

## Q4 2005 Earnings Call

### Company Participants

- Djalma Bastos De Moraes, CEO
- Flavio Decat De Moura, CFO
- Luiz Fernando Rolla, IR
- Wilson Nelio Brumer, Chairman

### Other Participants

- Eduardo Yermo, Analyst
- Gustavo Gattass, Analyst
- Haliel Quintinella, Analyst
- Lilyanna Yang, Analyst
- Philip Illiera, Analyst
- Scott Phillips, Analyst
- Stuart Rider, Analyst
- Unidentified Company Speaker
- Unidentified Speaker

### Presentation

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

Good afternoon, everyone. Welcome to our teleconference, the CEMIG teleconference about the results of the year 2005 that we filed with the (inaudible) commission yesterday. This can be followed -- webcast on [www.cemig.com.br](http://www.cemig.com.br). Enter the telephone numbers 0-114-613-0501. And questions should be addressed by means of -- through this telephone -- and if they are asked in Portuguese. The ones asked in English should be sent to the [ri@cemig.com.br](mailto:ri@cemig.com.br). And on this afternoon we have the presence of our Chairman of the Board, Dr. Wilson Brumer, Mr. Djalma Bastos de Moraes, our CEO, Chief Executive Officer, (Franciso Salveas Orta), Vice President, Flavio Decat de Moura, our Chief Financial Officer. And also Investor Relations, Heleni de Mello Fonseca, Business Management Director, (Mark Santana), General Director of Generation and Transmissions. And Maria de Macedo, the Distribution Officer.

Our presentation is going to be initially be given by our Chairman of the Board, Dr. Wilson Brumer. And then our CEO, Dr. Djalma Bastos de Moraes. And Flavio Decat, our Financial Officer, is going to speak soon after that. And in closing I'm going to present some figures from our results. So I'm going to give the floor to Dr. Wilson Brumer.

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

Good afternoon, everyone. I would like to -- prior to anything I would like to before we begin this presentation about the Company's results in the year 2005 -- and I would like to say that in my view it was an extremely important year to the history of our Company. As of the moment in which much of what had been planned and discussed and even said to our analysts, investors and stockholders in general in our view has been -- was fulfilled within the preestablished premises.

We closed the year with a net profit that reached R\$2 billion. That is R\$12.36 for a batch of thousand stock shares as compared to 1.4 billion 2004, representing a net margin of 24%. Our cash generation as measured by EBITDA has added R\$2.5 billion with a growth of 10%. And it is always important to stress that this cash generation and this measurement by EBITDA was affected by non-recurring factors which will be explained later on by Flavio Decat and by Djalma. The measured margin by EBITDA has reached 30%. And within what one I said in my speech, in terms of fulfillment of what was promised within the strategy of the Company, even if it is in its master plan we would be declaring a service also such results of our bottom line results dividends -- regular dividends of R\$1,173,000,000, or R\$7.24 per thousand shares.

Always stressing and emphasizing that as a result of a negotiation we had last year, which was also the object of the participation of several stockholders, also receiving many opinions from analysts and people interested in the solution of the problem, which was (inaudible) we securitized as this operation. And we declared dividends, extraordinary dividends, in the amount of R\$897 million paid out the beginning of this year 2006. With that we had a dividend -- a yield of 14%. The total return to our stockholders as a consequence has reached 66% in 2005. And our -- that will be on the basis of quotation on the 29th of December 2005 was seven times, which shows some room for growth in terms of our stock.

It is also important to highlight that with a reach of 6 million consumers we are now the largest distributor in the country. And it is also important to emphasize that we have concerns with our generation. And investments that we made allowed us to increase our generation by 160 megawatts. Then we consolidated our position as the sixth largest generator in the country, more than 6,000 megawatts, of which we added in 2005 for 155 megawatts capacity.

Also stressing that we are following as cautiously as necessary when with the concern always to add value to our operations. But during the year 2005 we had acquisition of new concessions in the area of generation and transmission. One of them in the area of generation, which is the (Bagewadi plant), which is going to allow us to add, when it is finished and it is settled, 140 megawatts. Always stressing that this is an investment in partnership with other companies also in the private sector within the power policies. As well as a transmission line which we required in Chile within a process of growth with the add in our value to our Company.

We're going to see the evolution of some of the indicators of the Company, the evolution of such indicators in the last three years, which go to show in my view the segments are

strong segments and of all the strategy that we put together -- the Company to put together in order to more and more add value.

As you can see in the graphs that we have from 2003 to 2006 continued steady growth in our EBITDA leaving -- 1 billion 797 in 2003 to almost 2.5 billion 2005. This reflected in our net profit, leaving 1 billion 198 to 1 billion 3 in this year 2005. The dividend yield which was 4% in 2003 has reached in 2005 14%. And I would like to call attention that in our view all of this effort has been recognized by our investing market when we left a value in 2003 -- a market value of 7,400,000,000 to 14,300,000,000 in 2005. And in some moments reaching even in 2006 a value of almost R\$17 billion.

The total return to the investor -- total shareholders return considering not all only dividends but also the valuing of the stock presenting in 2005 growth of 66% in every year it has been growing. Which effectively goes to show our concern and adoption of policies that will add value to our Company.

After that I would like to show this results in a consolidated manner. And it is always important to stress that if we look at all the actions and all the companies and their participations and shares that we have, not only in the holding company but also in our other deverticalized companies. And our participation in other businesses, you, ladies and gentlemen. can see all the activities except for the holding company, we are generating cash and a positive EBITDA.

