcio Araujo de Lacerda, Chairman
- Unidentified Speaker, Unknown

Other Participants

- Marcus Sequeira, Analyst
- Pedro Batista, Analyst
- Unidentified Participant, Analyst

Presentation

Unidentified Speaker

Good afternoon, everyone with -- broadcast of the webcast of Companhia Energetica de Minas Gerais, Earnings Results for Third Quarter 2007.

(inaudible) and also through the telephone, area code (11) 4688-6301.

We will give the floor now to Dr. Marcio Araujo de Lacerda, President of the -- Chairman of the Board of CEMIG, to begin our presentation.

Marcio Araujo de Lacerda {BIO 15840099 <GO>}

Good afternoon, everyone. It is a great privilege to be here at this time, six months after having been in charge of the Board of CEMIG and having the opportunity to converse with you ladies and gentlemen. And also have the opportunity to publicize the very excellent results of our last quarter. From January to September this year we have had net profits of R\$1.469 billion, R\$3.02 per share representing growth of 32% compared to the equivalent period last year and EBITDA reached R\$3 billion with 43% growth. Out of these totals 10% of EBITDA and the net profits came from the holdings that CEMIG has in the group.

As for finance, this result reflects the solidity of our fundamentals and alignment with the master plan, our strategic plan and the guidance plan. In terms of sales we raised 42,904 gigawatts, a growth of 12.1%, highlighting sales to Argentina contributed R\$67 million to our revenues. This growth in our power sales reflects the strong expression of the

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(technical difficulty) Minas Gerais and our positions. As for sustainability, it's important to highlight that CEMIG was considered at this time the world leader in the super sector of Public Utilities by the Dow Jones Sustainability Index.

One highlight in corporate governance and the share stockholders have approved the new bylaws, creating a new organizational structure aligned with the market needs and the Fiscal Council is acting as an Audit Committee. In terms of a power auctions we had eight new power auctions with the sales of 43 megawatts, average megawatts, of the plant of Funil with a price of R\$125.90/megawatt hour, a 30 year contract beginning in 2012. In the regulatory, the regulation it is important to highlight that the tariff review revision of CEMIG had it's process begun with a public hearing scheduled for 2008, at the beginning of the year and the results for April of 2008.

And finally, last winter, the new [ph] management of the company, CEMIG was considered by Exame magazine, the best company to work in, in the large company category. There is about 10,000 employees and a special award as the best and largest employer. So I give the floor now to Djalma Bastos de Moraes

Djalma Bastos de Moraes {BIO 2089645 <GO>}

Good afternoon. Ladies and gentlemen, our company continues with the firm proposal to consolidate in the electric sector in Brazil with a focus on generation, transmission and distribution of power, electric power and natural gas to give a return comparable with the risk of each business. And strategic partnerships defining the best corporate governance practices and the strategic -- defining long-term goals.

It's important to highlight the second item, return compatible with the risk of each business, that is the company continues evaluating, assessing every business which may make their goals feasible. But always aiming at responsibility evaluating every risk so as to consolidate more and more our company as a very late [ph], great company and a partner in our sector. We are, in our industry we are not assessing any venture or type of investment and we would like to assure your investors that all of our enterprises, already ongoing underway and has defined the future for our goals. All of them will always be responsible, always aiming at the return that is compatible with each business risk.

Our assets in the generation area with a growth by 16%, our network of transmission a growth of 10%, sub-transmission 13% and distribution lines 18%. In the last four years we added 1,000 megawatts more to our generation capacity and 67,000 kilometers of network.

We are observing our investments, each one of the companies here defined as you can see even though CEMIG GT and CEMIG the distribution will have up until September 2007 in distribution R\$720 million, same thing for generation. But if we observe the total investment forecast for 2007, with R\$1,400 billion and invested [ph] up until the Third Quarter with R\$874 million, we are going to see that last year for our R\$1,166 million and the last quarter we had R\$831million in the last quarter, in the Third Quarter. So we are

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going to get very close to the target number, R\$1,408 million even though we have such a discrepancy up until the Third Quarter.

Our generation, with a focus on good growth opportunities, we had actually was the usability [ph] and the renewal of generation concession Emborcacao, Nove Ponte and seven hydropower plants. New plants already been approved and are under construction, investment of R\$380 million with power of 90,000 watts, Cachoeirao, Pipoca, Senhora de Porto, Dolores de Guanhaes, Jacara, Fortuna II and a just [ph] started case, of engineering, restructure of the business in eight other power plants with 377 megawatts, Baguari, 140 megawatts and studying the repowering of 32 out of the 32 existing hydro-electric power plants.

Salomao de Alvarenga and myself, some time ago, we took a proposal to the Ministry of Mines & Energy, not only for the Ministry to study objectively a repowering, not only in our BCH plants, in our hydro plants but throughout the country we believe. And we have a strong proposal and conviction that such a repowering will bring great gains into something that is already ready and already defined without environmental liabilities and we requested the Ministry to provide a study for that such a repowering in the State and the rest of the country furthered [ph] by financing, defined by the Ministry itself.

In the area of transmission and distribution our expansion ensures service with quality and annual revenue at 2.2 -- 2.2% after the new investment grid is revised. In the distribution area, connections, 220,000 new consumers in the nine months of 2007, CEMIG distribution 167,000 consumers. And light 53,000 consumers. The program of a Light For Everyone in CEMIG Distribution made connection of 190,000 consumers, surpassing the annual growth and we observed a need, an additional need and we took to the Ministry, that practically [ph] was approved our Light For Everyone program were defined in small details. CEMIG is going to take over part of this objectives.

