Q4 2007 Earnings Call

Company Participants

- Djalma Bastos de Morais, Exec.-Dir.
- Luis Fernando Rolla, Dir.-Fin./IR
- Marcio Araujo de Lacerda, Chmn.
- Unidentified Speaker, Company Representative

Other Participants

- Erison Frej, Analyst
- Ferdli Pinata, Analyst
- Sergio Tamashiro, Analyst
- Unidentified Participant, Analyst

Presentation

Unidentified Speaker

Good morning, everyone. So we will begin of the transmission of the video webcast of Cemig's results for 2007, which includes, among other people, Dr. Marcio Araujo de Lacerda, Chairman of the Board[ph], Djalma Bastos de Morais, our Executive Director, Dr. Luiz Fernando Rolla, Director of Finances and relations with investors and control of participation, Dr. Fernando Henrique Neto, Director for Generation and Transmission, Dr. Marco Antonio Rodrigues da Cunha, Director for Corporate Management, Dr. Jose Carlos[ph] de Mattos, our Director for developing new business. And Dr. Bernardo Afonso Salomao de Alvarenga, who is the Sales Director.

(inaudible)--and by the telephone 011-4688-6301. So now I'd like to yield the floor to Mr. Marcio Lacerda, the president of the board of Cemig.

Marcio Araujo de Lacerda {BIO 15840099 <GO>}

Well. Good morning, everyone. It is a great pleasure to be here once again to speak of corporate results, in this case speaking of 2007. I will speak of our highlights, starting with finances, where we will present the -- R$4.073 billion in results and which represents 40% of LAGIDA[ph] or EBITDA margin according to Dr. Rolla, the largest in the market, with a profit of R$1.73 billion, with dividends R$868 million and growth of 26% in our EBITDA. The master plan is aligned and our actions are very well aligned with the master plan. This -- the basis is very strong, showing that we are advancing very well.

The item Santo Antonio presents a movement towards new frontiers for generating energy from the Amazon, which is essential for us to reach the goal of 20% of market share in the Brazilian -- in the domestic market. Expected return is adequate to the investment. According to the market, when the market, we have consolidated sales of 57,892 gigawatts hour with a growth of 11% and sales to Argentina and Uruguay contributed with a significant amount.

Corporate governance -- the statutes includes the new challenges -- rules for the new challenges due to the consolidation of this industry with the board working together with the auditing services and with the certification of internal controls according to Sections 302 and 404 of the Sarbanes-Oxley Law.

In the energy tender or bid, we have been able to sell the Funil energy at a price of R$125.90 in a contract -- in a 30-year contracts from 2012 onwards. In regulations, it's important to point out the renewal of concessions with -- for Cemig GT, renewing over 1,700 gigawatts of installed capacity. And it's important to point out that we will review the tariffs, which will be repositioned from April 8 onwards. This will be a matter for comments made further along in this meeting.

In management, it's important to highlight that the Company has been awarded, as one -- as the best company to work in the category large companies among 150. Participation in results reflects measures to reduce future expenses with personnel and, from 2008 onwards, variable rewards will be part of the corporate goals.

In sustainability, Cemig is considered as a leader in the Dow Jones Sustainability Index. It has also been elected by consumers as the best company in the South East company for generating energy. In expansion, it's important to point out that a number of studies have been done for new projects for generating novel sources of energy and inventories of the river basins in the state of Minas Gerais. This means a total of more than 4,000 megawatts. This will increase competitiveness in the future with the possibility of future expansion.

And finally, it's important also to note that we have always sought leadership for consolidation in -- and becoming leaders in the Brazilian market by being leaders focusing on transmission, generation -- or generation, transmission and distribution of energy and natural gas.

This sale of Way TV by Infovias is an example in which we have searched greater focus and we sold this for R$103 million, which resulted in a profit of R$54 million. We continue to pursue returns compatible with the risk of each of the investment opportunities and each of these investment opportunities are well assessed. We're also seeking strategic partnerships to reduce risk, to increase competitiveness and to include the best corporate practices. And the master plan defines goals -- defines long-term goals, all of this always in searching for greater sustainability.

So Dr. Lacerdo[ph].

Unidentified Speaker

Well thank you. So we will now yield the floor to Dr. Djalma Bastos, who is the CEO of our company.

Djalma Bastos de Morais {BIO 2089645 <GO>}

Good morning, ladies and gentlemen. This is a great pleasure to be here once again for this discussion and let's start with the part relating to investments, focusing on the electrical sector and other activities where the results are compatible with each business, partnership with strategic investors, corporate governance growth through new projects with a long-term view, including the idea that it's impossible to be away from the Amazon. Growth through acquisition that allows us to grow faster, as you will be able to see here as we go along when Dr. Rolla describes his -- speaks.

I'd like go back to this first slide, please, afterwards. Well our investments is defined, as is shown here on this picture. Acquisition of approximately R$43 million for 2008. It's R$334 million and the Cemig D, R$1,184 million. In the program Light for Everyone, which is called Luz para Tofos in Portuguese, we are working with Eletrobras, a greater participation, about 30% in increasing participation in each of the points in which we place power in rural areas. This year we expect to have about 55,000 new points for distributing power with this new focus and this adds about 30% in subsidized costs, we should say. Our capability for generation has increased by 16%, 10% in transmission, 3% sub-transmission and 20% in distribution lines.

Amazon, the new frontier for generating power, we are participating in Santo Antonio, the hydroelectric plant at Santo Antonio. We should, if everything moves well with our new partners, with the same partners we can say we should also be part of Jiral[ph] now in May. And in the renewal of concessions, we expect this for another 20 years. We will then solve the problem of Baguari, 140,000 megawatts. And the -- 140 megawatts. And the Minas PCH program is ongoing. We went to the ministry of energy and we suggested about 22 of the 32 hydroelectric plants that exist. And once again we spoke of financing in order to repower these 22 plants. And we discussed this with the BNDES.