Now we have on the right hand side of this slide you can see this chart showing the evolution of profit per share since 1997. Showing, with the exception of the year 2002 when we provided for the CRC, which is already solved. But with the exception of this negative period, the Company has been showing a history of positive results. But I would like to stress once again that beginning 2003 in my view the Company reached another margin of profitability, certainly another margin or another standard as a Company. And this of course in a certain way reflects upon our EBITDA margin indicators and also the net margins of the Company.

Anyway I would like to say or tell everyone that in our way of seeing this is part of the strategy that was set up and was discussed with all of our Board and all the technical staff and the top managers of the Company at CEMIG in an eventual process of consolidation of the segment of power (inaudible) power in Brazil is a company today that is ripe to grow. And when we say ripe to grow certainly always with a mind and with an eye on adding value.

Today the Company's administration has the necessary tools to meet the challenges of this growth. With value-added our shareholders are aligned with the same objective, which is to grow with this value-added basis. So we have a view and a long-term plan, which is certainly going to allow us to seize our opportunities for asset acquisition. And if this happens make -- as a consequence and grow in a more accelerated way. But certainly with the concern of preserving the excellent financial situation that we have reached. Which shows that it is really possible we have been able to do that to show balance between shareholder returns and growth.

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Our master plan that was prepared and in that opportunities we had a chance to say this to our shareholders and analysts. But I would like to call attention to a point which in my opinion has been extremely important for the future of CEMIG, which was to consider in a very -- regulations of the Company some covenants and some goals that in our view protects the Company. And creates for the Company new challenges for value adding and growth with the necessary balance. A limited investment program to 40% of EBITDA in 2006, (67) is a result of investments already approved and programs that are certainly strong in investments such as the Light for All Program, with different indicators 2006 to 65% of EBITDA, 2007 55%. Certainly according to the Board all this following the orientation of value adding to reach 50%. But as a basic principle 40% of EBITDA invest in distribution generation and transmission projects that offer real internal rates of return at least the equal or over the once projected master plan. And to maintain income and expenses at CEMIG distribution and any other subsidiary carrying out the activities of energy distribution in line with tariff adjustments and rate revisions.

In this master plan or the strategic plan we're talking about sustainable growth. And that we have to understand that even considering the premise that we have been working on, with the certain eventual consolidation of the sector in Brazil the Company could not keep its action only in Minas Gerais. But certainly with a focus on the electric sector. And for that we are certainly looking for opportunities outside of our geographic area at present.

And the first steps are investments in international projects with a necessary caution. The chosen country in the way to go about it. And a country -- an extended country should follow the regulating limits with safety, security. And again I insist thinking of value-added. We understand that in the long run the Company has made important decisions. The new dividend policies with a payout 50% is an extremely healthy measure for all stakeholders in the Company. And considering all of those who participate in the growth of the Company. And extraordinary dividends certainly as we have availability -- cash availability. But we establish a premise for every two years. In 2006 this policy was adopted, as I said at the beginning of my presentation, with the regular dividends of 1 million 97 as a result of the results that are going to be presented here. That is dividends of R\$6.77 per thousand shares. And a dividend yields of 6.15%. Always calling attention to our concern for transparency and corporate governance and respect for the interests of the minority stockholders.

And maybe the great example that the state and here are talking a little with another (inaudible) the state secretary. I think the great example that the state of Minas Gerais has given in the search for improvement of the corporate governance was the very negotiation that we stuck with the CRC. We had in this negotiation the participation of many shareholders, those with a stronger presence in the Company participating a very active manner in these negotiations. And I remember that in other presentation such as this one we were saying that we had as a goal to solve effectively the topic by the year 2005. I remember even that our goal was to solve it until September 2005 as a result of the seven negotiations. It was not possible to do so by September. But what is the most important thing is that during the year of 2005 this has been done. And the very willingness of the majority stockholders to negotiate made for during three opportunities to -- we let the Board or the assembly of stockholders open, thus allowing the points raised by minority stockholders have time to be analyzed, discussed, debated and solved.

Then the solution in my view sort of not every demand in terms of the financial conditions without any changes, that which had been provided for initially, with guarantees that today allow CEMIG to know that 65% of those dividends attributable to the state are going to be kept by the Company, which certainly allows the Company to have more protection. And as a result of this credit that it has received part of it already, as I said already securitized under the guise of a fund for this specific purpose.

And the new contract certainly admitting penalties for bad payments or bad debts, even anticipated due dates in the case of non meeting their clauses of disagreement, because we are convinced that the contract such as it was drawn up allows the management of the Company with the effective fulfillment of all the mandates. In general, this was my part in this presentation and I give the floor now to Dr. Djalma, our CEO for his own comments.

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

Good afternoon, ladies and gentlemen. The focus on our business allows us to identify synergies in the sector. A Company with integral subsidiaries allows us in case of one of its subsidiaries has any problem in a market or any type of business, it allows this business to be dampened or within the Company as a whole. So the buffer -- so the Company stands to gain and it will always be positive in terms of gains.

Factors that have contributed for our (senses) have been a reduction of operational costs, of cultural value. And discipline in the investments. A reduction of our operational costs, as I see, we have not had any problems. We are having problems to adapt to the impositions or adequacies of ANEEL inside our Company. We have a project within the Company. We are adjusting to the guidelines of ANEEL. And we are having success. We're being successful in these obligations with the regulation agency. And our Company will stand to gain with that. Dr. Rolla, please.

