

Q3 2004 Earnings Call

Company Participants

- Luiz Fernando Rolla, IRO

Other Participants

- Gustavo Vetas, Analyst
- Lilyanna Yang, Analyst
- Pedro Barchister, Analyst
- Stewart Regar, Analyst

Presentation

Operator

Good afternoon. My name is Nicky and I will be your conference facilitator today. At this time, I would like to welcome everyone to the Third Quarter earnings release conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer period. (Operator Instructions) Thank you. Mr. Rolla, you may begin your conference.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Thank you, Nicky. Hi everybody. It's a pleasure for me to be here holding this conference with you on behalf of Mr. Flavio Decat de Moura, our CFO. I would like to thank you about your interest in hearing CEMIG's Third Quarter earnings conference call.

There are two major ways to make part of this presentation. You can download the presentation from our website. That is the first one and follow my instructions when I skip the slides. And the second one is to click on the icon, the banner that we have there and so you can follow through -- you can follow through the webcast. Those 2 ways are very efficient, and I believe everybody will be following the presentation very efficiently.

Secondly, before I start, I would like to warn you about what we are going to talk on this presentation. We do have some forward-looking statements you should take very carefully. As you know, those statements are based on forecasts we believe for the moment are the best view on what the Company believes will happen in the near future. But those include some assumptions which can vary over a year and so you do have to follow our update on those statements through the next presentation which we are going to hold.

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Third point is that all the figures that I will be mentioning are in accordance with the Brazilian General Accepted Accounting Practices despite we have filed our 20-F converting into US GAAP. Quarterly results we are presenting according to the Brazilian GAAP. So be careful on that, as well.

Well, let's start my presentation. My presentation covers most of the Third Quarter results. We have some slides in which I would like to show you that we are implementing the strategy we have mapped since last year as the best for the Company in order to add value to our shareholders and to go. What you are going to do hear this afternoon is exactly a proof of that. CEMIG is implementing the strategy in order to grow, in order to add value to the shareholders' investment.

Secondly, we are talking about business restructuring. As you know, according to the regulatory framework according to the litigation passed in Congress earlier this year, we have to restructure our business in order to provide more transparency to the operating results. Of course, our regulations require us to set up a single company for the distribution business, and that is exactly the point I would like to address later on.

I will be talking on the GASMIG negotiations with Petrobras, as well.

The third point is regarding some outlook-- the outlook for the near term. I would like to comment you on the CapEx we are yet planning to carry out over the next few years, the funding we (need) to get to finance that CapEx.

I'll be commenting as well some points on the new regulatory structure. Of course, in the last quarter conference call we addressed this point very different. We covered several aspects on the new framework, stressing those positive points and stressing that CEMIG is going to do very well under the new regulatory framework.

Right now, we have the first step on the implementation of the new structure, which I would like to comment to you. Of course, everybody knows it is the GAAP for existing capacity to take place later this year.

And at the end, as our last point, I would like to comment to you some news on the corporate governance practices, in special, in particular that related to the (Justi) negotiation.

So that is practically what way I intend to present to you this afternoon.

The next slide covers those points -- 2 points I believe are very important. In general, I may say that the results we are disclosing today are pretty much in line with the projection -- the forecast we did early this year. If you take our guidance disclosed in May, you may see that the projection for EBITDA is roughly half this year. Considering that, the EBITDA -- the quarterly EBITDA is approximately R\$ 563m. If you take this as the Fourth Quarter EBITDA, you get exactly what we have projected for the whole year.

When we disclosed the Second Quarter results I said that if one doubles the first half results, you will get exactly what we have forecast for the whole year. So this Third Quarter is pretty much in line with that. Of course, it is a very good result pretty much in line with the strategy to add value. To grow you can see the EBITDA growth has been almost 40%. That is (rather 42%). That is pretty much the trend for the Fourth Quarter, as well. Here we are going to have a very nice year, as well.

Let's move on. Most of the Analysts are very concerned with regarding three major points. One is the CapEx. Second is the volume growth, and the third the short-term maturity of our debt. We are addressing those points very carefully, and you may see that in the Third Quarter we have moved along very nicely in these regards. You see CapEx is pretty much in line with what we have projected. We have not overrun the budget established by our Board early this year. So we are just on schedule. We are connecting more consumers and new consumers. 100,000 new consumers were connected in the first nine months of the year. It is very likely we are going to meet our goal for the whole year, achieving 200,000 new consumers.