And certainly we will contract maybe 60% of the forecast for this year with a private initiative. We added 23,000 kilometers of network lines. Sustainable growth in line with social responsibility commitment with our long-term vision ensuring not only the preservation of our activities but also avoiding costs to society through a well balanced relationship with the environment, the Live Fish program, Our Land program and the "Fred" program. And as informed by our Chairman of the Board, we are to be congratulated for the eighth year run we are in the Sustainability Index of Dow Jones. And now we -- besides Power we have Sanitation and Gas included and I would like to read a final message to our investors that our company can make in the future. And I'm pretty certain of that, is a correct bet on your part, betting on our company. Thank you very much. Dr. Luiz Fernando, please.

Unidentified Speaker

We now give the floor to Dr. Luiz Fernando Rolla our Finance, Chief Financial Officer, Investor Relations and Holdings Controller of our company.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Good afternoon, everyone, thank you very much. I will see after better first stages given by Don Marcio Araujo de Lacerda, Chairman of the Board and Dr. Djalma Bastos de Moraes our CEO, where -- in which they described the main highlights and especially our expansion plans for the future. My participation here will be to talk about the strategy of the financial management of this company which in fact is one of the pillars of the sustainability of this company.

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We are going to begin by talking about the results coming from the holdings that we have in several companies. It was an extremely effective participation. We had the inclusion of the results compared with last year when we still hadn't included part of the assets from our other companies, thus showing the correctness of our decisions.

The acquisitions that we made are really value adding acquisitions. They are substantially contributing to the improvement of our results and it's exactly this our goal and we are aiming at the assets that -- we are seeking assets that they add value to the investments that we already perform. And by that we actually serve the needs of our investors. Just by way of an example, RME contributed within our participation of this company, around R\$1 billion of new revenues in the results of the nine first months of 2007 thus resulting in a profit increase of around R\$120 million, thus showing what I had already said that the contribution of these new assets has been effective and has been really adding value to our stockholders, our shareholders.

TBE performance has also been positive, we highlight the payment of R\$43 million in dividends received in the Third Quarter. Also, an asset that has an excellent performance and certainly is going to contribute more strongly even to -- or towards the value adding additional value to our shareholders.

Our next -- this slide shows the contribution of each one of the two companies, RME and TBE, together with the two main assets that we have, GT CEMIG and CEMIG D showing that they, in a consolidated way, we've had an extremely positive performance with very strong growth and growth rates above 20%, which goes to show again the correctness of the acquisitions that we've made. We serve more than 10 million consumers in all and in the consolidated -- we have almost 15,000 employees which makes us a large company, as mentioned by our CEO.

In this slide here you can see the contribution of each one of the businesses towards the general result. I call your attention that today our distributor company which was the largest, the majority in responsible for the results of the company, today only represents 54% with very strong growth of our generation and transmission company with an effective contribution of RME and TBE thus reaching values of figures that overcome or surpass the 10%. so it is important to us to highlight our business structure which we consider to be low-risk. We are an integrated company which makes an adequate risk management and it distributes adequately its returns in accordance with the risk offered by each business.

In the distributing company CEMIG D, we practically have the same contribution as our generation company. towards the total EBITDA today, 43% coming from the distributing

company, distributor and 42% of our generating company showing we are adequately managing our risks.

The growth also has had a strong -- has been firm and constant. You can see in the indicators here on this slide, that the growth has been very strong. I call your attention to the profit per share which practically doubled since 2003 reaching in the first nine months -- the accumulation of 12 months, R\$4 per share thus showing comparatively to 2003 a substantial growth. This is the commitment that we have with our shareholders in accordance with what was mentioned by our CEO. And this is reflected also in the payment of dividends which has reached very positive standards and very attractive standards to our investors in such a way that the return, the total return to shareholders set us the best expectations of the market.

Also, we have a special care with our credit quality. We are aiming at a risk classification that is even better. We have implemented some practices that contributed substantially towards the improvement of our risk ranking done by the agencies such as Fitch and Moody's [ph] as we announced in the Second Quarter we continue with our strategy to reduce our exposure to the exchange risk elongating the due date of such a debt and into the next few years,. Today only 12% of our debt is due in the first year and I remember that this year this figure was around 40% a few years ago therefore showing again, the correctness of our debt management.

We are capturing all of this trend to reduce interest rates. We changed the profile of our debt towards CDI indexation allowing to capture significantly such an interest rate reduction. You see the consolidated debt today offers indicators that are quite compatible with the level of risk ranking classification given by the rating agencies. And this shows that CEMIG is on the correct avenue and we are investing as shown by our CEO, Djalma Bastos de Moraes, we paid off the dividends and we maintained our debts at a level that send us to risk classification of over A.

As you can see in this slide you can see the change that we have had in the last nine months. The debt in September 2007 had a mean time of 3.8 years with a date due in the first year, around R\$2.315 billion or going over the 28% of the total debt and today we offer a profile with 4.5 years mean time and the date due in 2007, only R\$975 million. I call attention that for 2008 we have R\$609 million being payable of our debt showing an extremely comfortable and positive leeway for our company for the next year, which seems to be complicated because of the downsizing, or the reduction of liquidity of the international market. And we're going to have municipal elections throughout Brazil. And as you all know this brings a certain turbulence to the financial market.