In 2007, expecting 200 -- or rather we linked 279,000 new consumers and we foresee 180 more over that of the goals by now and we need to universalize the supply of power. This will be done with the corporate resources plus what has -- will be obtained from the government. We also have an added 27,000 kilometers of distribution networks. An important fact is sustainability. Sustainability has been a corporate value. Just to give you an idea, we have about 10% of our labor -- work force dedicated to programs that deal with environment and we did in 2007. And we should continue with this same number in 2008. Resources applied R$44 million, the environmental management system now reaching 82% of their full installed generating capacity by diversity and what we call the Terra de Gente, the land, our land.

So we -- could we go back to the first slide, please? Growth through new projects, impossible to be out of the Amazon. Gentlemen, we have, about a month ago, we spoke about our bid in which we won in Santo Antonio and we then committed ourselves, we would commit ourselves to attain profitability over 12%. Dr. Rolla will speak of this in more detail. But I'd like to tell you a few facts. Cemig, as a company, the company that it is. And in the position it has today in the country and even out of the country, it is a company that cannot stay out of the Amazon. That's where we have a major resources for generating hydroelectric power in the future. Over 70% of the water resources are there. So I'd like then for you to note three points about our company.

First of all, we are not in Santo Antonio or in the Madeira River in its totality if we did not have numbers that would add value to our company. We have no intention of being there to help different A, B or C companies. What we do -- what we can do is to add value to our company and to participate in this major enterprise, which is the Amazon. In these nine years in which I've been here in this company, at no point did I receive from Dr. Itamar Franco, Dr. Aisin Arifus[ph], the governors, I have not received any action in terms of having to participate in this or that project. We are there because this will assure us good profitability of 12%. You have to also note that our company -- we have grown, as I said, in 26%, we find a -- we found a small variation now net profit. Dr. Rolla will describe this greater detail.

But the most important thing is that what we should bear in mind is that the company grew over 26%. All of the projects that we have gone into in the future or now will always be based on the idea of adding value to the company. I have had no pressure from nowhere, from no government agency to participate in this or that project if there was no assured profitability. So I would like to show you that the company will continue to invest in whatever adds value to the company. It can be -- it might be that the Gerais plant has a better situation. We will continue to participate in this and other possible future projects. Thank you.

Unidentified Speaker

Well thank you, Mr. President. We now yield the floor to our director of financial -- director and relation with investors, Dr. Luiz Fernando Rolla.

Luis Fernando Rolla

Well. Good morning, everyone. It is a great pleasure to be here and to present the financial numbers for 2007 to you. Obviously, these numbers are the result of implementing the strategies that have been described here by Dr. Morais and Dr. Lacerda. We have numbers, numbers that show the -- how these strategies are correct and I'll try to show you this.

Right on the first slide on page 19, you can see the impact of acquiring light and acquiring TBE in our results. You can see that, in these results, for instance, the revenue -- the net revenue, the operating revenue increased in R$2 billion, simply by acquiring Light. And this is a relevant value. We had a very substantial growth in our revenue as a result of these acquisitions. It's a way we have of growing a little more rapidly than simply by growing organically or going greenfield, just by building our own transmission lines. Therefore, it is a strategy that has had a very positive result for Cemig.

And as Dr. Morais says, it will continue to add value by careful selection of the investments that we have made. You can see, for instance, the contribution that light has given us to our results, R$276 million, which resulted in paying dividends of about R$78 million[ph]. So it is a very positive investment. Just like TBE, you see that the contribution for our results reached R$61 million. So all of this shows then that the decisions were made according to what our dividend policy foresees.

The next slide we have a few other parameters, as you can see that shows you the positive impact of acquisitions. We had sales of power increasing by about 11%, as Dr. Marcio Araujo de Lacerda commented. Much of this growth came by incorporating that percentage that Cemig has in the RME -- 5,000 gigawatts power, which really represents a very substantial growth, something like 11% in our sales. And it is also a strong impact that we see there, our results. If we add TBE with Light, this will represent about 15% growth in our results because of these acquisitions.

The debt, on the other hand, was not affected because the impact -- its impact on the global debt of the company was very low because of the wonderful work developed by Light in reducing their own debt, which then led to this lower impact. So we had a positive impact on our results, increasing revenue and almost no impact by incorporating the debt of light into our numbers.

Our consumers, you can see that today we already provide service to more than 10 million consumers. This is very expressive, very significant. Our consolidated groups then provides power to more than 10 million, which is more than 50% over our closer competitors. We also have a number of employees today that is close to 15,000 people distributed in the various companies, Cemig and light.

The next page, you can see here the contribution of each of the businesses for our profit, particularly the distributor today, Cemig Distribution, is responsible for 46% of our net profit. That's important to say that because our distributor, as you all know, has a high tariff because of the investments that have -- that we have been -- that we have made as past[ph]. Many kilometers of networks to provide service to over 6 million consumers. But it contributes with about 46% of our profit, 43% of cash flow. So although tariffs are high and we recognize that because of the regulatory structure that increases the tariffs somewhat, the impact of our distributor on our results on -- is what you see here.

In the next page, page 22, you can see here some of the key metrics for -- that we use in Cemig for control to -- according to what Dr. Marcio Lacerda has mentioned. We are focused on -- and our strategy contained in the master plan to grow in a healthy manner and in a sustainable manner. For this then we have everything -- our debts well planned, our financial management is well controlled by parameters, by metrics, by key indicators that then indicate whether we are moving forward adequately or not and we reassess the performance continuously as these parameters vary for more or for less according to what is prescribed within our master plan.