We put on line the third unit of our hydro, -- our (Queirnados) hydro plant. That pretty much was scheduled. We have many -- some two other power plants under construction right now. The next to come on line is (Ai Marias), which I believe in the last month of the year we are going to have the first unit on line. So pretty much on schedule totally. So there is no new on that.

Regarding the sales volume growth, that sales volume has been quite strong, mostly driven by the industrial consumption. Industrial consumption went up 6.8% on the aggregate of the year. That is pretty positive. Of course, those costs though are industrial clients, so we charge consumers are (inaudible) and that is pretty much the driver of the sales volume growth. We are going to see some details later on.

Regarding the debt as well, some have doubts that we have the ability to rollover the debt maturing this year. That is very poor, but we are proving that we enjoy a very much reputation in the market. We are rolling over practically 100% of the debt maturing this year. At September we rolled over R\$800m. That's pretty much what -- that is a clear proof that the market confidence is still very high. We are lengthening the maturity of our debt, as we are going to see later on.

And last point, I would like to stress now is regarding the fifth time in the row selection for the Dow Jones Sustainability. That is pretty much positive. We believe this is a recognition that CEMIG is addressing at the proper point regarding ability and doing business with social responsibility ,as well.

Next one. In this slide, slide number 6, you see the operating result. The operating result was highly positive, R\$418 million pretty much in the quarter, for the Third Quarter. Pretty much positive compared to the previous year.

The financial result gave us a very nice hand as well in order to improve the net income. But pretty much the net income was based on the operating result. That is positive. That

is what we are focused on. We intend to improve our operating result over time so that we can be more profitable, more efficient, as well.

The next slide shows you the contribution of each business unit to the final results. The net income we achieved Third Quarter on the aggregate of the year is R\$935m. CEMIG, our (fixed) business has contributed the majority of the net income -- R\$910 million in spite of all the business have been very profitable as well, especially GASMIG and particularly Ipatinga. But our focus is on our electricity, and that business has been positive as well.

EBITDA margin is going up here compared to the previous year, despite some adjustment being made in the figures we disclosed last quarter. It was an adjustment made on the way we talked about it this quarter. It is pretty much our standing-- our standards.

Let's move on. In this slide you have the state of income and you see those points I mentioned. You have the quarterly results compared with the previous quarter as well. Pretty much positive. If you look at the bottom line, you see a very nice improvement compared to the Second Quarter of 2004. That's pretty much what we are pushing. We are growing profitability. We are adding value. We are getting ourselves to that ideal (agility) defined by our regulator when we entered into the rate review process. That's pretty much our guideline in this regard, and take it for sure that every quarter we are going to show such improvement.

Lets move on. The next slide you have a breakdown of our revenues. You see that sales to end-consumers has been growing very sharply compared to the Third Quarter of 2003, even slightly better than the Second Quarter of 2004. It is pretty much what we have forecast for the year. Don't forget to add we had the first pass just granted by ANEEL in April adjustment. We have added another R\$30 million to our regulatory assets as derived from this adjustments. That's, of course, compared to the previous quarter is a very nice adjustment. But compared to the previous year, you see it is by far positive.

Gas supply was a little bit reduced, the revenues, because of reduction on volume delivered to the power plant. That (inaudible). That is due pretty much to have further contracts for sales. We have worked those, as planned.

So I expect a little bit the net revenues, end revenues were a little bit lower than the Second Quarter. But still pretty much in line with our projection for the year.

Moving on. In the next slide you have an explanation of examples of the previous slide. It's only for clarity I have included this slide. Let's move on.

You have the breakdown of the sales by megawatt dollars and by revenues. We see our strong concentration in industrial clients is 1%. That category of consumers has pulled our growth in the segment 6.8% compared to last year. It's a very strong growth. In fact, we are seeing the consumption grow faster.

In the Third Quarter we got our peak end of the year.

The next slide, as you may see, that the Third Quarter performance was the best of the year. That is true. When you compare it quarter-over-quarter you see a growth of 4.5% -- 5.4%. That's pretty much was still in spite of industrial consumers still a little bit (nervous). You see that sales of 5% being higher than the previous year, but still very close to the top line growth.

We hope that next year with the higher income for households, we may have a higher performance, a better performance, from the residential consumers, as well.

Let's move on. This is the operating expense. Just remember when we start the rate readjustment Second Quarter, we readjust our expense as well. This is pretty much in line with the rate process. We have added those DBA-incurred costs we incurred last year and were reimbursed from April 1. So you see some expense, in particular, and of course it is (inaudible) growing very strongly from the first to Second Quarter and pretty much flat compared with the Third Quarter.

There is no point I would like to stress here. Every of those cost items has been addressed by the Company in order to become a little bit more thoughtful, more efficient.