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

Our presence in other states -- we have (inaudible) five customers. And four customers in Sao Paulo 1,686 gigawatts, two plants in Santa Catarina -- hydro plants in Santa Catarina and 1 customer in (inaudible) with 27 gigawatts. As you will know today. And this was stressed here by Dr. Brumer, 5% of our sales are to final consumers. And they are being made in other states as well.

And considering only the industrial consumers, the sales outside of the state represent 8%. You will know that our final project is to reach a goal of 20%. Our growth was very good of 4.5% of sales. This growth has been quite strong. And it was not bigger because of the migration of some consumers at the beginning of the year resulting in a smaller performance in the January 2005. Were it not for this fact, we would have similar growth in the three previous quarters -- 7% industrial and about 1% residential -- 1% industrial, 1.7% commercial 6.1%, rural 5.1%, others 2.0%. And a total of 4.5%.

Consolidated electricity sales increased our market share by adding new customers outside the state of Minas Gerais of our concession area, both in the area of senior

distribution, GT independent generation, semi consolidated by companies sales in 2005, distribution 20.38 gigawatts, generation 25.6, independent generation 1.7, independent 1.2. That is a total of 39.6%. Consolidated by class by type by industrial 23.4, residential 6.6, approximately rural 1.9, commercial 3.7, others 2.6, a subtotal 38.35, with (inaudible) and we have 39.6.

Now our capital investments are a multiyear investment program. We're forecasting investments in 2006 of 1 billion 641; in 2007 1 million 531. This allows us to enlarge and reinforce the existing network. And this was predicted last year. And the first or second phase of Light for All, the Light for All program. And some transmission approximately 2007 the investments of 330 million.

As you have observed our commitments since the beginning of our mandate, of our term, we have our commitment to social responsibility and profitability, allowing us to grow with quality. And observing the several awards, the quality awards. CEMIG Distribution received the (Mirror) Quality Award in Minas Gerais; BMQ, the Criteria of Excellence or National Quality Award. This company has adopted practices of more efficient management. And the reference of excellence in the market -- the benchmarks. And ISO certification in terms of social responsibility. We have been selected for sixth time around. Other composition of the Dow Jones Index of social responsibility as a sector leader.

Some minutes ago talking to Dr. Brumer, I showed a newspaper advertisement for one of our competitors reaching R\$1 billion profits. And we were commenting that which we have today, more than R\$2 billion. And as I told Dr. Brumer, what is our investors today thinking? What is our investor thinking today -- our stockholder thinking today? And for you to have an idea in 1999 we announced a record of the Company with \$600 million. Today we are reaching \$900 million.

Really Dr. Brumer we consider the Company staff, the management team of the Company should be congratulated for having reached a number of figures that we had not reached before. For you to have an idea when we announced the profits in 1999 of \$600 million, that put us in an exceptional position. We had just arrived in the Company. And to date we have fought for that number to be the figure to be overcome -- to be surpassed. 1999, the figures were not on my own term. They were not of the management -- the present management team. And today I'm proud to be conveying to you a profit of approximately \$900 million. And I would like to congratulate all the staff of the management of the Company for this offer. And having reached such great objective, which is not ours. But the state of Minas Gerais. Thank you, very much. Dr. Flavio Decat will be the next speaker.

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

Good afternoon, everyone. As you have seen, CEMIG has taken a position in a very positive manner -- aggressive on the market of acquisitions, which the sector is going through. At this time of consolidation of the assets in the sector, following the guidance of our master plan or our strategic plan, we intend to lead with 20% of the market share in distribution. And pursuing 20% in the generation market and growing in the area of

transmission. Which out a doubt today is a firmer business and more adequate and more constant in the electric sector.

In order to do that we need to finance this expansion. We have to do it well. And it is a strategy of CEMIG to look for partners, especially private partners, with the purpose of reducing our need to have our own cash and to have more public transparency. So in terms -- in the way of prices that we will be paying, evidently we're not going to open our prices for commercial reasons. But in so far as the market perceives that we have partners that are traditionally good business companies, the market will perceive that the prices -- our prices, our market prices within the line of acting as if we were private in this area of expansion.

And private partners will allow us to have access to low-cost financing. As another national development bank and as a sustained bank CEMIG cannot have any access to it, because CEMIG is a public. But try to maximize gas generation using at the most generation of surplus and rolling over 100% of the debt. And aiming at the best opportunities to procure our resources, using the liquidity of the market. And certainly the credit agencies are going to give better credit to CEMIG in their next assessments.

The cash flow -- the very cash flow -- our own cash flow, you can see there in this table that we started with R\$440 million two years ago. In the beginning to 2004 we went up to 900 million in the beginning of 2005. And today we have R\$1,300,000,000 in our safe deposit -- in our vaults. Even though we were having problems with the generation, the cash generation. And because of the value-added tax of around 221 million that we paid this year.

So we have been working, especially in our local capital markets, rolling debts with bank credits. We have been studying receivables. Dr. Christian is there, sitting in the first row there. He has been doing excellent work of (inaudible) to see how we can maximize our capacity to take loans cheaply.

