

## Q2 2006 Earnings Call

### Company Participants

- Augustin Cardoza Silva, Advisor to the Finance Director
- Djalma Bastos De Moraes, CEO
- Flavio Decat De Moura, Director of Investor Relations
- Luiz Fernando Rolla, IR
- Wilson Brumer, Chairman

### Other Participants

- Gustavo Gattass, Analyst
- Pedro Bajista, Analyst
- Unidentified Company Speaker
- Unidentified Corporate Representative
- Unidentified Speaker

### Presentation

#### Luiz Fernando Rolla {BIO 1852035 <GO>}

Mr. (Augustin Cardoza Silva) who is advisor to the Financial Director, who is under executive training in investor relations in the (Aztec) session. You may follow our teleconference today through our video webcast by going to [www.cemig.invest.com.br](http://www.cemig.invest.com.br), or on the phone 11 4 688 63 01. For the Q&A session Portuguese access should be over the telephone 4688 63 01. And for English [i@cemig.com.br](mailto:i@cemig.com.br), later when we begin the Q&A session we are going to repeat this information.

Our presentation this morning will cover the following topics; our strategies, our results, which will be given by our Chairman of the Board, Wilson Brumer. Business perspectives, which will be conducted by Djalma Bastos de Moraes. Financial management by Flavio Decat de Moura. And analysis of results given by myself and by Mr. Augustin Cardoza Silva.

I give the floor, therefore, to the Chairman of the Board of CEMIG, Wilson Nelio Brumer.

#### Wilson Brumer {BIO 1524504 <GO>}

(Translated). Good morning, everyone. And once again I am very pleased to be here with you, all the Board and the Directors -- Executive Directors (administration) to the back, with analysts and investors, the results of the Company. Certainly the results this quarter have not been what we would like them to have been, as compared with the last year. But

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we understand that they suffered an impact of non-returning factors. And within the Company strategy we're going to try to explain them.

In the First Quarter 2006 our net income was BRL665m-BRL0.410 cents per lot of 1000 shares, this represents, as compared to same time last year. 36% decline. And EBIT decreased by 29%, some non-recurring factors. I would call your attention, not to try to justify. But the year 2005 had the -- a non-recurrent factor of (inaudible) for adjustments of BRL583 million and that deducted from last year would have had a reflection. As compared to this year the share would be our last bad result then, as shown.

But a point I'd like to call attention to. And maybe it's more impactful this year, is the investment that we decided, both the Board and the Administration, to buy the salaried bonus increase of employees. This has an effect in terms of an -- it's a negative impact, as we recognize this value at a single stroke in our results. But we understand that this should be seen, this is the way we see it here among us, as an investment that we're making so as to more and more take from our roll -- payroll things that are related to productivity and efficiency -- managerial efficiency. And this comes from our history, the salary bonus. There was a negotiation with the union and several employees and we concluded this deal, hence the impact of this negotiation upon our quarter results.

Soon afterwards I'd like to make some comments that, in spite of the results not having been as compatible with what we would like them to have been, we understand that the fundamentals that we've been working the same, these are still the same. And there's some points I'd like to call attention to.

First, to the sustainable growth that we are seeking to try and set up the company. This is characterized by the acquisition of the control of Light SA from a consortium in which we have 25% ownership. The acquisition of the stakeholding of the Schahin Group, five transmission companies, in partnership with private investors. Also, the beginning of operations of our Irape and Capim Branco plants.

As for acquisitions, they are in the final phase of conclusion. I'm going to talk about them soon. And I'd like to call attention to a point which I think is important. We concluded already in this month of July the sales of Way, which was a company controlled by Infovias in which CEMIG had 100% control, And this sale there was carried out with a surplus, is going to represent to CEMIG through (InfoWays) BRL91m.

And there we call attention to a point that, understand, is important in terms of resources coming in and this means almost half of what we're going to pay for our participation in the Light company which shows the focus we're going to give our business. Certainly a -- Way, in the hands of the new buyer, is going to be able to grow and focus its business well. Certainly with the Info -- (inaudible) (InfoWays) maybe to give away all of its potential. And we, at CEMIG, are focusing on our business better.

Also I call attention to the sales of generation at the mean price of BRL155 -- BRL125 per megawatt, for a 30 year contract. And we sold 355 megawatts average. Our Irape plans

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and our (inaudible) plans (inaudible). So I think it was an important sale. The results we reached -- prices we reached were the highest that we reached at the auction.

During this quarter our sales grew by 4.7% to final consumers, compatible with the growth of the economy in the state. Our sales to other utilities as the Initial Contracts expired, we had a growth of 17% in our net revenues. Network revenues, relative to the first half of 2005. And I'd call attention that during this semester we actually had 290,000 new consumers -- customers. This is consolidated results of CEMIG generation, distribution and generation and the other main business of the Company. And we observe that in the total number of companies today in which we have a partner share, we have only a small problem in terms of EBITDA in Pai Joaquim plant in efficiency. And then the Holding. But all of the other Company activities are profitable.