Let's move on. That is an explanation for the first and the previous slide, as well. Let's move on.

The financial results were very positive this quarter, mostly because of the monetary variation, either strong exchange rate variations or they're inflation adjustments. You may see that we have already announced the interest on capital of R\$100 million in the Third Quarter. That is considered an expense across the accounts. But we are going to reverse this at the bottom line so that we are going to get a very nice contribution because of the tax rate impact.

Let's move on. Let's move on. Let's skip this as well. That is our cash flow. You see we have improved the free cash flow at the end of the period, achieving R\$1b. This is a preparation for the debt investment maturing and dividend payments for the remainder of the year. Of course, we are going to rollover debt. You may see that reduce by around R\$700-R\$770m, based over (6 months). So it is succeeding almost R\$100 million of the debt maturing so far. But for the remainder of the year, as you are going to see, we have already done practically 100% of the debt rollover.

Let's move on. That is the debt breakdown as well. I would like to draw your attention to the point we are reducing our exposure to foreign currency denominated debt. Right now it is 31% of the total debt. That's pretty much in line with our strategy. We have stayed on that since early this year. So that has been achieved as well. We got a little bit more financing for the project that we have under construction, so that the local currency denominates that as increase a little bit above inflation this quarter.

Let's move on. Those are the transactions we plan to launch from 2004 on. In 2004 we practiced rollover of those R\$1,300m, as you see in 2004. In 2005 we have already scheduled some transactions in order to rollover debt amounts we need for 2005.

Let's move onto the debt. That is the debt maturity we had in June this year. As you may see, a very large concentration at the very short-term. With this transaction we are implementing the new debt for five years following.

Let's move on. You will see there right now and you see the debt maturity right after the rollover we implemented so far. That other point that you see you are filling the gap from the long-term and we still have in 2005 some rollover to do. The idea is to build up most of the (debt) for the bond write. We believe we can proceed on that as we have already done for 2004.

So that you may see that our exposure to the FX risk has been decreased in fact. And taking account that half of the debt is practically hedged, our exposure to the foreign currency denominated debt is only 18%, so pretty much efficient implementation of our strategy.

Let's move on. On the Third Quarter those were the points I would like to address. Of course during the Q&A session we can answer some questions on that, as well.

Let's move on please. I have a couple of issues I would like to address in this presentation. One is the restructuring of our business. This is the current organizational chart. You see CEMIG the way it is today, according to the new regulatory framework. Moving on, we are going to separate the distribution business from the rest. Of course, we have already commenced. We got a State law in order to authorize our majority shareholders to vote favorably in the Shareholders' Meeting.

All this bureaucratic process we have already went through and the next slide you have some few more. We have already set up-- let's move on. We have already set up those 2 companies, that generating distribution companies and distribution companies as well. So that will be that be in fact at the end of the year, we are going to show a different organizational chart. The business is going to be a holding company-- let's move on. In this holding company, it will show different years that we are projecting in this slide number 28.

You will see that the generating distribution company is going to be a very nice company contributing nicely to the net funds, which is going to be a lot higher. Therefore we remain (inaudible). We are pretty happy with this, the projections that we have done. Those figures you see in the slide were for us to ANEEL of course. We have to take this into account because if ANEEL doesn't agree with those projections, we have to reduce some figures. But that is what we have for the moment. That is -- those are, the companies we would like to set up at the end of the year.

Those companies are going to be very profitable. The credit quality of each separate company is going to be in line with the CEMIG current credit policy. So we believe that it is pretty much in line with what we have planned and we have disclosed on this issue as well.

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The next slide you have some ratios, debt ratios. You see the current policy practically the same up there as the first one as the Company we are today.

Let's move on. Those are some assumptions that we do in order to make those projections. You will see that we have been very conservative in terms of GDP growth, in terms of inflation as well. Nothing very bold. That is pretty much the example we would like to show in these projections. We are very conservative and even so as result at the moment are pretty positive.

Dividend policies are also going to be changed. You will see there just the proposal needed to ANEEL and that is unchanged. So that we are in negotiations and negotiate the dividend policy with our shareholders, and it is very likely we can get some change on distribution as well. But that is for the moment that (inaudible) will happen.

Let's move on. That is the projection of the energy sales for the next five years both for the Generating companies and for the Distribution. As you may see, and know, that our generating company is able today to sell electricity to free consumers. That's pretty much in line with the ANEEL regulatory framework.