We have debentures. Recently we needed a fund, a receivables funds, which actually added weight to the payments of extraordinary dividends, R\$900 million. We're not on the international market. But we intend to go international, to have a CEMIG presence there. Because there are problems for the state-owned companies to take loans from the international market because we are first to pay parcels to deposit installments of these resources in special accounts, which may see the resources not very attractive. We also are trying to have federal money, especially in the financing of the (inaudible) plants. All the financial management underway have been trying to adhere to the long-term in its covenants, debt, cash generation less than 2 -- adequate of 40% debt to equity. And cash flow among companies that is adequate for a deverticalize (inaudible) CEMIG with a correct allocation of assets to be acquired so as to minimize the taxation.

The financing structure for inspection always reducing the weighted average capital costs leveraging in an adequate way, elongating extending the maturation -- the maturing debts of the long-term, as you can see there in the next slides. And optimization of exposure to exchange rate risk. Today we are approximately 100% with hedged and partly with the

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cash operations and partly with natural hedge. And the contracts of energy sales in U.S. dollars. It is important that this is an interesting partnership for CEMIG. We hedge our loans. And for the consumers we hedge this inputs -- the consumers' inputs, because their revenue is in U.S. dollars. And it was again we have the expectation to be able to get better credit risks. So lower our cost for borrowing money. We had already commenced reducing the exposure to the exchange rate risk to almost zero. The hedge transactions were 37% of exposure. They are totally complemented by the natural hedge from contracts that I mentioned.

The consolidated short-term debt had a very sensitive reduction -- a very drastic reduction. In the mean time to maturation of debt went up to five years. So today we have no doubt about 5 billion. And foreign currency 16%. Our covenants due to the slow -- the reduction of our cash generation because of the reasons that Dr. (inaudible) is going to later on, one of our CEMIG covenants or CEMIG distribution cash generation of a real interest in the covenant is 6. We had here -- we extrapolated a number -- we went to 6.55. We asked our banks to give us some waiver. As a result, especially because the Company is consolidated, it is still far from its covenant.

And finally a graph showing our debt. Our main creditors on the right. We have debenture holders, 1.2 billion. Unibank is our main creditor. Banco do Brasil, Banco Itau, Bradesco, BNDES. And Electrobras. And showing our strong migration from indexed debts in (IGPN), which was the previous policy that we used to follow. Because the tariff is indexed to IGPN, to CDI making use of the better liquidity of the market for CDI operations. And also through our (inaudible) of growth interest reduction in the short and mid terms. Thank you, very much.

## Unidentified Speaker

I'm going to present then our figures that in sum we presented to the Stock Commission. And showing a very strong growth relative to previous years mentioned by Dr. Brumer, there is a growth of 44% as compared to 2004. We have reached our platform of R\$2 billion, which gives us as RTO has said -- which gives us results in U.S. dollars around R\$900 million which was a quite significant result. We had a cash generation around R\$2.5 billion, representing a growth vis-a-vis last year about 10%. This result was quite below the one we had forecast for 2006. I'm going to show you a reconciliation of this value with our projection in order to show exactly the reasons why we have not reached the values that we had forecast. But you can see overall quite strong growth of our net revenues, because of the increase of sales and readjustment of our prices. Those negotiated with (free) consumers or those with a regular base of consumers.

The Fourth Quarter presented a profit that was quite coherent with the previous quarters, around 560 million. However, it was strongly affected by extraordinary things that I'm going to comment with you now about now. Especially what had to do with the reclassification that we did in 2004, as a result of the fact that we started following guidance from Ibercom as a recognition of the (inaudible) tax, social tax we had previously calculated, considering the net profit -- that the net tax that is considering deductions. And on the contrary, the recommendation of Ibercom was that the credits relative to the social tax (inaudible) should be computed to each area in the operational expense.



By doing that we had to record in the Fourth Quarter a very high payment of (inaudible) tax, which distorted the final result, which could have been a little better than the one we actually had. Also, the provisions that we had also reduced the cash generation as measured by EBITDA in the Fourth Quarter. Hence, the decline that you perceive from 2004 as compared to 2005 of 562 million to 417 million.

And what refers to our Company of generation and transmission we had an exceptional performance, especially having to do with the sales, capturing a significant parcel of the market of all of the grades. Consumers are seeing the distributing company. And we have been able, as shown by Dr. Djalma, to capture customers outside of this state of Minas Gerais, which gave us a strong cash generation. And which positions us to in terms of growth in the next year -- I mean because of the standard trend of prices -- of increasing prices. It is a very strong result of EBITDA margin reaching 50%, which combined with the business of generation and transmission really is quite attractive. And the net margin around us 33%. What has to do with the distribution we had the benefits of the negotiations relative to tariff revisions of 2003. As you remember, we had a tariff readjustment around 23.8%, which is reflected in this result. The performance of our distribution Company what has to do with the financial results were quite positive. And in that profit reaching almost R\$1 billion. And this showed a cash generation that was quite attractive, reaching 22%. So the total of EBITDA it came almost to R\$1.5 billion.

Now the adjustment that we have to make to the results as a function of these extraordinary items that are non-recurring, there one-of-a-kind. I mentioned just the main ones. As you can see in this slide, we have adjustments made as a function of the reversal of a provision of losses for CRC. As Dr. Djalma has said, we have provided for that in 2002. Now because of the signature of the fourth contract, because of the collaterals and dividends we could revise part of that provision.

