



Distribuição S.A.

Companhia Energética de Minas Gerais - Cemig

CNPJ 06.981.180/0001-16

3Q06

Earnings release

Net profit

In the first nine months of 2006 – “9M06” – Cemig Distribuição reported net profit of R\$ 553 million, which compares with net profit of R\$ 911 million in January through September 2005 (“9M05”). The comparison – 39% lower year-on-year – mainly reflects the following factors:

- Recognition in 2005 of revenue of R\$ 591 million from the deferred tariff adjustment.
- Operational costs and expenses 9.2% higher in 9M06 than in 9M05.

This is mainly due to:

- transfer to the income statement of R\$ 93 million in CVA for charges for use of the transmission grid, as described in the item “Operational Costs and Expenses”; and
- higher personnel expenses reflecting the R\$ 127 million provision for indemnity to employees for their future “anuênio” benefits, which Cemig acquired.

A positive effect in the income statement for the half year was the reversal of the RGR expense, backdated to 2004, in the amount of R\$ 28 million, reflecting homologation by ANEEL of that expense at a lower amount than the company had estimated.

EBITDA

As shown in the table below, the Company’s Ebitda adjusted for non-recurring items was 29.03% higher year-on-year.

EBITDA (R\$ '000)	9M06	9M05	Change, %
Net profit	552,606	910,648	(39.32)
+ Income tax, Social Contribution and deferred income tax	222,059	417,540	(46.82)
+ Non-operational revenue (expenses)	21,317	23,442	(9.06)
+ Financial revenue (expenses)	(19,239)	(160,882)	(88.04)
- Reversal of Interest on Equity	(126,265)	(107,000)	18.00
+ Amortization and depreciation	275,566	270,729	1.79
= EBITDA	926,044	1,354,477	(31.63)
Non-recurring items:			
- Deferred tariff adjustment	-	(487,576)	-
+ CVA on the TUSD	93,265	-	-
+ “Anuênio”	127,272	-	-
- Reversal of provision for RGR	(28,048)	-	-
= ADJUSTED EBITDA	1,118,533	866,901	29.03

Gross revenue from retail electricity sales

Gross retail electricity sales revenues was R\$ 5.9 billion in 9M06, compared to R\$ 5.4 billion in 9M05 (9.4% higher).

The main impacts on revenue in 2006 came from the following:

- Average tariff adjustment of 23.9% as from April 8, 2005 (full effect in the income statement for 2006);
- Average increase in tariffs of 6.7% as from April 8, 2006; and
- Volume of energy invoiced to final consumers (excluding own consumption) 1.7% lower, due to migration of free consumers to Cemig Geração e Transmissão.

Energy volumes sold to final consumers (MWh)

Consumption category	MWh		
	9M06	9M05	Change, %
Residential	4,962,046	4,927,351	0.70
Industrial	3,617,649	4,113,286	(12.05)
Commercial, services and others	2,858,595	2,785,454	2.63
Rural	1,461,706	1,412,153	3.51
Public authorities	441,860	420,178	5.16
Public illumination	787,298	763,170	3.16
Public service	760,330	731,763	3.90
Total	14,889,484	15,153,355	(1.74)

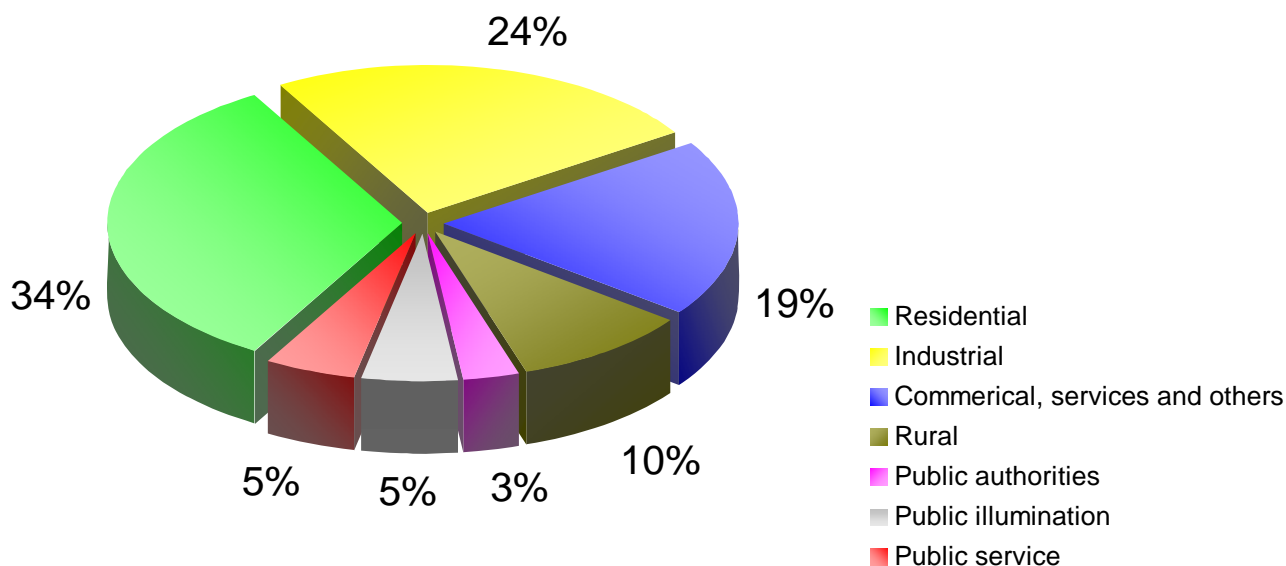
The reduction arises basically from migration of industrial consumers, who moved to become free clients of Cemig Geração e Transmissão. This change is illustrated below,