The CEMIG Distribution is focused on the captive market. Captive market has of course a behavior in terms of growth. For the future this is organic grow. You know that, and I believe a positive pattern has emerged in so strong at 3.6% per year. Compared to the GDP growth, that is very good performance. That's pretty much in line with the impact that the rationing had on our sales volume.

Let's move on. Of course, once again, I would like to warn you that projections are based on preliminary information, and that is what we have expect by now. But that can change. We still depend on ANEEL approval and that ANEEL can suggest change in our projection in order to fit into their new Distribution business.

So please take those projections very carefully.

(Just looking), we are pretty much on the process. We have already signed a contract with Petrobras. Petrobras has approved those contracts and therefore as well as CEMIG and what we are doing right now is to run those contracts through our Legislative Assembly of Minas Gerais in order to get legislative authorization to proceed on with the plan.

There is no obstacle on that. At the end of the year we are going to complete the transaction.

Let's move on. That is the CapEx. It is pretty much the CapEx we disclosed last year. There is no new on that.

Let's move on. That is practically what we have view on the regulatory framework implementation. There will be an auction scheduled for the end of the year. We have heard from the Ministry officials that the date is going to be December 7. If that happens,

there is no problem for CEMIG. We believe we will be able to sell part of our capacity in that auction. Of course, taking account the word earlier this early by the Ministry and even considering those (words) we believe we can succeed. We are reducing our exposure to the auctions, because we believe there is a price risk. So our strategy will be reduce as much as possible the volume of capacity sold through the auction. Otherwise we run the risk, we (inaudible). So that is our strategy on that.

One question made lately by some Analysts, the auction rates beyond December 7 -- what happens? We believe we have conditions to make part of the auction even later than that. But the ANEEL has a different view and so in order to enforce our participation in the auction we should take legal measures in order to be sure. That is not a point we would like to discuss. We believe we will be able to be part of in the auction in December. We are preparing our preparation for this date. So just that the auctions are late, we will be able to make part of the auction later. So there is no stress on that. Our Executive Board believes that everything will be done by the date of the auction.

CEMIG could take some steps in order to set up those Companies. As you saw in the previous slide, we cover it, set up the generation transmission company and distribution company as well. We are only in the bureaucratic process. ANEEL has to rule on that. They have to approve the whole restructure. We have to send to them the information they require in order to make the decision on the format we are separating. So it is pretty much ANEEL's responsibility if there is some delay.

But we believe that we are going to be able to complete the whole process and no doubt we will remain on the positive of the auction.

Let's move on. On the next slide, the last issue is regarding the CRC negotiations. Yesterday we had a Board Meeting. This Board Meeting has not addressed the CRC negotiations yet. There is a plan to put that very soon. There is an urgency on resolving the CRC receivables pending matter with the States.

Our Chairman of the Board is fully engaged on having a solution approved by the Board as soon as possible. We are pretty much in the same point. We are negotiating with the States some transmission in order to be a little bit more the minority shareholder. The idea; the States have the intention to get a consensus on these issues so that pretty much in line with the attitude the States have taken so far. The best practice possible in this issue in terms of corporate governance.

That's pretty much what we have for the moment. Well I have a complete and exceeded my time I had planned for this presentation. I believe we could just start the Q&A session, okay?

Questions And Answers

Operator

(Operator Instructions) Your first question comes from Pedro Barchister.

Q - Pedro Barchister

Hi Luiz, how are you doing?

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

Very well. How about yourself?

Q - Pedro Barchister

Quite good, quite good. Luiz I have some questions for you. The first one regards the estimates that you have shown on the presentation. Are they nominal reais or in real reais?

The second question regards the company tariffs. ANEEL has reduced the average sales by 5%. Is there any chance of ANEEL changing that until the next tariff adjustment and what are the Company's expectations on that?

And I would also like to know on the guidance that you have shown, what tariffs are they reflecting? The 19% tariff increase in April or the effective tariff after this reduction? Thank you.

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

Thanks Pedro for the questions. I have missed some words in your first question. You said something related to nominal real. What was this about?

Q - Pedro Barchister

Well the estimates for each subsidiary you have shown some EBITDA figures and some for each Company. Are they in nominal reais or in constant reais?

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

Constant reais.

Q - Pedro Barchister

Constant reais.

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

All the projections were in constant reais. We said at June 2004 okay.

Q - Pedro Barchister

Okay.

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

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Regarding the projection, we have taken adjustments authorized by ANEEL. That is 14% okay. Those 5% remain. We still are discussing with ANEEL despite ANEEL has played against us these review. We believe we still have room to raise the issue with ANEEL. We have filed a demonstrative appeal and with no (launches) so far and we will give them the chance we have our rates we adjust by 19% to our line. We have ANEEL in perceiving some auditing on the figures we present them. They have our results. There is no agreement regarding the figures we provided them and which were questioned by ANEEL. So right now we believe we are at the point ANEEL has to announce a decision on.