Another factor, which also is very important now in the negative way, was the RTI provision for the CEMIG generations. In accordance with (inaudible) the instructions of guidelines we had to recognize the payment capacity of the distributing companies in paying back of the expenses relative to the rationing. And this is generated a negative provision of R\$200 million. This made naturally be reconsidered in the future. As long as ANEEL through public (inaudible) decides to collect from the free consumers. And this will allow even the RTE provision for -- this provision could be reverted. The two together were almost 200 million increase of our provisions.

And another aspect that had a negative influence was the revenue relative to energy efficiency. We collect a percentage on the revenue for projects that have to do with energy efficiency in negotiations with our consumers, in the way of having a better use, a more adequate use for the electricity that is given to them. And this provision has to do to with that which was not spent and which this reached 185 million.

So adding it altogether we have these two provisions. We had almost R\$500 million which would rise our EBITDA from 2.5 to almost R\$3 million. Also, we had some other extraordinary factors, for example, the valuing of the real vis-a-vis the U.S. dollar, which gave price to the energy contracts in U.S. dollars, which is -- are a little smaller -- a little -- so I just had an impact which we haven't measured yet. But we understand that the results

corrected adversely will reflect in a very faithful manner the plan in that we had laid out in 2005.

Those were the slides that we had to show we had prepared for the presentation to you. From now on we can entertain questions from you, either on the phone, at 011-461-3050, or if the question is in English using our email address, ri@cemig.com.br.

## Questions And Answers

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

Excuse me, ladies and gentlemen. we're now beginning the question-and-answer session. (Operator Instructions) Eduardo Yermo of Petro Bank.

### Q - Eduardo Yermo

I basically have two questions. The first one having to do with an expenditure, which is relatively high and the participation of the employees as a result of 1 million. I would like to like to have the guidelines of the Company and what we could project for this specific expense in terms of the next few years?

The second question has to do it with CapEx. The Company put the CapEx on a Light for All program. And we could have invest everything in the second phase. I would like to understand what is your own resources of the Company? And because there was a separation there of what is an expenditure of resources given by Electrobras, or your own resources, just to understand the function of this a little better to understand how it works, or it has worked?

### Q - Unidentified Speaker

We can't answer. Let us begin with the CapEx, which is a more direct question. The resources that we procured from Electrobras we publicized in the last presentation of the Third Quarter, in which it is shown a total of 48% relative to a resource of funds from Electrobras from RJR. And exemption of our value-added tax by the state itself. Out of this total we have 25% through loans given by Electrobras with money from RJR. And the remainder to complete the 48% were our -- they don't require -- the monies don't require any repayment. The remainder are from the -- actually our cash flow, the Company's cash.

And last to do with employee participation, in this year we negotiated -- we established -- we had a deal with our unions which resulted in an agreement. I would say non-recurring. So we don't have any perspectives for this to happen again next year. But which resulted in a more expressive payment and a participation of the profits to the employees in exchange for some of the benefits that we had, especially what has to do with the payments of the annual fee, which is the annual bonus, the 1% annual bonus given by -- to the employees for every year on the job. Beginning now we're not going to pay this bonus to the new employees. And we are now able to negotiate with the remaining of the existing employees these 1% yearly increases as can be said by Dr. (inaudible) our Director for Business Management, it is a recovery -- a quite short recovery in the next two years.

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If you allow me just to add on to what you said, you are very perfect in what you said. But just in the guise of an explanation that is a little more complete, I would say that we have a public civil action vis-a-vis our services outsourcing and primarization of services. And this motivated the negotiation with the union. Whereby in the collective agreement of last year what we do normally is to give 1 or 1.2 remuneration of that period -- corresponding to that negotiation period.

This year the value was raised to -- it was raised and we introduced a stronger negotiation in order to solve the public civil action, which would be a civil action litigation which would require the placement of 6,000 electricians into the company. That is hire 6,000 electricians in order to -- for our negotiations that we did to contract a higher 3% of our labor force, direct labor force of our 10,000 employees every year beginning this year for five years. That is we will have 15% of the value of our labor force, which would -- a workforce corresponding to about 1,500 people.

Now we have built in a negotiation of the committees, both of the union and the company, in order to see the activities that could become the activities -- within the Company activities and see which are the ones that could be outsourced. We had a discussion in the period of negotiation, taking out of this yearly payment of 1% over the salary as an additional for time on the job. And we are already hiring 115 trainee this year without this 1% extra. And 489 professionals, already as a result of a wide selection process also without this benefit.

The payback of this operation is 2.9 years. And the Company thought this was reasonable as in terms of negotiation in order to reduce the payment, which is one of our objectives which was a single -- a one time only -- it is a one time only negotiation.

Thank you, Dr. (inaudible). Any other question?

No, that is about it.

So I can imagine that from now on you should keep around 3%, which is in the legislation in terms of the participation? And the CapEx, I still have some doubt, because the CapEx, especially the Light for All program in 2007 considering to be zero. And now you consider 430 million in this case. Was there an increase in costs or do I understood it wrongly when I looked at the slide that you're going to show on the Third Quarter, what would be the Light for All, you would be spending in 2007?

No, our budget, the budget is defined -- the final budget for the Light for All is around R\$1.6 billion. And is reflective exactly this program that you see there slide number 18. There is no change in the cost structure. This slide shows that we have announced when we signed a contract with Electrobras.

## Operator

Philip Illiera with Merrill Lynch.