where it can be seen that the industrial sector's share of the total volume was 3% lower in 2006 than 2005.

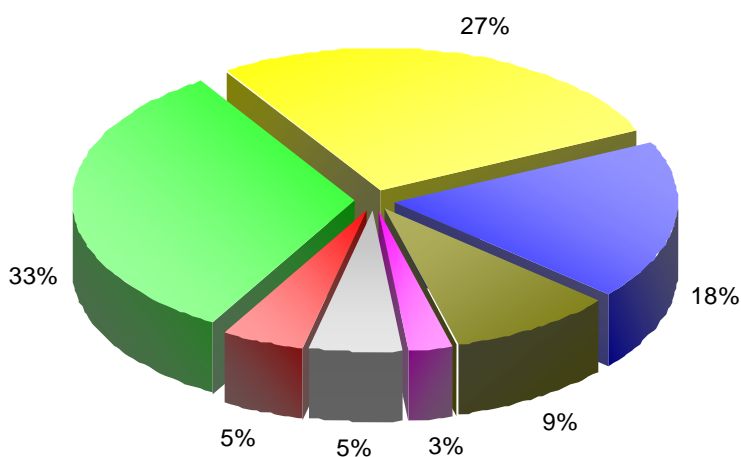
In spite of the reduction in electricity sale volume, note that some consumer categories grew, notably the commercial segment, up 2.6%, and residential consumption, up 0.7%.

The charts below compare the components of total consumption in 9M06 and 9M05.

Consumption by user category - 3Q06



Consumption by consumer class - 3Q05



— The deferred tariff adjustment

The result of the periodic review of Cemig's tariffs was published in April 2005, backdated to April 2003, and indicating a tariff increase of 44.4%.

The average adjustment applied to tariffs on April 8, 2003, was 31.5%. To compensate for the lower increase from April 2003 to 2005, Aneel is including an additional percentage in the tariff increases for 2004 through 2007.

The difference between the tariff repositioning to which Cemig Distribuição was entitled and the tariff actually charged to consumers from 2003 to 2005 was recognized as a regulatory asset, with counterpart in the income statement for 2005, in the amount of R\$ 591 million.

— Revenue for use of the network

This is the result of the "TUSD" – Tariff for Use of the Distribution System – which arises from amounts charged to free consumers on the energy sold by generators in the company's concession area, mainly by Cemig Geração e Transmissão, and was 2.4%, or R\$ 21 million, higher (R\$ 884 million in 9M06, vs. R\$ 864 million in 9M05), due to the adjustment in the tariff and the large number of free consumers. Note that in 2005 Cemig Distribuição posted additional revenue of R\$ 175 million for ICMS tax applied to the TUSD retroactively to the year 2000.

— Operational costs and expenses (excluding financial revenue/expenses)

Operational costs and expenses (excluding financial revenue/expenses) in 9M06 were R\$ 4.0 billion, compared to R\$ 3.7 billion in 9M05 – an increase of 9.2%, mainly arising from higher personnel expenses due to the provision of R\$ 127 million made in 2006 for the indemnity for future employee "anuênio" benefits, and the increase in costs of energy bought for resale.