As for acquisitions in terms of TBE ANEEL has already approved our acquisition. And the BNDES approval is already ongoing. At the end of this month we're going to have an approval. CADE is also moving forward. Electrobras placed no restrictions. One of our partners in this acquisition, which is Brascan, is dependent upon approval of the (alienation) of their PCH in Proinfa and as we sold this (inaudible) business we -- at the end of August, beginning of September, we should close that deal.

And as for Light, we had all the level of approval already concluded. Light Company will have a stockholder assembly tomorrow in which we will close the deal as well as approving the new Board and taking -- making the final decisions that we need. So that beginning Friday the consortium that actually acquired Light can implement a series of actions that we have been studying in this period, that preceded the acquisition. So it took slightly longer in terms of the approval of the several agencies, both in France and in Brazil. And RME, which is the holding company that is going to control Light, took the opportunity to know more about the Company, discuss future strategies or what were going to be implemented there. And this time was also very useful to us, because we knew the company better and so as to perfect the decisions that we have to make. And that the new consortium will be able to know the company very closely. And certainly this will speed up the process of change that needs to be implemented.

These were my own considerations. Then I give the floor, once again, to Rolla.

**Luiz Fernando Rolla** {BIO 1852035 <GO>}

(Translated). Now, our next speaker will talk about outlooks and generation. That transmission is going to be presented by our CEO, Djalma Bastos de Moraes.

**Djalma Bastos De Moraes** {BIO 2089645 <GO>}

(Translated). Good morning, everyone. I have it in mind that we are, all the Board and the Administration, always enthused with the idea of meeting all of our business plan and fulfilling our business plan. And work always to be able to always speed up for our stockholders that which we had predicted.

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I'd like to -- before going into the outlooks for the business, I'd like to talk about the salary bonus purchase that Dr. Brumer referred to. And which ended up by not making feasible that which we had forecast in our revenues, in our profits. Now, the salary bonus acquisition was considered as a business. It was analyzed by the Company's organs as a good business for the Company. We had in the region approximately 85% of employees and, what's most important, every employee admitted into the Company beginning now will now have this salary bonus. Therefore this business certainly is going to give us great benefit in the mid and long run.

Our First Quarter sales and the first semester grew by approximately 20% vis-a-vis 2005 same period, with a highlight to the supply in which we had 856%. This, for the Wholesale, because we're selling to the -- all other utilities and distributors which did not happen in 2005. So we have a total of -- in 2006, relative to 2005, a variation of approximately 29%, which gives us the sensation of having fulfilled our duty in what has to do with this kind of business.

Consolidated CEMIG in the last six quarters, previous six quarters. In our six quarters we had a variation -- good variation. This reflects the Wholesale area allowed us in the First Quarter 2006. And Second Quarter 2006 to have this variation of 11,874 gigawatt hours and 12,458 in Second Quarter.

In the -- on the right hand side I have a comparison chart. The sale in Second Quarter compared to all previous First Quarters beginning 2002, had this good variation in other first halves, year-on-year halves in 2002 had approximately 17,5 -- 17,652 (sic " see documentation). And 24,332 in 2006.

Now we're expanding our generation capacity by 455 megawatts in 2006 and we started operating Irape and Capim Branco. And we already trade in Irape. There was a sale -- (inaudible) from Irape. There was a problem with the DA office. We began -- beginning now our operations. Tuesday will be the Brazilian signing of Baguari contract of 140 megawatts. We are already the fifth largest generating company in Brazil (inaudible).

In the second power auction we have our prices the maximum as allowed by the auction rules. And a total of 355 megawatts, the second energy auction. 355 megawatts, 21.11% of the power negotiated at the auction, mean price BRL125.48. The total energy negotiated in the auction 1,682 megawatts, on average.

The regional distributional sales; we continue a great supplier of energy for Minas, will be an installed capacity of 6,338 megawatts and 8,463 gigawatt hours (inaudible) with 55 megawatts distributing. Within Espirito Santo and the remainder of the country, our investor customers in Rio 149 gigawatts, 4 industrial customers in Sao Paulo, 874 gigawatts. Of our PCH in Santa Catarina, 10 megawatts. And industrial customers with 16 gigawatts in Rio Grande do Sul.

The distribution outlooks, as you have already seen, we had approximately 7% of transmission in the country, which feel to 4%. And we are now reaching back to 7%. We supply 96% of the needs of the state of Minas Gerais. And we serve a construction area

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larger than any European country, 567,000 square kilometers, more than 5,000 cities and towns. And our concession should expire in 2016 and it can be postponed for a further 20 years in the next tariff revision in 2008.

Our investment programs with a subtotal of approximately BRL1.399 billion as opposed to BRL1.2b. And something, 2005. Now you add the acquisition of Light, \$80m, TBE 21% BRL344m. We have an investment forecast for 2006 of BRL1.127b. In the Second Quarter. And in the second semester BRL658 million and the forecast for 2008 BRL1.531b.

An important program is Light for All. (inaudible) even though we have 94,000 consumers, we are reaching the base of 100,000, we had information from the Ministry yesterday that the new customers, consumers in the rural area, which today add up to almost 100,000 more than what was originally predicted, should also have a financing like what we did until now with the 176,000 consumers. This is a program that should continue by determination of the legislature. And we would also want to continue on our own. Everything indicates that we're going to have the necessary investments to make the program feasible in a perpetual manner.