Today the Bank of Brazil is our largest creditor, 24%, over surpassing even the financial market as measured by the debentures which today have 18% of our debt. Today our focus on the financial market, we try to finance ourselves and finance our projects in this market, from this market because we understand that this is the market that offers us better future alternatives. Therefore we are not -- we've been working with them. But given our credit quality, naturally our partners and investment banks have sought us and have helped us finance some projects especially in what has to do with acquisitions which are practically our biggest growth strategy.

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Our cash continues extremely strong. We are accumulating cash not only for the payment of dividends that we have to do by the end of the year. But to guarantee necessary resources to accommodate all of the investment programs that you saw. The CEO has showed very significant volumes of investments that we have made. But also acquisitions that we certainly by the end of next year we will seek to conclude. We are already had in a very significant value of accumulated resources, R\$2. billion. I remember that this number is consolidated, this figure is consolidated therefore included in cash, not only from CEMIG but also from Light, RME and TBE. But as you can see the addition of cash in the period of nine-month period was pretty strong, was very strong, growing over 20%.

Now let us talk about the results. And I am going to give the floor to Dr. Agostinho and he is going to talk about such results in very criterious and very detailed way so as to give you an exact perception of the origin of the fantastic results which was presented by our Chairman of the Board of profit that was very strong with a cash generation of R\$3 billion and Dr Agostinho, beginning now is going to show you the results.

Agostinho Faria Cardoso {BIO 20495015 <GO>}

Thank you, Dr. Luiz Fernando Rolla. Slide number 24 we can see the variation of net revenues reaching R\$7.619 billion in the nine first months of the year, very strong growth of 21%. First, propelled by our acquisitions in this increase of revenues of R\$1.681 billion given -- because of the sales to final consumers. More than R\$1 billion comes from the contribution of Light company to our results and the small reduction in the gas sales does not affect the results of Gasmig because Gasmig has a margin commitment clause in their contracts. Therefore the profits from Gasmig were not affected by this reduction which happened because of the smallest dispatch of the thermal plants of this year. Gasmig profit was R\$35 million as of the CEMIG parcel part [ph].

In the next slide we see the contribution of R\$1.323 billion were very impactful to increase our competitiveness. The profits grew by 32% relative to the previous year. That's reflecting the excellence of our operational performance with a significant reduction of personnel expenses and most of non-manageable costs is passed over to the carriers. So the distribution company.

Going to the operation expenses we see that they grew by 11%, always remembering that the operational revenue grew by 20% and the manageable expenses grew by 13% and we had a 10% that is we had a reduction of personnel expenses by 12%. Now, the manageable costs we had a growth of 13% and they bought the purchased power grew by 21% with a renewal of contracts through actions of distribution CEMIG and addition of Light to our consolidated results. Always remembering that these non-manageable costs, 85% are transferable to the tariffs.

In the next slide, 27, we highlight the excellent performance of our cash generation in the last four months, already coming closer to R\$4 billion. Given the natural evolution we are having we are going to deliver that which was we projected for which to reach an EBITDA at the end of the year of R\$33.8 billion or R\$4.1 billion higher. A more highlight is the sustainable growth of our margins reaching 40.7% in the Third Quarter this year.

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Talking a little about CEMIG generation and transmission, the variations of net revenues were up 17%, a growth -- very strong growth and are also driven by these sales to Argentina. And reaching by the end of this quarter R\$1.952 billion. Analyzing the variation of the net profits we saw the growth of 28% reaching a total of R\$626 million in the period from January to September this year with also a highlight to the reduction of personnel expenses in our generation transmission company. Sales analysis we saw an instability [ph] in the seasonality of generation transmission after a period of -- which happened again in January of 2005 with a performance of -- stable performance, sustained performance reaching a total of 8,136 gigawatt hour in the Third Quarter this year, an increase of 6.2%. Also driven by the commission of the Capim Branco plant this year and Irape plant commissioned in the second semester last year. So the result of nine months of this year of 2007.

The net revenues of CEMIG distribution reached 6%, R\$4.338 billion and 3% came from the sales increase, showing then that the performance of our consumers continues adhered to the strong development of the Minas Gerais economy.

Now evaluating the profit variations we see the growth of 28% reaching R\$707 million in the first nine months of this year. Once again, showing the importance of the reduction of operational expenses from R\$130 million -- by 1R\$130 million with the strong contribution of value added to the results of the company.

And lastly, in this graph of page number 34 we follow the evolution of total transported energy sold to the final consumers that are tied to our company and also to free customers located in Minas Gerais, the majority of them served by our CEMIG generation transmission. This transported energy grew by 13.5% relative to the same time -- 3.5% that is, relative to the same. And GT CEMIG grew by 29 -- 2.9% in the same period.

I will now give the floor to Dr. Marcio Araujo de Lacerda, Chairman of the Board, to conclude our presentation.

Marcio Araujo de Lacerda {BIO 15840099 <GO>}

Well ladies and gentlemen, in order to conclude I would like to highlight the very strong trend towards the sustainability in the mid-range of the main indicators. We have seen here that the net profits grew by 16% relative to the pace in the first three quarters of 2003. EBITDA, the same basis grew by 25% and a market value by the end of the Third Quarter 2007 relative to 2002, we went from a R\$4 billion -- we have millions here but R\$4.078 billion in 2002 to R\$19,070 billion, we have the corresponding value in U.S. dollars. But this commitment to growth and value adding together with implementation of the strategic plan resulted in the recognition by the market as expressed in the valuing of our shares.