Bloomberg Transcript

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## Q - Philip Illiera

Two questions, first having to do with the RTE provisions. We imagine that is probably you can recover these amounts. I would like to know what is the likelihood about that -- that you have just about the recovery of this money? And how do you think this is the more feasible way for this to happen? Do you think ANEEL is going to extend the time to charge (over the RTE) or will start collecting from the freestanding consumer? And I ask also for you to clarify that this (inaudible) wasn't merely a reclassification of the results -- is that correct?

## Q - Unidentified Speaker

On the (inaudible) we just reclassified. There was no additional cost. Naturally, as the reclassification was done in the Fourth Quarter, all the adjustment was reflected in the Fourth Quarter. But some total for the year we did not have any increase of expenses. So you would have an idea what is recorded there as deductions corresponds to another (inaudible) of 6% which is nominal rate of the tax. And all of the deductions allowed by law were done in the several provisions of the operational expenses. And that distorted the results a little bit for the Fourth Quarter. But for the global results of the year there is no change. What happened actually was a change in the consideration of the credits allowed by law.

As for RTE, Dr. Fazio Flavio is going to add to my answer.

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

We have a strong expectation that we are going to recover these values. Especially this amount, especially because we expect ANEEL to authorize or determine the collection of the -- from the free consumers which is a clear distortion in the tariff segment in Brazil. In terms of the extension of time to collect RTE, I think this is more difficult for ANEEL to reconsider. But in terms of the free consumer, if ANEEL makes this decision we're going to recover 100% of the money that we have there.

## Operator

Gustavo Gattass from UBS Bank.

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

I have a few questions. I apologize for being a bore. But I was able to see the presentation, the webcast, at least the first question. If you could give us the figures of the CapEx which you have for the next three years?

## Q - Unidentified Speaker

The figures for 2006, the total of 2006 is 1,641,000,000. 2007, 1,531,000,000. In the next years we are still reviewing our master plan, our strategic plan. As you know we have the commitment to revise it every year. And in our annual event with the analysts and investors which should take place in the first week of May, we're going to present our projections and include our CapEx beyond 2007.

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Now are these two still subject to change or this is a closed done deal or are you going to consider only years after 2007?

There can always occur some restructuring due to analysis of our projects. The projects can be postponed, therefore we may have some change, especially in what has to do with 2007. But I believe that 2006 we already have -- the number is closed -- the figures are closed.

Now, let me move on to another question. The other one has to do with the Light for All program, the Luz para Todos, you had mentioned. This is -- you through part of it, until 2007. I would like to understand does this bring any risk of not meeting your schedule for 2006, or you have the trigger in the tariff, or it doesn't?

Dr. Djalma is going to answer that.

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

Evidently we have a contract with the -- up until April 2007. But we have had constant meetings with these members in the way of making feasible the project up until December 2006. We have challenges, of course. But I trust this time and the name of the companies, the three companies (inaudible) and we have the commitment with the government of the states to make this project feasible up until December 2006.

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

Dr. Djalma, let me merely add to my question. If by any chance this happens. And if you have the complete implementation until December 2006, your payment schedule of CapEx would go into 2007 or would it be anticipated?

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

The payment schedule is going to follow exactly as we are projecting here.

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

Thank you. And my other question is by any chance if you don't deliver still 2006 are we going to be exposed to any problems with ANEEL?

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

Of course. Certainly, maybe we may not be here next year, if this happens.

**Q - Unidentified Speaker**

Another question, Luiz, what has to do with results. You should understand that all the provisions of referring to all the periods and not 2005, can you confirm that?

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

That is confirmed.

## Q - Unidentified Speaker

Now I had requests from the numbers to have the data. If I look only at the generation part of CEMIG what would be mean tariff that you had in 2005?

Just generation?

Net, after taxes.

I will have to figure it out, Gustavo. You have the data there in your hands. It is revenue of 1,964,000,000 total sales of power, which was 25,621 gigawatts hour.

Let me write this down here.

If you want to know the tax we can send it to you.

I needed only the net number for the value-added tax, 1,900,000?

940 million.

And the volume?

25,621. R\$1,964,000,000. And volume was 25,621 gigawatts.

Thank you, very much. And these figures are comparable?

There is no other -- certainly -- yes we are. That includes everything.

Let me rephrase my question therefore. The mean tariff of the contracts -- I think I will wait for the answer. And my last question has to do with the holdings added value taxes, there is no mention. Is there anything pending? I would like to confirm if you have been able to collect everything or have not, or haven't you?

We paid the 221 million total. We paid everything.

My doubt is I know you have paid up until the beginning of the year. But you did you collect from the consumers?

No, we still had problems there still. We are still negotiating with some consumers. I don't have the exact figures here. Does anybody have the number? Flavio?

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

Roughly about one-third, one-third and one-third -- one-third solved, one-third under negotiation, one-third in court.

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## Q - Unidentified Speaker

So nothing has changed for since that first moment, because I remember it was one-third, one-third, one-third at the time, is that it?

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

That's right.

## Q - Unidentified Speaker

Just a remark, Gustavo, you're never partially bored, you're a very pleasant person. (inaudible)

In order to ask for figures -- to request figures better (inaudible) in your presentations is almost a lack of respect. I apologize, I didn't really see the numbers.

Now we have a question which came from (inaudible).

The question has to do with the provision of the research and development which we had. Am I right in the understanding that basically we should -- we owe 185 million to our consumers because of the funds for projects of research and development that we did not spend that money? How much of that money, 185 million, is payable because of the absence of the expenses in 2005. And how about 2004?