The differences between the total amounts of non-controllable costs (also referred to as “CVA”), used as a reference in the calculation of the tariff adjustment, and the disbursements actually made are compensated in the subsequent tariff adjustments, posted in Current assets and Non-current assets as anticipated expenses, and in Current liabilities and Non-current liabilities as regulatory charges.

OPERATIONAL COSTS AND EXPENSES					
<i>R\$ '000</i>					
Item	9M06				9M05
	Operational expense without the effects of CVA	CVA amounts transferred to income statement (*)	CVA amounts excluded from/added to income statement (**)	Actual expense recognized in income statement	Actual expense recognized in income statement
Personnel	630,071	-	-	630,071	490,060
Employee profit shares	-	-	-	-	-
Post-employment obligations	81,473	-	-	81,473	83,392
Materials	43,685	-	-	43,685	52,106
Outsourced services	233,210	-	-	233,210	210,236
Electricity bought for resale	1,365,475	191,945	(13,302)	1,544,118	1,399,458
Depreciation and amortization	275,566	-	-	275,566	270,729
Operational provisions	90,517	-	-	90,517	112,521
Fuel Consumption Account (CCC)	345,670	(31,783)	(9,768)	304,119	283,281
Charges for use of transmission network	289,905	(4,140)	135,939	421,704	420,278
Energy Development Account (CDE)	218,267	(6,448)	(7,296)	204,523	207,041
Energy efficiency, and R&D	50,738	-	-	50,738	11,948
Proinfa	33,536	6,039	(12,048)	27,527	-
Other operational expenses	107,542	(5,555)	-	101,987	130,514
Total	3,765,655	150,058	93,525	4,009,238	3,671,564

(*) Non-controllable costs, components of CVA, which were transferred to the income statement due to their inclusion in the calculation of the tariff adjustment of Cemig Distribuição.

(**) Changes in non-controllable costs, components of CVA, which were not included in the calculation of the tariff adjustment of Cemig Distribuição, and are thus excluded from the income statement.

The main changes in expenses were as follows:

Personnel

Personnel expenses in 9M06 were R\$ 587 million, compared with R\$ 445 million in 9M05, an increase of 31.9% - mainly reflecting the provision for indemnity to employees for future “anuênio” entitlements, as commented above, partially offset by the higher transfer of personnel expenses to works in progress (R\$ 82 million in 9M06, vs. R\$ 38 million in 9M05) due to the *Light for Everyone* program.

Electricity bought for resale

The expense on electricity bought for resale was not significantly different – at R\$ 1.5 billion, vs. R\$ 1.4 billion in 9M05, an increase of 10.3%. This is a non-controllable cost, since the expense recognized in the income statement corresponds to the amount actually passed through to the tariff.

Depreciation and amortization

This expense also was not significantly different: R\$ 276 million in 9M06, vs. R\$ 271 million in 9M05, an increase of 1.8%.

Post-employment obligations

This line was R\$ 81 million in 9M06, vs. R\$ 83 million in 9M05, 2.3% lower. These expenses are basically made up of interest on the actuarial liabilities of Cemig Distribuição, net of the return expected on the retirement plans’ assets, estimated by an external actuary. The reduction in this expense arises from greater growth in assets than liabilities.

Operational provisions

Total operational provisions in 9M06 were R\$ 91 million, vs. R\$ 113 million in 9M05 – i.e., 19.6% lower. The reduction mainly reflects a credit of R\$ 23 million posted in the third

quarter of 2005 as receivable from an industrial consumer, which had been 100% provisioned due to the uncertainty of its realization.

CCC – the Fuel Consumption Account

The CCC expense in 9M06 was R\$ 304 million, compared to R\$ 283 million in 9M05, an increase of 7.4%. The amount represents the costs of operation of the thermal plants in the Brazilian grid system and isolated systems, shared between electricity concession holders, as quantified by Aneel resolution. This is a non-controllable cost, and the expense recognized in the income statement is the amount actually passed through to the tariff.

Charges for use of the transmission network

The expense of charges for use of the grid in 9M06 was R\$ 422 million, compared to R\$ 420 million in 9M05, an increase of 0.3%. The charge is payable by distribution and generation agents for the use of the component elements of the basic grid, and is quantified by Aneel resolution. This is a non-controllable cost, and the expense recognized in the income statement corresponds to the amount actually passed through to the tariff.

CDE – the Energy Development Account

The CDE expense in 9M06 was R\$ 205 million, vs. R\$ 207 million in 9M05, or 1.2% lower. These payments are quantified by Aneel resolution. This is a non-controllable cost, and the expense recognized in the income statement corresponds to the amount actually passed through to the tariff.