We are consolidating our national leadership such as shown by this map and also the graph, the table. CEMIG has guaranteed 9,606 gigawatt hours in new contracts with 38 distributing companies. And the table shows that we are distributing now, 42,940

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gigawatt hours, third-generation basis of 6,684 megawatts and a basic accumulation of 10,373 kilometers.

In conclusion then, these results once again reflect the fundamentals and the long-term view. We have reached total assets of R\$25.5 billion, net assets of R\$8.9 billion, consolidated debt R\$7.6 billion and our net revenues, consolidated net revenues at the end of the Third Quarter of R\$7.6 billion.

The main principles are in practice, are demonstrating the structuring of the company geared towards the consolidation of the electric industry, operational excellence aligned to the reduction of costs and the principles of the master plan and strategic plan define investments by their added value, as highlighted by Dr. Rolla. Risk management and a responsible risk management giving first stability and reliability to the processes and the company, the business that is constantly evolving. And financial management always focusing on improvement of cost reduction and improvement of the credit quality. And the bylaws ensure governance and stability as well known by the market and the shareholders. Finally, generating a commitment to the return to the investors.

Thank you very much.

Unidentified Speaker

We will now begin the question-and-answer session.

Questions And Answers

Operator

(Operator Instructions). We will now begin then our Q&A session answering two initial questions that were addressed to us over the Internet, Dr. (inaudible), please?

Q - Unidentified Participant

Dr. Lorro [ph] (inaudible). When do you schedule the repowering of the plants when the project is going to begin?

A - Unidentified Speaker

Previously, Lorro, we -- CEMIG is already doing this, not at the desired speed. What we took to the Ministry of Mines & Energy was the possibility to launch a large, national project, financed project so that we can add a considerable quantity of megawatts to the system, the existing system and we have a certain number of megawatts, there is another number of megawatts a potential of Y megawatts in the country. But we are already doing some things on our own. But we would like the ministry to buy this idea, to finance that not only at the state but also at the national level. We have no forecasted, Dr. Hoodman [ph] liked the idea and he decided to study it and give us an answer.

Second question is going to be answered by Luiz Fernando Rolla.

A question was asked by Atioclos Mirelle [ph], he's a stockholder and he refers to the change in the methodology of the distribution of dividends, claiming [ph] that the dividends should be distributed within the fiscal year.

We have a dividend policy that was established some time ago, some years ago and it's in our bylaws, providing for the payment of dividends in the fiscal year. Now, the previous fiscal year, in the next fiscal year, in two installments the first one in June and the other one in December. The first one, the first installment 2007 was paid in June 2007 and now in December we are going to pay the last installment as announced, something around almost R\$600 million.

This policy is adequate or is -- it fits our master plan, our strategic plan which forecasts an ambitious investment volume therefore the demand for cash pressure that is quite strong. We always are trying to serve our stockholders well. But at times -- at the present time having to deal with the investments that we make, not only acquisitions but also some other commitments especially in our distributor company, because of the concession contract for the UNIVUS sanitation [ph] of electric power and our concessionaire. This demands very large volume of resources so in order to change that we would have to pay two dividends per year in one year and this would demand an exceeding effort in terms of cash flow, not compatible with the present investments time. We believe, the management of the company believes that with the investments that we're making we are adding value as we demonstrated in our results and this is of the interest of our stockholder.

So as soon as the opportunity arises we will be able to answer -- or to follow your suggestion.

Operator

Our next question comes from Pedro Batista from Pactual.

Q - Pedro Batista {BIO 1832281 <GO>}

Good afternoon, everyone. I have two questions. One is about the CapEx of the company. The company's budget has a CapEx of R\$1.4 billion, up until now, the Third Quarter the company announced the investments around R\$880 million. So I would like to know whether this 1.4 figure is for the year, would be feasible yet or whether you are going to fall short of what the company had been announcing.

From what you can see those investments, the small investments, apparently smaller than what was budgeted for -- especially because we don't have the breakdown in this quarter. But especially in terms of generation and transmission. And also distribution. I would like to understand that.

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Second point has to do with strategy more, of the company. And the strategy of sales of power and investments, today we see the spot price in Brazil is at R\$200, it's a complicated scenario for thermal plants, especially natural gas and electric power. Consumption has grown and the spot price doesn't seem to be too different from what we see now. So given that the company has a strong batch of higher contracted energy beginning in 2010 and 2011, when is the company expect to be the best timing to negotiate this batch of energy, of power, seeing that in the free market, contracts begin in this date, go over R\$140 per kilowatt hour. Related to that, I see the Madeira project is 122 maximum price. So what do you see as a long-term priced energy for Brazil and how is this going to affect your sales strategy because of the spot prices that we see today?

And to finish I would like for you to speak a little about the company's intention to invest in Madeira Partners. And what kind of attitudes have you to do with the auction? That's it, thank you very much.

A - Unidentified Speaker

I am going to begin answering you Pedro. And then our CEO will add his comments and I'll ask Dr. Bernardo to answer this question relative to prices, especially in the spot market, as mentioned by you.