This is what we had to present in terms of a business perspective. I give the floor now back to Dr. Rolla.

### **Luiz Fernando Rolla** {BIO 1852035 <GO>}

(Translated). Thank you, Mr. President. Now we're going to talk about the financial management, strictly speaking. And this is going to be presented by Dr. Flavio Decat, our Director of Investor Relations.

### **Flavio Decat De Moura** {BIO 5512302 <GO>}

(Translated). Good morning, everyone. The first slide please.

We are trying to run the financial matters and their management in a way as to obey the strategic plan. This has given us good results and the good news this year is that Moody's evaluated our distributor on the same level BAA2 as the holding. And should review the ranking of our holding. And we expect at least a lot coming to two lots which would take us to the A scale of Moody's. Fitch has already given us two lots, in July, moving us up so, to A plus.

Now we're reducing very strongly our net costs. We recently had a debt (roll). We took BRL1.2 billion and a CDI -- (130%) of CDI, which is an extraordinary rate. And in the beginning of the semester of the first half of the year, we securitized the CRC credits by means of a FIDC, which as you all know in the value of BRL1,659m, BRL900 in senior shares and the difference in subordinate shares. At that time, we had been authorized by our Board to promote an upgrade of the securitization, possibly given the creation of new senior shares. So that we can capture more BRL600 million by means of this recourse. Which is a very intelligent structure whereby we change a debt with a credit, which is the

CRC, into a debt, thus balancing costs and financial expenses, having extraordinary benefit in a tributary way.

Our debt and, in other semester, consolidated debt, had this configuration; our main creditor was Itau Bank. Today it's surpassed the Bank of Brazil, which (wind) the bidding process for BRL1.2 billion recent resources, is going to be our main creditor. And an important detail is that we added more debts, indexed -- CDI indexed, that's -- which gives us other possibilities to capture the benefits of the reductions of the level of CDI forecast for the next year. The mean cost of our debt is still falling. Today it is less than 11% at constant prices.

One of the goals, the highest success that we are having, is the lengthening of the debt. Three years ago the mean price on maturity of the debt was one and half years. Now we're reaching five years. And we are linked and rolling this debt of 2006 with that loan of BRL1.2b; the eight year price. And that -- which is going to improve even more this -- that profile.

This is our debt, in a consolidated manner. With all the covenants here, we have a debt -- total debt of slightly less than BRL6b. But only 12% of that is in a foreign currency. All of that has, by means of current dollar, U.S. dollar, denomination contrast, in terms of sales, the net debt represented a difference from the gross debt to cash flow availability, is around BRL4.5b.

In the rates, you can see that EBITDA under interest is consolidated at BRL2.9 billion (sic " see documentation). And you can see that we have to go from -- up from BRL2.8 billion (sic " see documentation), the debt on cash generation is less than BRL3.36b. We have 3. And our leverage in this structure of our debt, less than BRL53 million (sic " see documentation), we have BRL43 million (sic " see documentation). So these rates actually supplant the permanent rates of the master plan but those are episodic matters that are going to be -- very soon be overcome.

This last slide that I'd like to talk on shows our policies of maintaining strong cash flow. We have maintained our cash over BRL1b. As you can see, we began the year with BRL1.3 billion and we have reached the second semester with BRL1b. Today our cash is way over that. We added BRL1.2 billion under rolling, as mentioned, with the Bank of Brazil. Also, with this operational restructuring and securitization FDIC of BRL600m, the purpose of this cash is to reduce the cost of our debt from such a strong cash flow. We are taking resources on a market at very low prices. Lower than, it would seem, any other company should be obtaining.

And, second of all, to be ready for acquisitions that are coming up in the sequence of Light and TBE -- in the wake of Light and TBE. And we all know that we have already made a bid for (Noche Fluminense), a VDF. And we continue ready to grow.

Thank you, very much. I give the floor to Rolla once again.

## Luiz Fernando Rolla {BIO 1852035 <GO>}

(Translated). Thank you, Dr. Flavio. We will proceed with our own presentation, talking about our analysis of the results. I'm going to begin the presentation of the consolidated results and then I will give the floor to Augustin Cardoza Silva, to make a brief analysis of the results of generation, distribution and transmission.

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As already mentioned by our three previous speakers, we had a result that apparently was not aligned with what we expected and which we had considered in our long-term planning. And (can) substantiated in our master plan. I say apparently because the variations were slightly negative. Dr. Brumer has mentioned the reduction of our net income and our cash generation as measured by EBITDA.

However, we have to take into account two aspects that are quite important to this comparison which are going to result in a reversal of the expectation. They are; one, the figures of 2005 were exceptionally strong because of some exceptional things that happened. Not only that tariff review -- revision of 2005, you'll remember that we completed the tariff revision of 2003 in 2005. And we had a good success which resulted in the recognition of some additional income or revenue, as we are going to see soon afterward, as demonstrated by Augustin. And some gains, relative to the revenue also, not only relative to the distributing company but also the generator. This brought artificially to a very strong value of revenues in 2005, resulting in a slightly negative comparison with 2006.