Energy efficiency, and research and development

The expenses on energy efficiency, and research and development, in 9M06 totaled R\$ 51 million, vs. R\$ 12 million in 9M05 – an increase of 325%. This primarily represents the new criteria adopted to start in the fourth quarter of 2005 for posting these expenses, with provision of 1.0% of net sales revenue for application in energy efficiency and research and development programs.

PROINFA – program to encourage alternative sources of electricity

This program, created by Decree 5025 of March 30, 2004, aims to increase the percentage of Brazilian electricity produced for the national grid by projects of Independent Power Producers conceived on the basis of wind sources, small hydro plants, and biomass.

Transmission and distribution concession holders pay these amounts to Eletrobrás, which administers the Proinfa account, in accordance with calculations made by Eletrobrás itself.

In 9M06 Cemig Distribuição posted a Proinfa expense of R\$ 28 million. This is a non-controllable cost, and the expense recognized in the income statement corresponds to the amount actually passed through to the tariff.

— Financial revenues (expenses)

Cemig Distribuição posted net financial revenues of R\$ 19 million in 9M06, which compares to net financial revenues of R\$ 161 million in 9M05 – the main factors impacting this result being:

- Revenue from monetary updating and interest on the deferred tariff adjustment in the nine months of 2006, at R\$ 146 million, vs. R\$ 185 million in 9M05 – 21.1% lower. In the previous year revenue was higher due to publication of the final result of Cemig's tariff review, which resulted in the posting of a regulatory asset entitled "Deferred Tariff Adjustment", and in the updating of that asset – backdated to 2003.
- Revenue from monetary updating of amounts under the General Agreement for the electricity sector in 9M06 totaling R\$ 154 million, vs. R\$ 207 million in 9M05 – a reduction of 25.7%, mainly reflecting lower variation in the Selic rate, the index of the assets, in 2006.
- Revenue from arrears penalty payments on consumer electricity bills R\$ 54 million higher, at R\$ 102 million in 9M06, vs. R\$ 48 million in 9M05. This reflects revenue posted in the second quarter of 2006, of R\$ 48 million, when major industrial consumers settled accounts over several previous years, in which the penalty payments were considerably higher than the accounts themselves.
- Financial costs of loans and financings 29.8% higher, reflecting the criteria for rolling over the Company's debt, including replacement of foreign currency debt contracts with domestic debt, starting in the second half of 2005.
- Net gains on FX variations in 9M06, totaling R\$ 58 million, compared to net gains of R\$ 115 million in 9M05, basically arising from loans and financings in foreign currency. This variation mainly reflects the reduction in the debtor balance in foreign currency due to the changes in criteria for rolling over debt, and the FX variation. In 9M06 the Real appreciated by 7.1% against the US dollar, compared to relative appreciation of 16.3% in 9M05.

- Net loss on financial instruments used in hedge transactions, of R\$ 64 million in 9M06, which compares with a net loss of R\$ 89 million in 9M05. This also results from the exchange rate variation mentioned in the previous item.
- Allocation of Interest on Equity in substitution of dividends for the 2006 business year was posted as a financial expense, in the amount of R\$ 126 million (vs. R\$ 107 million in 2005).

Income tax and Social Contribution

In the nine months of 2006 Cemig Distribuição posted expenses on income tax and the Social Contribution in the amount of R\$ 222 million, on profit of R\$ 648 million, before tax effects, a percentage of 34.3%. In 9M05 the expense on income tax and Social Contribution was R\$ 418 million on profit of R\$ 1.2 billion, before tax effects, a percentage of 34.2%.