The answer is that in fact we are not going to return this money to the consumers. What we're going to do is allocate those funds in the projects of research and development and energy efficiency projects in the next few years. And this provision is going to be deducted and as the projects are carried out. I unfortunately don't have here in hand the installment or the amounts relative to 2005. But it is proportional to the total that we provided for, 185 million. Proportional to the revenue, the revenue of 2005 was close to R\$9 billion, therefore so it is around 2% of the revenues. But I can also send to you over the email this answer in a more accurate way. I ask you to be a little patient. As soon as we finish the teleconference I am going to inform that to you.

I would like to explain something in addition to what you said. It is a conceptual explanation on the research and development -- R&D. This was a law of December 15, 2005 in which the Company was forced to -- actually this expense which is not really even approved by ANEEL -- the expense was forced upon us. It is not a non-applied money. It is an expense that has not been approved yet. So the money will be recovered after that.

## Q - Unidentified Company Speaker

Dr. (inaudible) we have more questions from the web, Scott Phillips of (Long Bank Capital).

## Q - Scott Phillips {BIO 16893692 <GO>}

And the question is the increments of the personal expenses with the employees and the increase of 7.6% and the participation in the results of 185 million, would that be recurrent?

## Q - Unidentified Speaker

Recurrent, in the increase of 7.6%, that is recurrent. The 184 million, as explained by Dr. (inaudible), they're not recurrent. Those are relevant to this once only negotiation in 2005.

## Q - Scott Phillips {BIO 16893692 <GO>}

The second question is relative to electricity provided or supplied in 2005. From the second to the Fourth Quarter. The figures are very high. But the First Quarter 2005 was low. Why is the First Quarter of 2005 is so low. And what is the expectation for the demand of power for 2006?

## Q - Unidentified Speaker

The explanation for that is that we had the impact caused by the migration of some of our largest consumers to the free consumers base. And when they did that we had to begin the invoicing of the billing of these customers beginning January. And this made the volume recorded in January become small. And affected the overall performance of the First Quarter. But in the following quarters, this performance became normal again, therefore, in a way we have to -- in order to analyze this more deeply -- we have to discard what happened in the First Quarter. If we had published this figure, probably the increase of sales would be around 7.5%.

## A - Wilson Nelio Brumer {BIO 1524504 <GO>}

I would also like to add to complement the figure is not going into details of figures and amounts. But to tell our investors about the perspective of the economy of the state, which certainly has effects upon CEMIG where its main market is. Now we had been growing in Minas Gerais above the national average. And the growth of the Brazilian GNP was about 2.3%, while our gross internal products in Minas Gerais is going to be over 5%. And our expectation is for that same performance to continue during the year 2006, that is the economy in Minas Gerais is going to grow above the national average. And this is going to have a positive impact on the sales of energy by CEMIG.

## Q - Unidentified Speaker

We have more questions coming over the Internet. And at this time from (Haliel Quintinella) (inaudible).

## Q - Haliel Quintinella

I would like to know about the provisions done by the Company. What is the future expectation?

## Q - Unidentified Speaker

In terms of the provisions that we -- there were made the most significant one was the one we have just talked about. RTE, the perspective of which Dr. Flavio Decat has already clarified. As in terms of research and development the information of Dr. (inaudible) also clarifies the future outlook for that. And the other operational provisions are (inaudible) as



a function either of revenues increase in what has to do it doubtful debts and the failure or success in the litigation processes that we have in several issues raised by consumers.

One other question also coming over the Internet from Mr. Stuart Rider of Bear Stearns.

### **Q - Stuart Rider**

He would like to know what portion of the deductions from the revenues were incurred in the Fourth Quarter that are nonrecurrent?

### **Q - Unidentified Speaker**

I don't have here this money at hand. But we're going to send the figures to you right after our conference call. And the information will be sent to you. I would like only to clarify that everyone will have access to these sensors once they're going to be part of the question-and-answer session of our website.

Gustavo Gattass from UBS Bank.

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

I have two more questions. I apologize for that. The first one, the reversal of the provisions of the social contribution and taxes in the Fourth Quarter, more or less R\$90 million. Just to confirm with you, what led to that reversal? And if it was accounted for at below or above the EBITDA line?

### **Q - Unidentified Speaker**

It was deducted from the line relative to taxation. That is outside EBITDA line. And it was due -- actually this provision had already been extremely conservative in the past. We were the only public utility that had this provision. And in the discussions with our auditors we decided to promote the reversal of that provision. It is exactly on the line of the income tax and the social tax.

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

Thank you, very much. Now, is there any updating in terms of the story of the ANEEL of CRC and the (article they do), that has there been any change in that process?

### **Q - Unidentified Speaker**

It has had its normal movement. But it is still in the same stage as it was. It is expected that we shouldn't expect any bigger difficulty there from the point of view of practical results.

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

My very last question, could you tell us something about shorter term plans for acquisitions? Something in your impression is going to take place within the next six months, is there any guidance for us?

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## Q - Unidentified Speaker

Gustavo, I think the market in a certain way has followed some of the movements that CEMIG has been making. Maybe the most talked about one is the process of light, the light Company. And we continue with the other bidders that we are participating in this process. And certainly it is a decision of the seller, the speed and the agility with which the final decision will be made. But given everything that we hear, possibly even in this first -- in the next 60 days or two months relative to this company a decision should be made.