We had some subjects already treated and mentioned before, which resulted in additional expense in 2006, also further reducing our results, especially in the issue of investments in the acquisition of the salary bonus, which is part of the long term strategy of the company to eliminate benefits that are not linked to the company's performance and therefore are going to generate savings of expenses in the future.

However, as we considered this an investment, we treated that as an investment, as Dr. Djalma has said. And we have returned a return on investment that is compatible with investment policy of the Company. We have our investment policy based on returns always above our mean capital costs. And this is exactly what we obtained in this investment. The return is over 16%. You can see that the expenses that we would have with this salary bonus in the next years are very significant. Those salary bonuses of the present employees would represent an expense around BRL600 million in the next 30 years. And to the new employees about BRL1.2b. Sum total in region of BRL1.8b, which discounted would be a benefit of BRL276m. We also applied a reducing factor on this result so that the final result reached 16.05% of return on investment. Therefore it was an extremely beneficial decision to our stockholders in the long term.

This slide, what we did was reconcile the results vis-a-vis the factors that are non-recurring. As you can see that our net profits, which would reach BRL655m. After compensation of the non-recurring factors, we will have something around BRL768m, which, compared to 2005, already adjusted by the tariff. The deferred tariff adjustment would be BRL628m, therefore presenting a positive growth, as we had predicted in our Masterplan.

Likewise, the generation, gas generation as measured by EBITDA, which reached BRL1.2 billion which, compared to 2005, represents a significant reduction. But adjusted, we've averted -- we avert this tendency. Therefore we would have an EBITDA of BRL1.4b, as compared to BRL1.2 billion 2005. Therefore a growth of 17%, which would place us on that sequence of growth and profitability that we had presented in 2005.

The consolidated results, naturally, reflect all of those impacts and we are showing separately CEMIG consolidated and CEMIG Agents, CEMIG Distribution and Generation. And the results are positively affected by these factors. And we're going to give the floor now to our colleague (Augustin), who is going to speak about each one of those companies. Augustin, please.

## Augustin Cardoza Silva

(Translated). Thank you, Rolla. Good morning, everyone.

CEMIG's result in Generation-Transmission was less impacted by non-recurrent factors. Our performance of GT is aligned with the increase of the supply of the interconnected system, the mature contracts. And an increase of transmission revenues. The net revenues of GT CEMIG reached BRL1.113 billion with an increase of 20%. Operational expenses also increased to more than 40%, totaling BRL583m, as I'm going to detail next. The operational result has reached BRL530m, with an EBITDA of BRL620m, with a margin of 55%. Discounting the impact of non-recurring factors, this margin goes beyond 60%. So net profit was BRL392 (sic; see documentation) with a margin of 26%. Net margin.

So, final customer sales of CEMIG Generation and Transmission are, for the free customer market, on the same level, around BRL600m. Now supply over -- wholesale sales reached 34% as a result of the sales of the product 2003 and 2006 would begin supply in, generate in 2006.

Net with the transmission network reached BRL186 million in the First Quarter 2006, with an increase of 60%, as a result of the enlargement by 18% of the mean tariff for transmission. But also the inclusion of items CDC, CDI, Proinfa, which had an impact on this revenue but are passed over to the Transmission company of CEMIG, which functions as a collection agent.

In the next slide we highlight in expenses the cost of personnel, because of the salary bonus as already explained, which in transmission generation was BRL41m. And also the enlargement of the use of the basic network, which grew almost by 80%, totaling BRL108m. The other side of the coin, the other face of the coin, we paid generation and transmission charges. And there was an impact in this expense. Also, the coming in of new assets of (inaudible) at the end of last year. And Capim Branco beginning this year.

As for the distribution company, it suffered strong non-recurrent impact. Net revenues -- net income are increased by BRL1b, with a fall, decline of 7% relative to last semester. There was an impact on the previous year's results; operational expenses also increased,



reaching BRL2.698m, also impacted by non-recurrent factors, as I'm going to explain immediately after this. The results of BRL363 million with an EBITDA of BRL548m, with a margin of 18% net profits. BRL343 million with a margin of 11%.

Now sales to final customers were about BRL3.843 billion in the first semester with an increase of 13% relative to the previous year, in spite of the decline in the physical volume. This increase of sales is also a consequence of the tariff adjustment of April last year which was 19%.

Now the decline of volume of sales comes from the migration of customers to the free market which is consolidated beginning January 2006. We don't expect too much change now but there was a decline by 12% in the revenues of industrial consumption of distribution. TUSD grew by 30%, BRL588 million in the first semester 2006, with the tendency to reduce as we can see in the results of the Second Quarter, which was BRL287m. Such a reduction from the factor that in 2005 we had accounted for expenses relative to the sales tax which were active to previous months. CEMIG was not charging for the sales tax and it was charged all at once in the Second Quarter last year.