Now, as for the investment program we have -- our performance has been a little delayed vis-a-vis what was forecast in our 2007 budget, especially probably we're not going to be able to go 100% of this R\$1.4 billion but our scheduled strategy was to hold on the investments. That we are involved in a few transactions of acquisition and we are therefore accumulating our necessary cash so we had to postpone what was possible to postpone in the execution for 2007. But those are projects that aren't necessary, they are simply being in a reprogrammed, rescheduled and probably they are going to return in the 2008 budget. Therefore this additional gain that we are going to have in cash is going to contribute for us to have additional resources to participate in the acquisition processes that we have ahead of us.

Now, as for the Madeira, I will ask the CEO Djalma Bastos de Moraes to respond.

A - Djalma Bastos de Moraes {BIO 2089645 <GO>}

We -- previous to that we are going to give Dr. Rolla about the participation of CEMIG in the Rio Madeira project.

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

Corroborating your question we understand that you want to know what is the best time to begin the recontracting of our generator energy power, after 2010 and 2011 considering that the spot prices are so high. Dr. Bernardo, our Commercial Director is going to answer that.

A - Bernardo Afonso Salomao de Alvarenga {BIO 20057432 <GO>}

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Good afternoon, Pedro. Really it's an immense doubt having to do with recontracting the power. On the other hand, we have all the tools that we have in the house. We have risk management tools of our power sales and we have to work within the focus, that is an important focus, because the PLD issued today we have to see that by the end of the year we had a PLD of around R\$70, now the average for 2007 is R\$64, R\$65, close to R\$70.

So at any rate you can have risk revenues according to our analysis given by our tools. So therefore you can miss out on an opportunity to have a high PLD if you don't sell, you may have failed to sell at a PLD that PLD -- but if you don't sell the PLD may fall to a minimum so you don't sell. So there is a strategy of the company and the sales of power. Some has been recontracted at market prices and on the other hand we may have tried a different shade of strategies. For example, you can sell 2010 and the power or rather selling a little for 2014 and 2015 when you have pre-contracting of the pole [ph]. So you can have a large or big offer of pre-contracted energy. So it's a whole set of variables that are in this issue together.

We have internal tools in order to avoid place revenues at risk and mitigate the risk of CEMIG generating company. Thank you very much we will now give the floor to Dr. Djalma Bastos de Moraes for his comments about investment opportunities the Madeira River project.

A - Djalma Bastos de Moraes {BIO 2089645 <GO>}

We are together with Furnas trying to make feasible the participation of our company within the parameters [ph] quoted and based on the last figures about tariff revenues we are running a model. And for the time being we see a good opportunity for us. I would like to restate to our stockholders that there is a strong commitment on our part not to go into indentures. But for the time being the project, the Madeira project is for us, still a good investment. We are going to have in the next few days a final model. We are going to take it to the Board, there is a definition for the return on the part of the Board and we are going to be together with Furnas evidently, in this holding, for the time being. Therefore it is a good investment for CEMIG.

Q - Pedro Batista {BIO 1832281 <GO>}

Is it 10% or is there any change in terms of the figures?

A - Unidentified Speaker

Yes. But can you repeat your question we didn't hear it well?

Q - Pedro Batista {BIO 1832281 <GO>}

Certainly. About your participation, the potential participation of CEMIG in the consortia is limited to something around 10% or is it a different figure?

A - Unidentified Speaker

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You even know more about our definitions than we ourselves. There is a willingness of ours to be within the 10% range trying to go even to 12% but for the time being we have not made any official decision, it's only conversation. And there is a consent on the part of Furnas (inaudible) that we participate within this range, percentage.

Q - Pedro Batista {BIO 1832281 <GO>}

Thank you. Just to add, an issue that has to do with my previous question about recontracting. In spite of naturally the spot prices, very volatile price and in Brazil it's a long-term fixation. But now, talking to some customers and some other people we begin to see contracts on the fair market beginning in 2010 that are beyond R\$140 per kilowatt hour, is this the type of figure that CEMIG has in mind also?

For transaction potential in a free power market begin 2010 for five, ten years, less. And is this a reasonable value or is it too far from what the company is envisioning?

A - Unidentified Speaker

The market, that's the way it behaves, that is we have to check whether there is offers in time and things might change. And price can be priced for the period of 2008 to 2012, different from the price beginning to 2013. So we're following this closely.

We -- our sales are all at market prices and the 2010 price may not be the same price for 2013. So much so that Madeira is at 122. But you may rest assured that we will be selling at the market price or even better because CEMIG can because of the CEMIG brand to add a little more to that company.

Q - Pedro Batista {BIO 1832281 <GO>}

Thank you very much.

Operator

Our next question comes from Morgan Stanley Bank.

Q - Unidentified Participant

Good morning, everyone, I will have a few quick questions. First one has to do with the results of the Third Quarter, you had a very good one in generation because of the sales to Argentina. Something that we can expect for the Fourth Quarter too?

Second point has to do with this issue that was mentioned by you, Luiz Fernando, the opportunity of acquiring in the short term, that you are envisioning you are basically waiting for cash to go into those projects. Would this be something that the size could make you reduce the amount of dividends. But the total amount of dividends to be paid in the fiscal year 2007 compared to the history of the background of two, three years.

Point number three has to do with the Madeira River, in this price you're saying that is something interesting and that the return is interesting. Are you maintaining the level of

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return that you were envisioning, let's say, till the beginning of the -- for the beginning of the year because of the things that happened? Not only because of thermals and the auctions. And the highway building and so on, are you looking at the return that might be smaller because of your present market conditions or are you keeping within that level that you considered a year ago or at the beginning of the year?