The next page, you can see these -- the numbers. This is; this is our debt. The performance has been very well aligned with our policies in general, as you will know very well. We seek not only to increase -- to reduce our risk, rather to reduce the interest and to reduce exposure to a number of threats to this. And you can see that we have a very positive result. We see that 71% of the debt is indexed to CDI, which will be able to use the fall in the interest rate.

This has been affected by the recent results in the international market. But still we are prepared to deal with this once these difficulties are overcome -- external difficulties are overcome -- then we can continue with our own process of reducing the interest rate. As I said, all of the parameters, all of the indicators, the metrics for debt are within our plans, not only according to what's in our statutes. But also according to our contracts, our financing contracts that have been signed with a number of banks.

The next page you can see that our -- the debt -- we were very successful in reducing the interest rate, then lengthening the period for paying the debt. In 2007, we have less than 8% as a mean interest rate. As you will see in the next slide, this results in less cost for paying the interest. And the deadline is an average of five years. Last year this was 4.3 years. So we have increased this, which is favorable. So the deadlines for paying these debts are five years.

So you can see here that for 2008, the pressure is low on the debt -- something like R$1 billion, which we can do easily and waiting for the best moment so that we can continue to reduce the cost of our debt. We have our partners who have helped us significantly in refinancing the debt, including the market today that responds for 22% of our debt and we have sought to be as transparent as possible, to reduce the perception of risk in terms of the quality of our credit. And therefore, with this -- this leads to again reducing our interest rate.

Here on the slides, this is the variation in cash flow throughout 2007. You can see that we have -- that we reached the end of 2007 with cash flow over R$2 billion. We are bringing together resources so that we can continue with our acquisitions and our investments that have been mentioned here, both by Dr. Marcio Araujo de Lacerda and Dr. Djalma Bastos de Morais. So we are prepared for this move, this second wave of consolidation in this area, which appears to take place or probably will take place in 2008. This year will probably be very important for this, given the nature and the volume of assets that are being placed on sale.

In this slide, slide 26, you can see here the development of our net revenue. It grew 21%. Of course, in this result, we have the impact of our acquisitions. As I said, this is one of the components and this impact was very positive, particularly by acquiring light. It generated an added revenue of R$2 billion that contributed significantly to this increase in 21% in our net revenue.

In the next slide you can see the expenses -- the consolidated expenses. They suffered the impact of -- because of the acquisition because we also consolidated in this general context our operating expenses. So you can see that in acquiring -- power adding -- we acquired much more power. This increased substantially. We increased our operating expenses by 17%, most of which coming from the growth of purchasing power. And this growth then is the result of our acquisitions. In the same way, what we had to separate this was also part of our provisions.

Much of this came as a result of incorporating the numbers of Light into Cemig. You can see here on this slide how we formed the profit from 2006 to 2007 to reach R$1,735 million in 2007. The factors that added to this profit are shown there. So everything is clearly shown there for you. What increased the profit and what reduced it, we highlighted the participation of the employees. It's part of a more general policy, which aims to reduce our cost with personnel. So if we extract the impact of -- or the participation of profits, our -- we could have reach nearly -- over R$2 billion with a growth of 6% compared to 2006. However, the decision was made by the direction of the board to pay additional because of the benefits that we will gain from this in the negotiation with our unions.

In this sense, on the next page, we now -- well, I want to speak of our human capital -- our policy for human capital. We do not simply look at the expenses with personnel as a simple expense. What we want is to deal with this in a more -- in a wider sense, connecting the reward system to the performance that is offered. And with this then we will be able to motivate our employees much more and surely much better aligned to the interests of our shareholders that have suggested this change repeatedly in the past of linking reward system with performance.

We are implementing managerial practices in this sense, according to the best practices, which we have seen implemented by successful companies. We have a program for managing succession, which involves more than 750 professionals to substitute the managers that will be substituted, whether it be by retirement or other programs for voluntary loss. So we are losing some of these managers. So we have this program for substituting all of them and this has had a positive impact -- effect, sorry. We have a training program -- managerial training management of the corporate climate.

All of this has been recognized by international agencies, particularly the Dow Jones Sustainability Index, particularly referring to the essence of our human resources, the practices made by our human resources. We had performance close to 100% in the major requirements, which are the most important of them. We are also concerned with the safety of our employees and our actions have also been recognized in this sense. We have received -- been awarded in 2007, which is Protecao Brasil -- Brazil Protection -- which is the best case for protection of the employees for improving the conditions of work, labor, conditions and health conditions of our employees.

Next page, you can see here the -- in greater detail, progressive reduction of expenses with personnel. So this is part of a long-term program. We are seeking to improve the quality of rewards of pay, which is given -- paid to our employees. We are not putting at risk the labor relations. Quite the opposite. We are seeking to provide our employees with rewards that will be compatible with their -- with the performance that the company has had. So we start in 2005 by eliminating the yearly -- one of the yearly forms of pay. We changed the statutes to bring the new reward system, operating expenses according to participation in profits. This then allows us the substantial saving in taxes. We have a strong impact, a positive impact in this sense. And we did this when we changed our statutes in order to adapt it to the new form of reward system that's being developed in the company.

That was the end of this year. In the negotiations with the unions, we eliminated a specific pay that was given to employees -- 16.7%. It was two extra salaries paid and we eliminated this in such a way that, when we hire our new employees, we will have a substantial gain by eliminating this particular form of pay, as you'll see shortly. Together with all of this, we hired an international consultancy firm that will review all of the operating processes in the company and that, together with the previous actions, will allow us to reduce substantially these expenses.

This will result in a program for those employees that wish to leave. This was approved by our management board last week and we're already putting this in practice from this week onwards. We now have a program, which is a permanent program as you will see shortly. In this way, then, the employees -- the current employees that receive additionally these extra pays, the sum of these two thoughts represents about 20% of the total of our expenses in salaries. In the long term, of course, by substituting this form of contract with other -- the new contracts when new employees come in, this will reflect in our expenses, reducing our expenses with personnel. You will see this shortly.