With that, the gross revenues at distribution reached BRL4.463 billion in 2006 with a growth of 10%, discounting the non-recurring factor which had an impact on the revenue last year relative to RTD in BRL591m. Now we have the results of BRL1.363 billion (sic "see documentation). Our operational expenses of the distribution company suffered the impact of the non-recurring factor which, as already very well explained, is an investment that is going to have a return to the Company in the long term with the salary bonus acquisition, BRL128m. We also say that in electric power for re-sale increased to BRL1.020 billion as a result of the end of the initial contracts expiration. But this also has a tendency to fall because of the decline in the dollar exchange -- rate of exchange because it has to do with the (Typoo) energy purchases. With that we come to a total result of expenses, BRL2.798m.

We see that CEMIG Distribution and Generation maintains also a positive result vis-a-vis its fundamentals.

Now I give the floor to Wilson, our Chairman, to conclude our Company's and chair the Q&A session.

### **Wilson Brumer** {BIO 1524504 <GO>}

(Translated). Augustin, with that we have finished our presentation and we hope to have demonstrated to you all that, in spite of the results not being as enthusiastic as last year. But our fundamentals have been preserved and these fundamentals are going to ensure the continuity of the growth of our Company in the next years. We have a very clear strategy relative to the growth which is consolidated in our master plan which predicts a continuous (inaudible) on the policy of acquisition of new assets.

Now we're going to move on to the question and answer session and I remind the telephone numbers that we have to use for the questions in Portuguese. So please call 11

4688 6301 and for the English version you should use the ri@cemig.com.br. Therefore, I open the session of questions and answers.

## Questions And Answers

### Operator

(Translated). Our first question from Mr. (Pedro Bajista) from Banco Pactual.

#### Q - Pedro Bajista

(Translated). Good morning, everyone. I have three questions. First, has to do with energy sales. In spite of in the First Quarter as a whole sales had a positive variation in comparison with the same quarter last year. When you look at the Second Quarter there is a negative variation, both for residential sectors and also industrial customers. I'd like to understand where this effect comes from and how is the month of July moving along, as well as beginning of August.

Second point has to do with the personnel employee expenses for 2007. With this salary bonus purchase we would imagine a decline in personnel expenses in the payroll. What is the forecast for 2007?

And, in order to complete as there was, there were some effects different that the Company was imagining, what is the -- regarding the results that were presented last May, how can the Company then change that or not from now on? Thank you, very much - the guidance of results there is.

#### Q - Unidentified Corporate Representative

(Translated). Good morning, Pedro.

#### Q - Pedro Bajista

(Translated). Good morning.

#### Q - Unidentified Corporate Representative

(Translated). Beginning with the guidance and then I will give the floor to Rolla to explain the energy sales. We are re-formulating our guidance. We wouldn't like to mix that with the results in this teleconference because of the difficulties of what we have to face here today. But maybe in about two weeks we -- at most, we're going to make that available and have another conference call specifically about the guidance where we're going to point in detail to all of that, down to showing all the evolution of the gains of the values that were pointed out there in our presentation of the salary bonus purchase, how that distributes throughout the year, especially in 2007.

There are two effects that are beneficial from this salary bonus and the first one is the non-payment of the sold bonus, it was sold. And then we captured that in the time, during a long time. There is a natural turnover of the Company, the new employees are not

going to receive this bonus -- salary bonus. So this is more strongly distributed along recent years and a little less in the years that come. This is going to be shown in the guidance in about two weeks.

(Translated). Now, as for the performance of sales or the volume of sales volume in the Second Quarter, traditionally, we are talking about the sales of our distributor. Traditionally in the Second Quarter it has to do with the residential customer sales is slightly weaker. The peak of consumption in residences takes place in the First Quarter and (this further) is reduced in the Second Quarter and so on.

Not only the reason for the reduction in the Second Quarter has to do with the tariff increase. So the tariff impact causes a tariff reduction. And the tariff increase was not significant, therefore, the reduction was slightly less.

In what has to do with the industrial customers of our distributor company, we had also the impact with the exist of our free customers in 2005 and that means that part of those customers were still being considered as captive consumers or fixed customers in the First Quarter 2005. And later, until the end of the year, they sort of withdrew from the distributor and they signed up with our generator company, bringing about a negative impact on industrial consumption when compared to last year -- the Second Quarter last year.

The outlooks that we have, of course, follow the trend of the economic activity. Our economic activity in the Second Quarter in the state of Minas Gerais was quite strong but already presents some signs of decline. Already July and August we had a sales volume that was slightly less and, therefore, thus giving us a picture, an adequate picture vis-a-vis what may happen in the Third Quarter.

It's nice to remind you that, in the Third Quarter, we have a higher volume of consumption of electrical power and this should take place, again, in the distributor company. This time we have a concentration of industrial customers very intensive in the generator company but also the distributor company has industrial customer parcel, sales parcel, which has a peak of consumption in the Third Quarter. Therefore, there should be a positive impact there.

But if you notice that the evolution of consumption of the sales of energy by the distributor company from the first to the Second Quarter 2006, we had a significant growth representing this growth of the economic activity in the Second Quarter. We have to wait for the Third Quarter. We don't have figures that we can publicize as yet. But the tendency should be the one I just mentioned.