— Charts 1 and 2 - Cemig Distribuição: quarterly sales, GWh

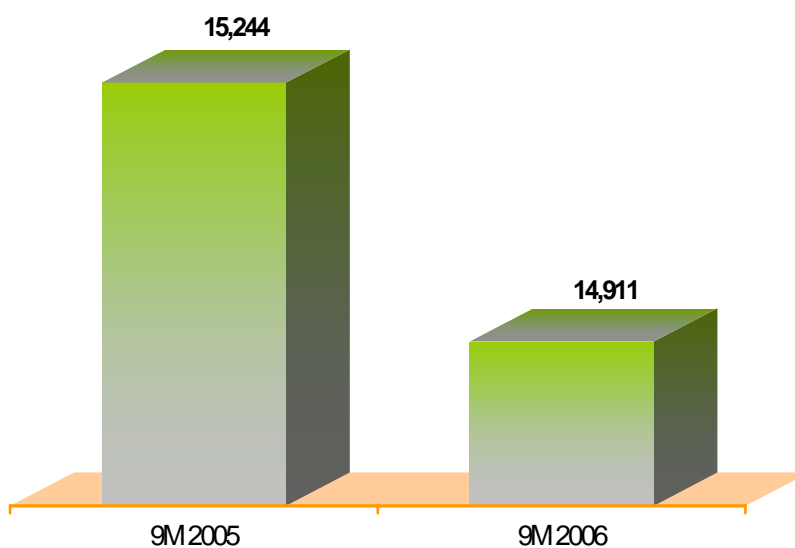
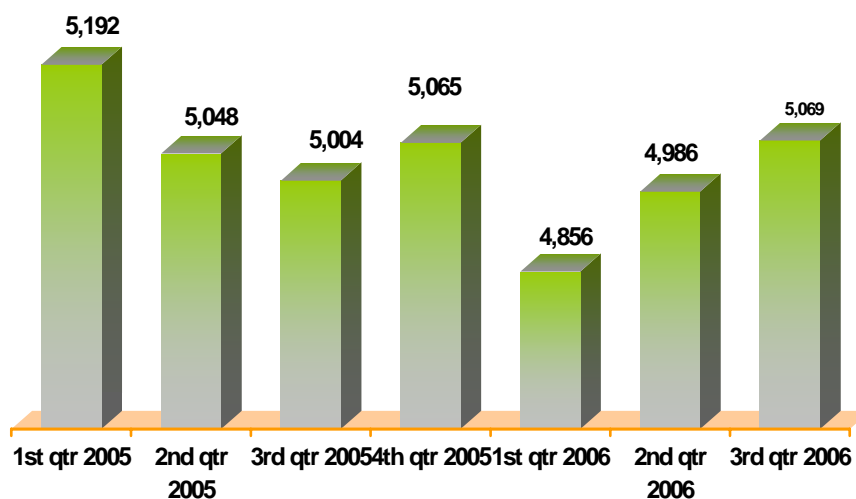


Table I
Cemig Distribuição: Sales volume by consumer category

9M06	GWh
Industrial	3,618
Residential	4,962
Rural	1,462
Commercial	2,858
Others	2,011
Subtotal	14,911
Wholesale	-
Total	14,911

Table II
**Income statement
R\$ '000**

	9M06	9M05
Net revenue	4,660	4,755
Operational expenses	(4,009)	(3,672)
Operational profit	651	1,083
Ebitda	926	1,354
Ebitda margin	19.9%	28.5%
Financial revenues (expenses)	19	161
Operational revenues (expenses)	(21)	(23)
Provision for income tax, Social Contribution and deferred income tax	(222)	(417)
Reversal of Interest on Equity	126	107
Net profit	553	911
Net margin	11.9%	19.2%

Table III
Operational revenues, R\$ '000

	9M06	3Q 06	9M05	3Q 05	2005
Sales to final consumers	5,887	2,044	5,366	1,968	7,335
Tariff for use of grid (TUSD)	885	297	864	292	1,201
Subtotal	6,772	2,341	6,230	2,260	8,536
Wholesale	30	24	44	14	95
Other	39	13	40	10	53
Subtotal	6,841	2,378	6,314	2,284	8,684
Deferred tariff adjustment (RTD)	-	-	591	-	591
Deductions	(2,181)	(781)	(2,150)	(719)	(2,878)
Net revenue	4,660	1,597	4,755	1,565	6,397

Table IV
Operational expenses, R\$ million

	9M06	3Q 06	9M05	3Q 05	2005
Personnel	587	151	445	137	595
Employee profit shares	43	14	45	15	188
Post-employment obligations	81	27	83	28	111
Materials	44	15	52	18	74
Outsourced services	233	77	210	81	312
Electricity bought for resale	1,544	524	1,400	529	1,890
Depreciation and amortization	275	91	271	91	364
Operational provisions	90	33	113	66	133
Fuel Consumption Account (CCC) quota	304	113	283	102	387
Charges for Use of Transmission Grid	422	112	420	116	554
Energy Development Account (CDE)	205	74	207	69	279
Energy efficiency and R&D	51	15	12	5	173
Proinfa	28	15	-	-	-
Other expenses, net	102	55	131	60	165
Total	4,009	1,316	3,672	1,317	5,225