So in the next page, we have added information about this particular program. We decided to pay participation on results and to -- this was, an extra pay, something like R$358 million. And the idea was to remove that previous 16.7% extra pay that was not connected to performance and therefore was simply automatic. And we were able to remove it from our pay. This gain is something like -- is 14%, a little over 14% that will add a lot of benefit for our shareholders, not only because the expense will be reduced. But because also we will have our employees much more motivated to increase the productivity and the productivity of the company in -- therefore improve performance which will mean greater profit.

Well of course, based on our managerial policies for managing human resources, we are very consumed with the impact that these changes will have or are having and we're seeking to really encourage, to provide incentives to our employees so that they can, they can be more productive. We are also launching, as I said before, the program for voluntary -- of those who wish to leave the company voluntarily. There is a program specifically for this.

This program has been commenced and it will really -- it will not affect significantly our results because the return that we will obtain from this, whether it be by paying for this program will be expected within a year. So we hope to have substantial gain with this program that will add benefit to this company still in 2008. Expectation is something like 1,800 people in three years. This will represent, as I said, a significant gain for our shareholders.

In this slide, you can see consolidated sales. I will just gloss over these numbers very quickly. This -- there's a positive impact caused by incorporating the numbers of Light as well as the sales performance of our companies. For instance, if I remove the contribution of Light, you can see that we had a market gain of something like 3,000 gigawatts per hour. This means a growth of 6.1% compared to 2006, which is an extremely positive number. So you can see here that all of the categories were assessed positively. All of them contributed to this growth and this is our expectation for 2008.

Next page you can see the performance, the EBITDA, the margin of this in the last few years. And our quarterly result is over R$1 billion and that's the; level we expect for 2008, according to our plan. This is very directly aligned with our guidelines in general. So we are very pleased with our results so far because we are delivering what we provide or promised. So you can see here our quarterly results analysis. Of course, the Fourth Quarter had the impact by the participation of the employees. This was a significant number in the last quarter of 2007. This, of course, affects the comparison with the previous quarter or the quarter of the year before. But naturally, with the benefits that we will accrue as a result of the negotiations that I mentioned before, in the next quarters, we will have a very superior performance.

In the next slides, we here now have the results of Cemig Generation and Cemig Distribution. Cemig Generation saw an increase in revenue of about 19% with an impact on the profit, as you can see, on page 37, of 22%. So this was an extremely positive performance aligned with our expectations. We have an average increase in the mean price in our growth. We have been able to sell the capabilities of different u[ph] at a very positive margin, which increases our net profit. In -- now the growth in sales was also very strong because of the -- or rather by increasing these volumes. And as you can see here, we have -- our trend is towards growth as we grow our new capabilities and increase our newer capabilities or purchase assets. This is what seems to happen in the Cemig distributor. The increase in revenue was 10%.

Sale to end consumers had a positive impact, as I said before. We had a growth of 6% in sales to these consumers, which then led to this increase in our net revenue. But the variation of profit did not increase in the same percentage because of the impact of the special participation given to our employees in the profits, which affect exactly this number, which is what we expected in the distributor. This is part of our strategy of improving the performance, the corporate performance. We are within the regulating cycle, as you know.

We are in the middle of as review of tariffs and taxes in the country, which will rearrange and provide a new economic and financial balance for our distributor and within this strategy that we have, that we see in this revision of taxes. We are preparing the conditions so that in the next cycle we may be able not only to adapt to the operating expenses that will be established by ANEEL. But also to be able to obtain gains in productivity.

Sales -- you can see here the impact of the quarterly sales of Cemig Distribution, which grew 4.2% compared to 2006 with thermal power transported, shown here. It is a very positive result, 4.8%. This is within what we expected for our distributor. It was poor in 2005, 2006 and now reaching a volume of growth, which is much more aligned with the growth of the GDP. Now the distributor will reflect much more this growth as all of those negative impacts caused by the factors that we saw in 2005, 2006 have already been absorbed. I now yield back the floor to our chairman.

Unidentified Speaker

Well before going onto Dr. Marcio Lacerda to conclude our presentation, our -- we will hear Dr. Djalma, who wishes to add a few points.

Djalma Bastos de Morais {BIO 2089645 <GO>}

It's very difficult to add to what has already been said here by Dr. Rolla. I just wanted to reinforce, not to add to what he has said. It is difficult because he is already very complete in what he said. But I'd like to just reinforce the following points. We saw an increase in our EBITDA of 26%. We have not -- we do not expect, in 2008, we have not foreseen any kind of acquisition for the company in, relative to our employees in those 16% that I mentioned before. So -- and in previous years what we have paid. So there will be no impact on our profit. Any type of acquisition or whatever will have an impact on our profit in 2008.

A second point is that the rewards will continue while we are in this position. This is a project that we wish to extend for the next few years. But there are limits. The limit is that we are here. It might be in the next management. The future managements, they might wish to change this. And when Dr. Rolla says that the forecast is -- or he said 1,800 leaving the company voluntarily in the next three years, the company does not foresee any type of substitution for these employees because we will, first of all, wait for the changes that we are hiring to define exactly how many people we truly in the company

So we are not expecting to substitute them immediately. We will not have any entrance events for -- competitions for bringing in people. There might a few people brought in. But much less than these 1,800 that will leave -- that will leave. So we do not, in 2008, we do not foresee an acquisition of the company on the part of their employees. So there will be a proportional effect in the increase in our profits in 2008. So thank you.

Unidentified Speaker

So then, Dr. Marcio Lacerda, which is the president of our board, for him to conclude our presentation.