**Q - Pedro Bajista**

(Translated). Thank you, very much.

**Operator**

(Translated). Our next question comes from Gustavo Gattass from UBS Bank.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). You indicated that in July and August the consumption will be less.

**Q - Unidentified Corporate Representative**

(Translated). I said that the economic activity in the state in July and August is less and that could reflect on the results in spite of the fact that in the Third Quarter we have a consumption peak. As compared to the Second Quarter, on account of this seasonality the volume of sales should slightly higher but we observe already a reduction in the economic activity in the state.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). I would like for you to give us the volume of the distributor company. I tried to access the data on the internet but I wasn't able to, I didn't succeed.

Three questions I'd like to ask which I'd like to debate with you. The first has to do with the CapEx, comparing the CapEx with the CapEx -- the previous CapEx showing suffered a cut of around BRL3b. Now was that cost delay in investments?

More important than anything else, how do you see this issue of having to end this Light for All program?

**Q - Unidentified Corporate Representative**

(Translated). The reduction of the investment program was a re-programme in that we promoted by the end of the Second Quarter. But this reprogramming fits the schedule of our contractors. We had some difficulties, legal difficulties having to do with bidding processes that were carried out and this sort of delayed the process a little. But we are very confident that we can fulfill everything that was predicted by the original agreement.

Of course, part of this investment will have to be made in the First Quarter 2007 that is, as a result of this re-programming that we did of our construction work.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). Thank you.

**Q - Unidentified Corporate Representative**

(Translated). Rolla, maybe you want to talk about the Light for All. But what I'd like to add and maybe Djalma could say something about the other questions.

There was a guidance by the Board because of the treatment that we gave to the salary bonus purchase like an investment, that we would adjust the budget of the Company, not only relative to the expenses. But also -- operational expenses. But also investments

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which should be postponed because of the comparison that we did in terms of rate of return of the salary bonus purchase and other investments.

We have been working so that we have, at the end of the year, a meeting of our goal of 170,000 rural owners -- property owners to be served. The rhythm of the three integrating companies is relatively good and we expect to be able to meet the goals. In case it doesn't happen, maybe January, February. But we're still fighting to have met all the pre-established goals by December 31 this year.

**Q - Gustavo Gattass {BIO 1702868 <GO>}**

(Translated). My second question has to do with the salary bonus purchase. The rate of return of 16%, this total value of 176, what you paid now was referring to 189?

**Q - Unidentified Corporate Representative**

(Translated). I can't hear very well what the question is. Your question Gustavo, is about the part that was purchased this year?

**Q - Gustavo Gattass {BIO 1702868 <GO>}**

(Translated). The 177 million that you're seeing now, is that comparable to what. To 176? To what is it comparable? 189.

**Q - Unidentified Corporate Representative**

(Translated). The 86 is a payment that we saw in the Fourth Quarter. All these values are tax -- after taxes and this is relative to the agreement that we made in December last year and this 86 million net are referred to the last December agreement.

**Q - Gustavo Gattass {BIO 1702868 <GO>}**

(Translated). My last question has to do with the salary bonus I call your attention in your response to Pedro that you will have an impact of this purchase of the salary bonus. Did you buy the salary bonus which had already been given in the past or the one that is coming up? Is the cost, does the cost fall or it does not go up?

**Q - Unidentified Corporate Representative**

(Translated). With the present employees it stops going up constant values because the employee preserves the salary bonus acquired until today. But doesn't add on new ones. So the gain is not -- so every year we stand to gain 1% of the cumulative payroll. First year one, second year that one plus another one that was coming up and so on. The other gain that we have is the turnover. The new employees will have zero bonus. Therefore, the replacement of one employee, Dr. Rolla, who as 53 has bonuses already is going to be replaced by Augustin, who has 10 or 12 or 20. And who is going to be replaced -- at the end of this scale is going to be replaced by a new trainee, given the context, is going to have a zero bonus. So those are the two gains in the salary bonus program which gives that consolidated result.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). Thank you, very much. I had a few others but I'll return later on.

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

(Translated). Thank you, Gustavo. Naturally the 53 salary bonuses I am entitled to are going to be included in my salary when I make the final agreement with the Company.

**Operator**

(Operator Instructions) And our next question comes from Santander Bank.

**Q - Unidentified Speaker**

(Translated). Good morning, everyone. Just a doubt I'd like to clarify I think I heard in your presentation. You were talking about the possibility of increasing the Light for All program. Is that what I heard? You're going to have to increase the customer base -- consumer base. What additional investments would that entail?

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

(Translated). Evidently we're going to increase the consumers. There is a vegetating growth but what we have to see is that as from the universalization of the project we would be under the obligation to continue providing power to all the rural properties, what we have been able to do is, with the ministry to extend the program up until 2008 and begin in there the Company's going to pay for any expense of new installations. This is a legal matter, this is defined by law.

Now what ended at 276, is growing in 2008, will have a forecast, I have 100 more rural property owners being served. So, those 100,000 will be another agreement with the government for which the Company will not be forced to finished the program, not be subject to any banalities.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). So, this would be a life for all two programs?