And just to conclude, you are going to participate ex [ph] in the Madeira River consortia, I don't know if you can publicize that, or go into this level of detail but is there any kind of clause that makes you, at a certain level of price, leave the consortium and make the Furnas continues in the bidding process?

A - Djalma Bastos de Moraes {BIO 2089645 <GO>}

Well I am asking Dr. Rolla to begin by the last question.

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

It is necessary to understand something that is slightly different about Madeira vis-a-vis the other hydroelectric enterprises in Brazil. The water regime, the insured energy for Madea is slightly different, basically it is larger, using the rain regime and this gives a differential to the tariff regime and that's why the -- when the government established 132, took that into account. Looking at the model of the water in the river we -- and the tariffs, we considered that still as a feasible project for us. Obviously when we talked to Furnas and we talked to the Odebrecht and Eletrobras we placed ourselves as suitors to the said, 10% or 12%. But all of that subordinated the final decision of our Board. Obviously, as we see in the next few days that it's not feasible to us, if it is not feasible to us in accordance to the objectives set by the Board evidently we are going to leave. But for the time being we intend to continue and even go beyond 10 to slightly more in this participation.

Dr. Bernardo can you please answer the sales to Argentina.

A - Bernardo Afonso Salomao de Alvarenga {BIO 20057432 <GO>}

Sales to Argentina, we want to sell. It will depend on whether they want to buy it. If they need power we are going to sell it to them, we'll continue selling it to them. This depends on their needs, Argentina needs in the Fourth Quarter, also Uruguay. When we export it, we export it part to Argentina and part to Uruguay.

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

Now as for the dividends we have a clause in our bylaws that guarantees at least 50% of net profits as dividends. And this commitment is a rigid commitment, a stiff one on the part of the company and it is connected to other relevant issues in the company. We have no intention whatsoever to change such a policy. We understand that it serves the longings of our shareholders and allows the company to grow sustainably without going into debt to pay off the dividends. Therefore we continue this policy in a stable manner, in the long-term.

Now, what I mentioned was that excess cash that we might perceive, you might perceive in our results, it comes from this accumulation of cash aiming already at not only the payment of dividends but also some acquisitions that we will be engaged in until the end of the year. Therefore, we refer to that parcel of excess cash that we can pay -- that could pay us extraordinary dividends as we did in 2006. But because of this cash needs we are not going to do that in 2007.

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Q - Unidentified Participant

Just to conclude, Luiz Fernando, in this participating that you have in a Light and a consortium, if by chance one of the partners decides to leave do you have an interest in acquiring or increasing your participation, your holdings in the Light company?

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

Certainly.

Q - Unidentified Participant

And just an additional clarification, as for the Madeira River, in the hypothesis that in the middle of a bidding process, if there is a strong competition to make the price go below 122, do you have a minimum limit to go into this? Talking about hypothetically, 115 or -- and the bidding process, even if the competition itself make the price go below 115 is there a possibility of you pulling out of the consortium and leave only Furnas and Odebrecht in the process? This is what the question has to do with.

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

Now, the Madeira process will depend first on the rates established by the Board, first to continue. If at a certain time during the competition we see that we are -- have to fall short of the rates established by our Board, we will return to the Board and if the Board allows us we will continue or we will pull out. Is that correct, Dr. Zecaoas [ph]? Dr. Zecaoas is our Director in the area of new business and we are tuned into that direction. It will depend upon what our Board defines.

As for the previous question may be I have been a little economic in my answers but CEMIG is, with Light, making feasible a long-term enterprise. We are not there as a better in a financial market. We are as a long-term investor in the absolute certainty that it will add value to the company and to our stockholders, any of the partners that we have, the reference rights, if any partner decides to sell off their rights we will be a strong competitor to buy and buy that.

Q - Unidentified Participant

I have some other --. All have been answered thank you very (inaudible).

A - Unidentified Speaker

We have some other questions, coming in over the Internet and then we have some of those questions that have already been answered but some have not. Cristian Partacelli

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[ph] from (inaudible) Investimentos who would like to know about the definition of the Madeira River? I think that our CEO has already answered fully and clearly all of those issues. He asks some comment about Brasiliana. Brasiliana is still in (inaudible) queue, what is the question, some comment about Brasiliana --.

It's a good enterprise, good venture. We evidently -- maybe this is the largest available asset in this country and Dr. Zecaoas and myself have been working together with Dr. Rolla to make feasible or to be present in this auction. But we are together with Djalma de Moraes, Dr. Rolla and Dr. Zecaoas are making feasible maybe a third partner in this enterprise. We are registered and we are going to participate, obviously within the objectives of profitability as such as defined by our Board, here represented by our Chairman, Dr. Marcio de Lacerda.

Tomorrow we are going to have to take a trip in terms of this Brasiliana focus and we are waiting for the final decisions and we are ready to make an offer.

He also requested a comment about a possible privatization of Cespi [ph].

As this is incipient and a process that is complicated to answer, to say anything in this action as yet. Even though we know that there is specific legislation in the State of Sao Paulo that prevents us from proposing any private acquisitions such as this.

Electropaulo when it was privatized there was legislation in the State of San Paolo preventing state-owned companies to participate. At the time of the (inaudible) we appealed this decision and it's in the court, in the Supreme Court. And we expect this definition to be ready and elaborated at the time of a possible bid for these assets or sale of these assets on the part of the State of San Paolo and if it is defined by the Board we are going to participate as well.