Marcio Araujo de Lacerda {BIO 15840099 <GO>}

Well to conclude, very briefly, the set of information that has been revealed and commented here confirms that the company has a strategy that assures growth, sustainable growth. As you can see here, at 55 years of age, Cemig becomes a major corporation, not only because of its metrics and indicators. But because it is managing in a sustainable manner. I repeat the offset or its participation in a set of 40 companies and seven partnerships or consortia with a trend towards diversification and increase in this complexity as a corporation.

So we have this map, which helps us to design a new map in the electrical industry in Brazil. This confirms the leadership of Cemig. These numbers are well known to all of you. But it's important to highlight that this has allowed us to provide 13,226 gigawatts hour in -- and 93 contracts with distributors and other companies that sell power throughout the country.

Well the solidity of our basics are shown here. It's important to highlight these points that show or are evidence of the solidity of our company and which enable us to grow further. Dividends paid in the last three years were more than R$4.3 billion. R$4.3 billion paid as dividends in the last three years. Financial metrics kept well within the limits established by our statutes.

Operating excellency for reducing costs, resulting in increased gains in efficiency. In the last meeting here, we said that the governor of the state are most important -- that state which our most important shareholder, that the company should implement an integrated program for reducing costs. And this -- we are frequently asked to implement these measures. So we have a consultancy firm working along these lines. Also risk management assures reliability to investment decisions. Management of human capital modernizes the relations with employees and prepares the company for a new reality in this industry. And we have the tax review that will be implemented in April 2008.

And Dr. Rolla will -- certainly will be able to answer questions on this. Well on this slide then, again, along the same lines of our basics, our commitment with the return to investments, assuring sustainable growth, focused on the long-term investment policy aligned to our master plan. So we have, for 2008, the following scenario. There is a significant -- or there are significant opportunities for acquisitions throughout the whole years, renewed tenders for new concessions and, for this, the shareholders should approve new limits for key indicators. We -- there will a general plenary meeting shortly for this.

And therefore, along these lines, we have reached, at the end of 2007, R$24.3 billion in total assets, consolidated debt, R$7.6 billion, net assets, R$8.4 billion. And consolidated net revenue, R$10.2 billion. I then would like to make use of this opportunity as well to highlight here, as chairman of the board, the excellent climate, the excellent relationship with our shareholders, particularly our minority shareholders through their representatives in the board. The government does not use its position simply to run over the smaller shareholders.

We like to always benefit from the contributions given by all of the other counselors, all of those that represent other shareholders, not the state. And given their high professional level and their integrity, that we have seen and that has been demonstrated, this has been very important. I would also like to convey to the employees of the company and to the directors, the greetings by the government for the excellent results that the company has presented and the very favorable perspectives for our future in the best tradition and the best managerial practices and the seriousness of the people of the state of Minas Gerais.

I'd also like to acknowledge our shareholders in the market through their professional representatives by the way and the trust that they have given us and the professional manner by which they have asked and presented their questions to the company about its metrics, its policies and its plans for the future. So thank you very much.

First question.

Questions And Answers

Q - Unidentified Participant

(technical difficulty)

A - Unidentified Speaker

Well we had a slight technical glitch here and we had -- found it hard to listen. But so I was able to understand, I think, part of what you asked, which was related to investments in Santo Antonio. And I will ask then our chairman please, our president, our CEO, to please answer.

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

Could you at least repeat the beginning of --

Q - Unidentified Participant

(technical difficulty)

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

Well Eduardo[ph], we have a term of confidentiality, which does not allow us to speak about details of Santo Antonio and the strategy that will be applied to Jira[ph]. But the most important thing is that we will participate in Jiral, probably in the same conditions that we do in Santo Antonio, with profitability equal to or over 12%. Anyway, future projects, as other than Jiral, the most important, Eduardo, is for us to be present in those major businesses that will be developed in the last strategic reserve in the country in generating hydroelectric power.

Q - Unidentified Participant

In terms of share profits, how do you project the share in profits?

A - Unidentified Speaker

Could you repeat the question, please? We cannot hear the question itself.

Q - Unidentified Participant

Speaking of participation in profits, how do we -- how do you project this? What kind of cost level do you expect and how can we reduce this percentage of cost? It's quite distant from other companies in the energy industry in this level.

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

Well Eduardo, we cannot yet assess what this represents. Only after the whole consulting firm is doing, only then we'll be able to answer this. So in another four or six months, we will have an internal assessment that we will be able to show us and to answer this question. Then surely we will be able to inform our shareholders about what this represents. The most important thing is that the shareholders should realize that the management of the company is doing significant efforts or putting in practice significant efforts to reduce cost, whether it be with voluntary submission or work or other measures in the company.

A - Unidentified Speaker

The next question from Mr. Sali[ph] from Morgan Stanley.

Q - Unidentified Participant

Good afternoon. I hope you can hear me.

A - Unidentified Speaker

At least so far. Yes.

Q - Unidentified Participant

Well there are two quick questions. One about the investment for 2008. There is a significant increase -- R$1.2 billion compared to last year. It was R$700 million the year before. So I'm not sure this program Light for Everyone. Does this explain an increase in this investment? You mentioned that you will add 55,000 new points this year and the federal government will increase its counterparty, its subsidiary by 30%. The question is, in fact, two parts. First of all, could you explain the reason for this increase? Much of this, in fact, comes from distribution. So that's what I imagine. And if it's like for everything, maybe you could explain to us how, in fact, the division will be made between company, municipality, state, federal government and what's the cost per connection that we can expect in this?

The other question is the new limits -- four key indicators. In the slide --

A - Unidentified Speaker

Yes, let's first of all answer your first question. You said it was a quick brief question. But I have -- it's a bit complicated, complex. But the important thing is that the board has approved for -- the Light for Everyone a specific amount, for a specific amount. The board has approved a specific amount for investments this year and with a specific number also for connections to be made -- about 55,000. This number means an average of R$8,500 per new points that we install in the state.