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

(Translated). Yes, given the first survey of two and a half years ago, we had approximately 166 -- 176,000 service base. Today, we see that there is approximately more -- 100,000 more, which we would have to serve beginning 2007. What we -- our understanding with the Ministry of (inaudible) is that this numbers' also financed, as it has been financed until for 176,000. This is a relatively large number. So, to think of 170 plus 100,000.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). Why such -- why this was not negotiated previously with the government, in order to include in the initial program?

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

(Translated). Really, this is a very complex problem. What we observe is not only here in the State of (inaudible) but throughout this country, is that when a company is reaching the proximity of that region, to electrify, to provide power to the rural properties, the numbers growing. As the property owner understand that that -- was understanding that that project would be concluded in December. He starts building small houses for the son, the son-in-law, the manager and the foreman and others. And this number is also reaching 100,000 more. As this is a national phenomenon, I believe the government became very sensitized, became very sensible to that and extending -- is extending the project until 2008. And we show in the studio demonstrations that this is a perennial project, it's not going to continue. So, there shouldn't be this concern on the part of the properties to place more people being served by the Company.

Now if you take into account this cost per connection of about 9,000, you have 900.000 more in terms of investments. This figure it tends to grow, because we're talking about remote localities and now it tends to follow because the infrastructure will be laid out. It tends to follow.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). Let me explore one more thing. Have you seen that you have been almost 60% concluding, relative to Light for All. Have you seen it from the point of view of a bad debts, not paying, an increase, a significant increase from the point of view of your consolidation? Taking into account, also the subsidies from the Federal Government are relative to the low-income tariffs. Have you seen this increase in a bad debt and non-paying debt? Does that explain these low income subsidies?

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

(Translated). We observe that we have an equitable number for the ascending users on the first day, (billing between) 20-25%, this would be normal, within the Company pattern. And the remainder of the time the situation was back to normal, we have not seen even though those are low income, people, we have not seen up until now any discrepancies due to a lack of payments.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). Thank you, very much. One last question, having to do with RTE provision vis-a-vis the Second Quarter. What was this additional provision? There were (three) customers that left last year, more (three) customers that left this quarter, what exactly is this provision all about?

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

(Translated). So this has to do with the monetary correction of the balance that had already been provided for in the Fourth Quarter 2005.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). So, there were no additional customers that left? Okay.

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

(Translated). No. No additional customers but monetary correction of that balance that had been provisioned in 2005.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). Thank you.

**Q - Unidentified Speaker**

(Translated). Thank you for your questions. I have now some questions that were addressed in the -- over the Internet. The first one is by Mr. (inaudible). Given the First Quarter 2006, especially in terms of EBIT below the forecast, when does the Company maintain the guidance to the end of the year? As already said by Dr Djama, we're going to revise the guidance and then we make the publication in about two weeks.

Now Mr. Jean Paolo (Gomezes) from Venture Investments. What is the reason for such an expressive increase of general administrative expenses, especially in the quarter. And also in the semester? The reasons we'd tried to explain during our presentation. And they refer basically to, the purchase of the salary bonus that we had and some other factors that were mentioned by Augustin during his presentation.

We also have another question from Mr. Victor Galliano from HSBC, from London. About the financing on the (Light for All) programs to be expanded. Part of the resources will come from the federal government and part of resources will be financed by the Company itself, as already been mentioned by Dr. Djalma Bastos de Moraes.

There is another question by Mr. David Wong, (Lussite Research) about slide number 27. I'm going to return to it, to number 27 so that we can respond in a definitive manner. Question has to do with the value of the salary bonus purchase in the two installments, why the two installments do not complete each other? Actually, they add the BRL276 million is the sum of the avoided costs of the salary bonuses bought from the existing employee base, BRL179m. But the avoided cost of the salary bonus of the new employees giving a total of BRL276m. With that, -- the avoided cost of the new employees is a cost that if you linearly added is BRL1.2 billion but the total volume is, in these next few years.

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

Therefore its present value is smaller than a present value of the BRL600 million because it's concentrated around this very small amount. This is maybe what they don't fit, they don't match but that has to do with this position of this volume in time.

**Q - Unidentified Speaker**

(Translated). Thank you, Dr. Djama for adding onto the answer.

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(Translated). One more question from Gustavo and with that we close this session of questions and answers. Gustavo, please?

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). One more question please? Could I ask one more? Let me tell you what I needed. First of all I needed an update from you on the basis of what is the collection of that sales tax that was due (inaudible) when we talked about the Second Quarter 2005. How much has been collected, what is still under litigation, what has not been paid, how much has not been paid?

**Q - Unidentified Speaker**

(Translated). Now we have to call our students here to help us, (Flavio). The person who's going to answer you is another one of our (inaudible), our Head Accountant.