Operator

Thank you very much, we have more questions coming in. Our next question comes from Marcus Sequeira from Deutsche Bank.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Good afternoon, everyone. Only two questions. You have interest to participate in relevant projects and coal. And what do you think of the results of the last auction in terms of price? Do you think that coal is attractive in Brazil?

And the second question, having to do with the initiative of cost reduction, which was mentioned in the past. Do you have any idea or a more precise idea where these initiatives are concentrated and what are their impact, expected impact for the company?

Would you answer the first question, Dr. Djalma

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A - Djalma Bastos de Moraes {BIO 2089645 <GO>}

The first seems to be that the participation in these projects of course, we will participate in projects that add value to our company and that are profitable within the return rates as defined by the Board. Two years ago, more or less, we studied a possible project in Rio Grande Del Sol, using a type of coal that was found, that can be found there. But at that time coal was not good quality and we sort of postponed the project but today maybe it becomes a profitable project with imported coal and we're going to participate if there is an auction within the conditions as established by the Board.

A - Unidentified Speaker

With a focus on the possibility of not neglecting any offer of business that might exist. We cannot lose our sight, loose sight in the location of CEMIG in terms of sustainability. But it is an option depending on the need of the country that the country goes through, not to move away from such a possibility.

Your question about a cost reduction, Marcus, we have been working, you may have noticed that in our results that we had some items, some major items, a reduction of costs. Unfortunately it's not as visible because of the inclusion and consolidation of results of Light company. Therefore the comparison with 2006 is a little harmed, let's put it that way but by determination of our CEO we have already begun a process of cost reduction throughout the companies that we manage and which are going to resolve any benefits beginning in 2008 already. This is the guideline that was given us by our CEO and we are trying to meet this requirement.

We are already hiring a consultancy firm and as soon as this process is over we're going to begin working on it. Such a request also was due to a request from our Governor wanting to make feasible such a reduction of costs in the company. We took over the process, we have hired a company, an external company, it's not a consultant and we're going to have reflections next year, possibly. Is that correct Dr. (inaudible)?

Q - Marcus Sequeira {BIO 4622700 <GO>}

Thank you very much.

A - Unidentified Speaker

Thank you, Marcus. Can we move on to the next question, please?

Operator

Our next question comes from Marcelo Lebretsu [ph] from Bradesco.

Q - Unidentified Participant

Good morning, everyone. My question has to do with the program and the acquisition plan. We understand that CESPI has trouble that is difficult to process, it should happen but because of the legislation in the State of San Paolo, CEMIG participation may be limited. However, you have Brasiliana. And Madeira. We observe your balance sheet and

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your leverage possibilities and we see that there is still room, even though limited, to place new investments in there. And my question is, how do you intend to work out financial strategy for the acquisition program if that's naturally is limited, do you imagine following some process of increasing your capital and if there is the controlling stockholder has said no, that you could increase the capital to support your acquisitions? And in this case what would be the relation of EBITDA that you would consider comfortable after the acquisition?

A - Unidentified Speaker

Marcelo, this is a challenge that was imposed by the company to the financial managers and they are trying therefore to find financing for those acquisitions in a way that we can vis-a-vis the restrictions that we have on needs and the minimal requirements that allow no maintenance of the quality of credit of the company. Of course, as President Djalma was mentioned, the volume of the dimension of such acquisitions is quite impressive, not so much because of Madeira which is for the next five, six years but especially those more relevant, existing assets. A position which represents cash expenditures that is immediate. So our CEO has mentioned that so we are trying to find partners. This implies the reduction of a need to come up with our own cash in large amounts and so that we can make that fit our own reality.

They are also trying to find or to use a lower leverage on the company by acquiring more debt and by means of that strategy we are certain that we are going to be able to make competitive proposition to the assets that are being offered. This is a strategy that is quite creative, we are engaged in and we are certain that it is going to result in a very attractive proposal.

Q - Unidentified Participant

What numbers would you consider to be comfortable after the acquisition?

A - Unidentified Speaker

We have done simulations, obviously considering the size of the investment here our CEO has mentioned that we have already a partner and we're looking for a third one and we believe that the percentage of a third of the total investment is a figure that we can deal with, without much problem. With that for EBIT this seems to be the priority, as the CEO mentioned it is an asset, strategic asset we cannot, in no way be out, leave this opportunity.

Operator

There is another question. The next question comes from Felipe Matta [ph], Citigroup.

Q - Unidentified Participant

Good morning, everyone. Prior to anything I would like to congratulate the company for this quarter results, very solid, major cash flow and I have three questions and follow-ups that have already discussed. To understand some points more, better, let us begin with Brasileira. I have two questions about Brasileira. First, I would like to understand what has

just been discussed. Where the company sees the great potential or great competitive advantage relative to a probable bid by AASCorp [ph] that you believe that eventually for -- because of the synergy Light and are the CEMIG distribution you are in, could increase significantly the value of the asset or you see that as a point of competitiveness the marginal cost of the buyer's capital? I would like to understand where the company believes that it can compete with a possible bid by AASCorp?

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And the second question is, on possible acquisitions by a consortium increasing the total of the acquisition value if CEMIG would have a preference for one of the two assets? Be it Eletropaulo has no problem whether CEMIG objective was to keep within a certain degree of integration and then possible to have participation in the two companies in case a third party, other than AASCorp with CEMIG's participation by Brasiliana?