The participation of the state, the state government, is well confirmed and other agreements are being made with our secretary of development and secretary of finances and we will establish a mean cost of about R$8,500, part by Cemig, part by the private sector. The second question, please.

Q - Unidentified Participant

Well it will be interesting if we can see the distribution exactly of how much will Cemig participate in these 460 -- about these 55,000 additional points. The other question is about the last slide of the presentation that deals with new limits for key indicators. There is a pipeline of projects for acquisitions that will take place in the next six, eight months. I would like to understand whether there will be changes in minimum limits for required return for each of the projects.

A - Unidentified Speaker

Yes. About your question. We expect it in 2007. I'm not sure if you remember this. But you asked about the difference of investments in 2007 and 2008. But you are present and you know that two major enterprises that were to be launched did not take place -- Brasiliana[ph], which was for this year. And Jiral, as well. We had expected to participate in these two enterprises, still in 2007.

Well. Good morning and just adding to the answer of CEO about the Luz para Todos or Light for Everyone, the program. And this new program, naturally, we're still negotiating with all of these stakeholders -- Eletrobras and the state government, we do not have the percentages defined as yet. This year has already obtained an agreement on the part of the -- of Eletrobras for a minimum value of R$8,000 per point. The expected cost is R$8,500. But the benefits that we'll be able to have because of the participations of Eletrobras has a larger volume than in previous programs is significant. And previously it was R$6,100 and now they are progressing to R$8,000 and this was bringing a significant value and reduce participation significantly.

About the statement that we will require of our shareholders to review our indicators and our metrics, naturally this review is based on the fact that we have some acquisitions to be made this year that imply in substantial amounts, both Cesp[ph] and Brasiliana. We are speaking here of investments of over R$10 billion. And this, if Cemig moves forward in the attempts at acquisition, this will result in significant increase in debts and more investments. So those indicators that are shown in our statutes certainly we will surpass them. We have a limit, for instance, of 40% of investment in terms of our EBITDA and if we decide to acquire, for instance, Brasiliana at its current market value, this -- its value is over R$10 billion and this will increase that number to nearly 200%.

So we have to negotiate with our shareholders a kind of a waiver in order to be able to move forward in looking at these opportunities for growth. So this is what we will do. We will make a proposition for the plenary meeting with the shareholders. Naturally, all of the other perimeters will remain preserved. The return on investments will continue to be the same within our own current policies or at least obtaining the weighted average cost of capital. There will be no change in this. This aspect for us is extremely important.

The board chairman and our CEO have underlined their commitment adding value to this and to adding value to obtain results according to the weighted average of capital. For other indicators, we will have to change them because of the size of resources or monies that will be required in order to make these acquisitions. And there should be -- there will be a commitment of return to previous limits after a certain period of time when these acquisitions then become absorbed by the company.

So all of this will be well explained. Tomorrow, we will issue the invitation to the meeting. We will publish the correct numbers in such a way that everyone has access to the knowledge of this. Of course, there is no indication of how much we will offer specifically to any of these because we are doing this still according to a set of opportunities that so far are difficult and -- to access -- and we don't want our competitors, of course, to learn what will be acquired and at what value.

Q - Unidentified Participant

Just underlining the importance of you delineating[ph] at certain point after the tender, the premises adopted in both projects -- both the Jiral and the other. So that the market is more transparent in the return to be obtained in both projects.

A - Unidentified Speaker

The conference call that we did soon after the participation in the Santo Antonio tender, we publicly said this and we continue we will do that.

Next question from Mr. Ferdli Pinata from the Citigroup.

Q - Ferdli Pinata

Good afternoon, everyone. I have three questions. First of all to the sale of Cesp. In fact, what we have seen here in the last few weeks and months in terms of the participation of Cemig is that you would have a first restriction by participating indirectly[ph]. Secondly, there would be a restriction because of the law of -- state constitution law. Then last weeks there -- we have heard some news. For instance, the governor mentioned that Cemig will not be able to participate because there would be a problem with the constitution. So in what we also have talked with Cemig is that -- well, I'd like to hear some direction about this after results.

So my question is, is there any formal policy about this? In other words (technical difficulty) so obviously, that would be a (technical difficulty) statements is this related to this? To what kind of perspective in the participation of the Cesp number. We're thinking, I'm not sure if this is again the answer relating to the first one. But we have answered the first one before. First, let us answer the first question before.

A - Unidentified Speaker

For these[ph], we are not -- but the state laws do not allow Cemig to participate directly as a controller. This does not mean that Cemig cannot participate through a consortium as well did with Light. We are -- we will have other major difficulties. The numbers presented in the cover[ph] compared to other enterprises that we have in the country, these numbers are not comfortable. So we are studying how could be participate. But if these numbers are not changed, it will difficult, really, for us to participate as a company.

The -- this is an important enterprise or business. It's important for us in terms of adding value. But the numbers that have been presented in the bid really lead us to think in more detail, probably, if not participating in the tender itself or in the bid itself. So on Friday, there I left documents with the secretary of finances suggesting some changes. If this is possible, then we go to the end. Otherwise, we are not very comfortable in participating, at least according to the numbers that have been defined by the state government, relative to Cesp.

Q - Unidentified Participant

Right. Well thank you. Next question about the minimum dividends. What we observed that company -- the company ended the year with R$2.2 billion in cash. We are speaking of R$900 million in difference and the R$300 million of participation of employees. So you are speaking of something like R$1.1 billion free and R$1 billion every quarter for a CapEx that you expect of about R$1.6 billion. So as I understand it and I may be -- please correct me if I'm wrong -- you decided for the minimum dividend and a maintenance of this according to the potential of acquisition throughout the year including Cesp, Brasiliana again and Jiral. For now we know that Brasiliana and Jiral will not require a significant amount in the first year.