(Translated). Good morning, Gustavo, we still have a lack of payment relative to the two (inaudible) values, we have not received from the industrial customers. But it is important to remind you that CEMIG questions this sales tax that CEMIG has. And we have no perspectives of loss, vis-a-vis this issue. In case, the sales tax, I see them as this charge in the futures, considered (do). Traditionally that is, these industrial customers will have to pay up to CEMIG, otherwise, this value will be returned to them and as CEMIG can discount the extra sales tax paid. So, this is not another concern for us because in the present there was the results of the litigation process. This we're not suffer penalty in terms of losses. We have, in the delayed value is approximately BRL100m.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). Thank you, very much, that's great. Now we're still along these are things that are under litigation. I saw in one of your Board transactions, there was some taxes in a state document. Something that began to be included in accountancy, was it before, is it still not where? Can you give me an idea of how much this is? And what is the chance for this to be passed over to the tariff.

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

(Translated). I can explain this issue a little better. The income that is the tax on the use -- the soil use, on transmission lines over roads. I don't know what's the technical term. I'm going to give the floor to Dr. (inaudible) who's going to answer this question, Gustavo.

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

(Translated). There are two taxes at this stage charge from CEMIG of (BRL19m-23m) last year and this year. Under the point of view of Luiz. And Luiz has already made up announcement, was some internal affidavits that this is not to go into the tariff. We're going to doctor the state according to what has been decided by the Board of Administration. But the matter is analyzed by the legal areas, places this as not constitutional vis-a-vis the Brazilian law. So, we're going to send this to our Board to ask for a payback, a reimbursement. Having in mind also, what has been established by the Board.

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**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). Was that included in any one of the quarters' results. I'm trying to map out something that is not extraordinary in the costs, just to understand, whether this was placed in the Second Quarter, the whole value. Has it been included since the end of last year or what? This was what I was looking for.

**Q - Unidentified Speaker**

(Translated). Last year, we recorded BRL19 million directly in terms of expenses. This year the events took place in July, therefore, we paid BRL23 million expenses, which was the guidance that we had from our (derivative) area and now, we are getting ready to have the reimbursement of this expense at this first time, we included that as BRL23 million expenses.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

(Translated). No, thank you. Yes. Thank you, very much I apologize for taking so much of your time.

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

(Translated). Thank you, very much, Gustavo.

**Q - Unidentified Speaker**

(Translated). We have only one more last question and with that we're going to close our question and answer session. From Mr. (inaudible) from (TCI) London.

(Translated). There has been -- there have been non-reoccurring items throughout the quarter, which have brought a surprise to analysts and investors. What can the Company do in order to improve their -- its processes and internal processes and systems to ensure that there will not be more surprises in the future?

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

(Translated). I'm going to give the floor to Dr. (inaudible) who is going to respond.

**Q - Unidentified Speaker**

(Translated). Matter of fact, there are no surprises. All of the regulation, non-recurrent regulatory issues, are present since last year, actually inflating the results last year. Therefore, in a comparison this year, the one look worse this year. As for the salary bonus, already in the First Quarter, we already mentioned that there was a policy of the Company. The Director of Human Resources was present and she made a presentation talking about the intention to carry this through. The negotiation with the union has been going on for -- since November last year. Therefore, this has been said in our presentations.

So, there were no surprises. As for procedures. And our procedures and systems, we are in full phase. And this is not specific, vis-a-vis your question. And the result to your

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question is that there are no surprises. But in terms of our procedures we are addressing our selves completely to the procedures of Sarbanes-Oxley. Actually, I'm going to ask (inaudible) to make a brief report I think it's very interesting from the point of view of governance, why the Company's doing that.

## Q - Unidentified Company Speaker

(Translated). Specifically about the actions that we have taken, since the beginning of the year, we have revised in all of our processes and internal controls, together with consultants that we hired for this purpose, who are specialized in this issue. We're revising in the light of (inaudible) all of the processes, with the purpose of avoiding any concern on the part of our Board and our top management. And this -- all the changes should take place by 2007. We are certain that our information is precise. We have practically all the processes are detailed and documented and submitted to tests, which should take place 100% up until the end of this year.

And therefore, we can guarantee, not only to our stockholders but our investors in general that the information that is publicized by CEMIG aim at the high precision. Of course, as a result of certain specificities, such as regulation issues that have changed in the recent years, have affected the publication of such information and have brought about certain difficulty in the projections that we publicize to the market. But this is within a normal range and we believe that with the continuing of the -- both, information and publication and constant updating of this information, we will be providing relevant trustworthy information and precise information to our stockholders and investors.

Only just to mention, as soon as I came into CEMIG, myself and the presidents, thought that they'd design a report that was 20F in which we testified to all the procedures figures and information flows of CEMIG as correct. Evidently, it is not the function of the financial director, let alone of the CEO, to know in detail every accountancy procedures. At that time, we did not sign that statement and we hired a consultant firm to do all of this review. So, we actually have a calm going through all of this. Work that has taken a year so that we tell the financial Director and the CEO that, which were going to sign that every procedure in our systems are as safe and correct and trustworthy and more than that, even besides being correct, the people that are acting are doing that adequately. So, all of that in the sense of giving more transparency and governance, to the market that sees us and evaluates as well.

## Q - Unidentified Speaker

(Translated). With that we'll close this session of questions and answers and we thank all for their attention to CEMIG and this teleconference, relative to the Second Quarter results. We wish you all good afternoon.

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