My other question has to do with Madeira River, I would like to understand a little better, maybe even my understanding of what Djalma has said, it doesn't have a decision that is yet solid made. But if you look at this project you have an interest. And the company has been reasonably vocal about what it expects from the project. You have observed -- we have heard from you that you are really in at 14%, 15% which is in line with your recent history of investment. But on the other hand we see because of the global liquidity of the capital markets and obviously the reduction of Brazil risk, of Brazil potentially going to an investment grade scenario next year we have heard some people talking about infill projects around 10%, 11%. And what we saw in the transmission line yesterday, infill are with the risk, a smaller risk, it could be around 8%, 9%. So I would like to understand what that there is that is defined by CEMIG and minimally below the traditional 14, 15 to reflect improvement on the economic scenario in Brazil, how you look at it?

Finally, in the recontracting power for the next few years, in fact what we see there also in the follow-up to the other questions the scenario for 2010 and 2011 and possibly to 2012. What we see beginning 2012 and 2013 if the Federal Government, it's a better scenario with an increase of gas offer by Petrobras, structured projects talking about San Antonio [ph] coming in beginning 2013. And a total inventory for the first semester of 2009 leading to auctions in 2010 for effective delivery in 2014. Not to mention, the due on the regulated markets in 2011 and 2012 showing that the scenario beginning there could be even better in terms of price pressure. So within this context I have two questions, first, is whether you, in these contracts that you are signing for 2010 and 2011. And if this is a scenario where you are being able to lock up these contracts for longer periods than two years? And within that if you are already beginning to feel the movements of free customers migrating towards the regulated market on the perception that the prices on a regulated market may be lower than the ones that are offered by generators on the free markets? I apologize for the long questions.

A - Unidentified Speaker

Several questions that are long and several. Well Felipe, Brasiliana problem for us is strategic. Eight years ago when Governor (inaudible) took power he requested the company to grow. We did not have in these years great auctions of generation and transmission. Some transmission auctions we lost but others -- but we acquired the assets of TBE which placed us on a level that we always had an approximately 6% to 7% in the transmission, in the country. So to be in Brasiliana is a strategic problem, it's a definition of

our Governor. Though we should grow we're going to be in it, we're going to go to Saint Antonio as well and probably, if all runs well, also Geraldi [ph].

This is a situation of growth and a situation it's an important situation to us, we cannot be outside of this growth process. The Brasiliana asset is very important, I know that certain companies would have more synergy than ours because of their proximity and closeness and even because of their business portfolio. But we are in Brasiliana in the sense that we want to grow and add value to our company and get the good profitability that our shareholder expects. Dr. Djalma would you like to add?

A - Djalma Bastos de Moraes {BIO 2089645 <GO>}

Well as for the issue of sales of power beginning 2013, actually this is what I have said that is, we have different scenarios for the mid and short terms and for the long-term. It is actually all of the enterprises that you mentioned if they are really feasible we are going to have a large power beginning 2014, 2015. So we have to work within these parameters and put our strategies together so that we can guarantee the best possible solution for CEMIG. And it is in this manner that we have been working, now the present situation may help us solve the problem, (inaudible) problem in the future and vice versa so we've been working along strategies with our customers, long-term strategies. And customers trust CEMIG in terms of supply within market logic, that is in affect today.

So as for the customer going from gas -- to regulated to free customer, all the reference that we have and context, they want to continue free, they would change only to the regulated environment in a possible shortage of power. But higher prices means there is a shortage so if the customer was to continue free he knows there is variation in the free market, it is mature. And the customer knows that there are periods of lower prices at the distributor and higher prices and they will sail along these waters understanding this very well. And knowing that there isn't partners and so I more express it now, I will jump over to the other side.

So on this next phase, this making a market, not very consolidated therefore this is not what happens though. So the possibility of customers sometimes being served by a distributor because they cannot find energy on the free market if they can find a distributor that can serve and supply the energy this is one way to meet the needs of that customer.

Now as Felipe, for the other questions. You have to agree with us that we are in a process of competition. We are going to have an auction that is going to be held at the end of the year and that in spite of all our attitude of transparency some topics cannot be disclosed or at least cannot be commented on. And that -- but after the auction once we have already won the auction we are going to be very transparent, we'll show all of the potential that you are asking about now which unfortunately because of this competitive process we cannot disclose.

The same thing goes for Madeira River, we are competing for it. We are within an auction process, a bidding process and any big information, any kind of information, increased information may be harmful to the company therefore we apologize for not answering

directly the questions that you posed us. But we already make a commitment that once we win this bidding process we are going to very transparently report on what happened and show you what the prospective are that we have for this investment to add value to the company. Unfortunately we are already because of time pressure, quite late, almost 1.30 so we have 1.5 hours the conference call, unfortunately but (inaudible) Dr. Djalma have other commitments so we are going to close this conference call now.

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The questions that remained unanswered are going to be answered by our investor relations area through either telephone contacts or over the Internet, whatever the source of the question is and certainly you will not be left without answers. The remaining questions that have not been asked may be asked also by email and we are going to answer all of them. In order to conclude I give the floor to Dr. Marcio Araujo de Lacerda for his final considerations.

A - Marcio Araujo de Lacerda {BIO 15840099 <GO>}

I would like on behalf of the Board and our stockholder, our shareholder, our biggest shareholder the State of Minas Gerais to thank you for your participation and ensure you once again, a guarantee to the market that the guidance from the Government of the State is that of -- the guidelines is that of keeping the management of this company as professional as possible, as has been since the beginning of the first term. I thank you very much.

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