So my question is what can we expect now in terms of use of these resources, of this cash, if the company is not part of any of these major acquisitions? You are speaking of Cesp and Brasiliana. Could we expect any other kind of possibility in terms of profits? Or is the plan of the company effectively to maintain this as floating capital until next year, expecting new opportunities or just working on this next year? Then what would be -- what could we expect in terms of the return on the investments of this -- of these resources?

And my final question is a bit more simple as a follow-up of what Eduardo asked about the participation on the part of employees. What I understand from this is that this was extraordinary and the calculation is that the return of this payment is about 14%. So would it be reasonable to -- so in reducing my transfer to personnel the next quarters, what would be the best form of calculating this?

A - Unidentified Speaker

Well about the dividend policy, we will follow strictly what's in this, in our bylaws and or statutes. This year we purposed 50% payout because of the justification that you yourself presented, which was the sequence of opportunities for acquisitions. So we have to have available cash in order to be able to participate in these bids, these tenders that we foresee for 2008. Now, our bylaws then say that if we have an excess in cash, we will pay extraordinary dividends. If this happens then certainly our board members will suggest a payment of extraordinary dividends.

But within the current perspectives, considering the volume of acquisitions that are to come, probably we will have to retain this -- these amounts so that we may be more agile in acquisition. As you know very well, as a state company, we have some difficulties in attaining resources. We don't have the ease of obtaining resources that private companies have by simply going to the banks and signing financing contracts. As a state-owned company, there are certain restrictions and therefore our strategy of retaining part of this cash in order to be able to use it strategically in possible acquisition throughout this year, which is certainly absolutely relevant for us.

The second question?

Q - Unidentified Participant

What would be the best form of calculating the benefits that the extraordinary payments of participation for(inaudible) will bring to the results of the company? And my question is, as I see it, you think there will be about 14% of gains. So would it be meaningful to calculate it for the future? I'm sorry -- what would be the best way of calculating the return on this?

A - Unidentified Speaker

Well in this sense I want to underline the answer given by our CEO, which is very common sensical[ph]. He said very typical of process[ph] of state of Minas Gerais is that we have to wait for the assessment that will be given by the consultancy firm, the international consultancy firm that we hired about the processes that we have in our company. And this review might result in added gains to those that we have calculated when we estimated our calculations with our unions. Of course, at least we should have that gain, which is presented in -- which I showed in the slide. But to be more conservative, please allow us to disseminate this a little further along. As soon as we have data, the results of our -- from the consultancy firm after reviewing these procedures.

So a good opportunity will be in our yearly meeting with the market when we speak of -- that meeting will certainly have numbers to show you and to give you an answer, showing what will be the benefit that we expect from such measure.

Thank you. Felipe[ph], if you start with the assumption that we had a growth of 26 in our EBITDA and there is nothing extraordinary this year that might change our profit resulting from this, you could calculate this growth and it's consequence on our net profit.

Q - Unidentified Participant

(technical difficulty)

A - Unidentified Speaker

Well the question was then about employee redundancy plan and also the payment of bonuses or extraordinary payments, as we call them. So that is how -- the question is about how this reduction in personnel will add benefits that we have estimated for our program, which is very much in line with the question asked -- the previous question by

Felipe. The answer is quite simple. We have kept a lot a certain number of employees that fit in these criteria for the redundancy plan. These are 1,800 people, this total is 1,800, people that we believe will be part of this program. These are employees that already have the minimal requirements for the program. And we expect that they adhere to the voluntary employee redundancy plan in 2008.

Part of these employees have already done this in 2007, sought the plan. And from 2008, then we expect -- we estimate that we will have something like 300 employees every year adhering to -- or being part of the plan. So our estimates were, for the next three years, where we are including those that have already sought the employment redundancy plan in 2007 and these 300 per year until 2010, this number of employees then means the 1,800. And the return, just for this number, is over 14%, which was a very attractive return, vis-Ã-vis the investment projects that we have made.

So we consider this an investment project. And therefore, we should gain -- there should be benefits very much aligned with our program and which go hand in hand with the other measures that we have undertaken, which include the review of our operating processes which are being done by the consultancy firm that we mentioned before.

When we state this return as 14%, it is on the -- based on the idea that or the hypothesis that we would bring in the same number as are leaving. It's -- sorry -- if we brought in the same number of amount into the company in different salary conditions, we would have the 14%. But this number certainly would be less. What it means is that this was -- the 14% was calculated.

Q - Unidentified Participant

From bank[ph], my question, in fact, has already been answered. Thank you.

Yes, my questions have also been answered. Yes.

A - Unidentified Speaker

After the answer to Sergio, we want to make a brief break.

So question from Sergio Tamashiro from Itau.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Good afternoon. My question relates to the participation on results. I'd like to understand the bonus or rewards for new employees. Is the amount will be earning for the new employees after 2007 or does it include every single one that will not have those 16.7%? I think you find this special reward -- is there any other type of form of reward which is not considered as standard in the market?

And the other question about the idea of the employee redundancy plan. You speak of those that fit into this program or this plan. What are these? Are these older employees that are close to retirement or what's the type of employee that's this? At least in the prime position programs that we see here, the cost is sometimes quite high per employee. So I'd like to understand a little better what type of estimates you are making for this, for this plan.

A - Unidentified Speaker

Well the last question first. As I said before, we estimate -- this is a permanent -- it's an ongoing program. So it will not end in 2010. It continues beyond and naturally, with the turnover of 300 employees per year, the benefits will be significant because the new employees will not have the right automatically to a number of these bonuses that these employees have. Therefore, as I said, it is not -- it was not previously connected to performance, which is why we removed it as a form of payment.

This benefit was calculated or the return was calculated based on this turnover of 300 employees per year. So the gain that we expect, if we analyze this, of course, will be higher. (inaudible) has already stated before that we might have even higher gains to these 14% if we do not rehire anyone. If, for instance, 300 leave and we do not rehire another 300, this 14% means that there will be 100% re-admittance of new employees. It's just a difference in the salaries because the current salary of company employees, as you can see in our slide, includes these bonuses, annual bonuses and this new other bonus. And these two elements will not be included for the new employees. So by comparing both salaries that's what results in the 14% gain.