There is no -- it is not anything new. Everyone that is participating in this process, we made an offer after the period of a due diligence period. And there was a presentation of this proposal. And we now are waiting for a decision from the seller to sit down at the table. And if we are chosen from among those people to present a proposal for the negotiations. But looking at what is going on the market, our expectation is that there is a certain haste on their part. So we have been working under this perspective that in about two months we will be able to solve the problem, our expectation relative to another asset that we have been analyzing. Possibly in the next two weeks there will be news.

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

Thank you, very much. Also in Brazil -- is this asset also in Brazil?

## Q - Unidentified Speaker

Ladies and gentlemen. the next question comes from (inaudible).

Just a request. When you have the energy balance to put that on our website with the level of loss and debts.

Everything is going to be made available as of next week on our website.

Another question relative to the PCH do you have any thing to show us? The PCH program, what is the status of the program, is it going on?

Dr. Joe Djalma is going to answer that.

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

The program is relatively well. It is doing relatively well. We're probably in the next few days beginning -- the negotiations to begin three small works -- plants. The program is within work what was predicted actually in a little over -- in terms of megawatts -- over what has been forecast. But we are within the schedule. We are having some environmental problems. But those are easy to solve. Probably in the next few days the governor is going to issue an order to begin the the first three enterprises.

## Q - Unidentified Speaker

A question which came by email of Lilyanna Yang of Morgan.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

Three questions that she asked. Could you please inform the numbers -- the level of CapEx 2006 and 2007, excluding the Light for All program?

**Q - Unidentified Speaker**

Yes, our chart, the one that we published on page 19, you have the total for Light for All, both in phase 1 and phase 2 subtracted from this total. And this will answer your question.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

Now please clarify whether the 185 million research and development are going to be actually expensed from the cash in what years? Whether these others are included as investments in CapEx last year that is prior to the Fourth Quarter of 2005?

**Q - Unidentified Speaker**

These expenses -- these investments in fact are included in our investments program for the next years in so far as the projects are defined and approved by ANEEL, therefore there is going to be a cash expenditure in the next years.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

The third question has to do with could you put into perspective the potential acquisition of Light by the consortium AIG CEMIG, especially what has to do with the timing of the operation, the financing of that opposition? And please comment on how you see the possibility of the government of Rio de Janeiro having a seat in the Board of Light?

**Q - Unidentified Speaker**

As I have tried to say, our expectation is that in two months time the state of Rio de Janeiro may make a decision or the seller may make a decision on the part of the several offers that may receive. We understand that our consortium is well-positioned. Certainly, this I think is going to be clear to all of you. And we will be able to move ahead with the project, if that means the addition of value to us.

And also we would like to emphasize that as we have in our statutes, it in our regulations, levels of debt and covenants that we impose on ourselves in our master plan, certainly in this process also we're taking into account the adequate funding for this acquisition. It is always important to stress that we have formed a consortium that is the effort of investment for this eventual acquisition. And certainly is divided among the several members of the consortium, which also reduces our financing efforts and cash expenditures for this acquisition.

As for in terms of the actions or shares in the participation of the Rio de Janeiro government, our position is very clear about this acquisition. First, it is natural that a Company of the size of Light has from the government of Rio de Janeiro natural concerns that we understand in terms of the way the Company should diminish what we have talked about with the government of Rio also refers to the maintenance of the

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headquarters of the Company -- Rio de Janeiro to the total number of employees in our evaluation. It's adequate for the operations there.

This does not mean necessarily that structural changes and management changes are not needed. Of course, in terms of the total picture, it is an adequate number. As far as speculations of a possible participation of the Rio government, this has not reached the consortium. Naturally the state of Rio de Janeiro, the administration there is expecting for the negotiations to close in order to approximate or to get closer to the consortium -- the winning consortium. We understand that if the Rio de Janeiro government is not the stockholder, shareholder in this process, we don't understand how this will take place. But certainly, it is part of our concern to arrive at a place investing and participating in that operation activity, if we are well received. And given everything that we have talked with the governor of Rio and now the authorities, we understand that we are welcome in this city of Rio de Janeiro.

With that we close the session of questions and answers.

## Operator

Ladies and gentlemen. we have now closed the question-and-answer session. I would like to give the floor now to Mr. Wilson Nelio Brumer for the final considerations.

## A - Wilson Nelio Brumer {BIO 1524504 <GO>}

I would like as we close this participation, this conference to address my thanks, special thanks to the technical staff of the Company for the brilliant results we had during the year 2005. We would also like to extend our thanks to all the top management of the Company because of the results that were obtained. Certainly the last quarter actually has some provisions that were explained here, some of which are nonrecurrent. But in my view, in my way of saying I understand that the numbers -- that the figures that CEMIG presents are very robust, very strong. And most importantly, they show the fulfillments and the discipline that has been followed vis-a-vis the planning that the Company has laid out for itself. And also a word of thanks to my colleagues on the Board of the administration of CEMIG that during the whole year we all made efforts for the Company to be able to reach these objectives.

And a very special word of thanks to our investors, our analysts who followed very closely the performance of the Company during 2005. And I'm pretty certain that if we hold on to this spirit we will add value to the Company. All of the stakeholders will stand to gain from this process. And I'm certain that in 2006 has everything to be better than 2005. Thank you, very much.

## Operator

The audio conference of CEMIG is closed.

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