So this is gain that we expect. We calculate as 14%. If we do not rehire people in place of these 1,800 or 300 per year, this will generate additional gains over these 14%. Additional gains for our shareholders. The other issue is -- he has also made this very clear in his presentation and in the answer to some of the questions, is that with this, we close this phase of adapting the payment system to a policy of performance. So next year we do not expect any additional expense in -- of the reward systems or payments to the employees.

Well because of a number of commitments, which require the presence of our CEO and also Dr. Marcio Lacerda, the CEO of the company, the chairman of the board. And I as well have to leave. But we will be -- we can be here to answer the questions with our director, Dr. Luiz Fernando Rolla.

So next question from Mr. Masopiati[ph].

Q - Unidentified Participant

Well. Good afternoon. I would like to -- I may be repeating myself. But I'd like to go a little further on -- in the participation of results. It's a follow-up question to answers that have already been given. Well this 14.48%, is this a true gain, a normal return? And to understand whether we're talking about two different things here.

One, looking at page 31 of the presentation is the return of payment of R$358 million. And the other is the implementation of the redundancy plan, the voluntary plan. Is 14% expected on this participation, is it independent of implementing the redundancy plan or not? Is this return related to any kind of expectation that a specific number of employees will adhere to the redundancy plan? So I'd like to understand whether these numbers go together or not. The two bullets on page 31.

A - Unidentified Speaker

Well let me just clarify. The return is real. In other words, we -- it is based on constant value and we discounted this on the weighted average cost of capital to result in this return of 14.48%. We -- the premise was a mean turnover of 300 employees. Now, this minimum turnover will be assured by the program, the redundancy plan. So in order to really have the premise included within launch of the program, it's a particular plan, sorry. So we have only assured that the turnover will be around 300 employees per year for this return of 14.48%. And this will certainly be turned based on this plan. Now, all of these decisions, of course, are part of a very larger plan of reviewing our policies.

Now, at this point, what we see for our rewards, based on performance, which is what we said. And based on feedback given by our shareholders and we're trying to adapt and to meet this feedback, this demand made by shareholders using these measures right now.

Q - Unidentified Participant

A brief follow-up. So that means that for 14.48%, I know you have more details. But to get this, it will be 300 people in six years. No, you said 1,800 and you said three, four years. If you have 300 per year, what would be this -- 14.48%? The plan foresees 1,800 people. I'm confused about this.

A - Unidentified Speaker

Well the 1,800 -- one thousand eighteen hundred are the stock that we have. In other works, the people that qualify for the employee redundancy plan. The number of people that will fit into this plan until 2010. Now it is a form of assuring the premise that we made in terms of the participation in the bonuses. Now it basically assures that that previous premise will actually happen. From there onwards, from 2010 onwards, we will have an average turnover of about 300, which is an added gain that we will have to these two programs that we are announcing today. We have not made any calculation, taken into account the propensity of renewing our employees. If we had done that, we would have a much larger, much higher return than this 14%.

And the support that our consultancy firm will provide to us will be in the sense of increasing the gains of such programs. Because as our CEO has said, the basic premise was to substitute these 300 employees out a turnover. And Fraulein Berger[ph] will indicate the true need of really rehiring another 300 people in place of these that have left. We will only hire those that are strictly necessary according to the assessment that the consultancy firm is making. Thank you.

Next question from Mr. Erison Frej from JPMorgan.

Q - Erison Frej

Good morning. About this program -- the employee redundancy plan. I'd just like to know what is the size. You said that this has already been approved or a -- or made provisions for and I'd just like to -- how much per year do you intend to -- or how much will this redundancy plan cost in the next two or three years in your estimates?

The second question is about the CapEx numbers, whether Light -- the Light numbers -- for Light also included in the CapEx and the TBE numbers, if they're also included in the CapEx.

A - Unidentified Speaker

They are not included. Any other company which is not, meaning generator and distributor, are not included. So the investment program refers to the investment, the companies in which we have 100% participation will invest. Therefore, not include investments made by Light or investments made by the TBE company.

Back to the employee -- voluntary employee redundancy plan, the premises that we made suggest a return, which is very attractive. We will attempt to reduce the number of employees as we have, based on the data provided to use by the consultancy firm about our processes. Their returns certainly will be higher than this now. Considering that we have already calculated this for 1,800 employees, we should have a return a little over ten months, which is why I said that the return will be in a year. The impact on the cash, the value that has been provided for this already has been included in our balance. We have a previous redundancy plan that was part of the agreement, salary agreement in which we made available to employees a certain number of premium amount.

And it is also an ongoing program, which is what we had before. It had already been accrued or provided for. So we would -- we are using part of this to be included in this new program. Therefore what we have provided for this program will be practically immaterial. It was already included beforehand that you will hardly really notice this in the balance, in the statement. So it is an extremely attractive program for the company with a true benefit. And it will be very visible to you. The gains that we have will be very visible to you. The gains that we intent to obtain and we will -- we intend to provide full information in our annual meeting. There you will be able to see this and Dr. Marco Antonio will make a specific presentation. But full information about this topic with all of the expenses that we will have had and all of the gains that we will have from this plant.

Q - Unidentified Participant

But can you tell me how much has already been provided for this in the balance?

A - Unidentified Speaker

I don't have the number here with me right now. I can obtain this and maybe later I can tell you because I might make -- I might give you a wrong number if I just try to guess it. So I will put this on our website in the section on question and answers and will make this available to you.

So are all the questions answered? Okay. So I think we'd like to end the transmission of the results of Cemig for 2007. Thank you, all for your attention. Good afternoon.