We have heard some possibility ANEEL could postpone the adjustment until April next year. That's possible. We do not expect any news of that happened because we are going to be reimbursed by the peers. We should be authorized.

Q - Pedro Barchister

Okay Luiz. Regarding the COFINS, the Company has only had -- the have not reversed yet the approximate R\$257m, that higher PIS/COFINS expense that you have been having seen since 2003. Some companies in the sector are reporting that. Is CEMIG going to report this expense in the next quarter and why did the Company did not do this this quarter? That's for let's say tax issues, or -- I would like to understand that?

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

Yes. That's correct. We have considered the possibility of doing that in this quarter. But we have some doubt on the tax impact on the decision -- on the proposal made by ANEEL. So we would like to discuss a little bit more with ANEEL regarding the COFINS reimbursement.

We understand that at least in the Fourth Quarter we are going to show something. But up until now what we can say is that it is still pending and it is an issue we are addressing with ANEEL. So that is the final decision on this PIS/COFINS reimbursement that will be made only in the Fourth Quarter.

Q - Pedro Barchister

Okay, Luiz. Thank you.

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

Bye bye.

Operator

Your next question comes from the line of Lilyanna Yang.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi Luiz, how are you doing?

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

Very well Lilyanna. How about yourself?

Q - Lilyanna Yang {BIO 14003234 <GO>}

Very good thanks. My question is regarding your guidance and assumptions included there. Could you tell us what is the generation tariff price that is in your net for 2005?

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

Lilyanna, it's pretty much in line with previous guidance okay. There is a range R\$65-R\$75 for the whole year. We have several assumptions for the year rate. So that I would say pretty much in line with earlier guidance. There is no news on that.

Q - Lilyanna Yang {BIO 14003234 <GO>}

And that -- in your guidance, is it the same generation tariff for 2006 onwards? I mean just adjusted by inflation, or you assume an increase?

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

Well you have to take into account that over the next 3 or four years we are going to have several contracts maturing right. So the price are based on the fact that the energy price trend will go up for the near term. So that for instance, the fees of the initial contract maturing in 2005, was including the first year price as low as R\$52 per unit of power.

Once matured, this price, we believe, will go up. Both the R\$52 per unit of power. So that you are going to see some growth in the revenues because of that. We have other contracts maturing as well. Remember we have been selling electricity to free consumers lately and those contracts will mature over time as well. So the new contracts will be renewed at the new price and the price for sure is going to be higher than the current one. Okay.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you.

Operator

(OPERATOR INSTRUCTIONS}. We do have a question from Gustavo (Vetas).

Q - Gustavo Vetas

Hi Luiz. I just want to make a quick question for you on your contracts and effectively your volumes committed and not committed. Maybe as a follow up on Lily's question. Can you give us some kind of an idea, when you look at your guidance, how much is actually coming off from the contracts that you theoretically have signed at the low price each year? Is that possible?

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

You mean the contracts we are signing with the free consumers?

Q - Gustavo Vetas

The contracts which you are -- basically the contracts that you are signing with free consumers and whatever you've taken into account in your guidance. I would like to have an idea of when you think your contracts really will be falling off?

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

Well what we can say right now, in this projection, we took into account that 1,000 networks were devoted to free consumers so that the remaining capacity is going to be sold through the auction. So taking account of this, and taking account that 25% of the initial contracts will mature next year, for 2005 you have 25% of the capacity at 52. 1,000 networks at 70, which is the average price regards what the contract is with the free consumer and the remaining is going to be 1,600 megawatts at a price that will range from R\$65-R\$75. If you want, you can take the average for the period which (0.5) of the price we are selling to the free consumer. So is that your question?

Q - Gustavo Vetas

Yes, no that's -- so you're assumption is you're probably going to be selling 1,600 megawatts for the 8 year contract starting in 2005, or trying to at least? That's what's built into your forecast. So if you do thisâ€œ

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

The assumption we did in the projections.

Q - Gustavo Vetas

Okay. Perfect. The other thing I just want to touch base with you as far as your plans for the coming years, have you in any way been seeing any increased disposition from either the controlling shareholder or management to in some way revise your CapEx estimates in the coming years given the new guidance that you already have?

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

In this regard the CapEx already approved by the Board is that we are disclosing in this press release okay. It may happen that according to the negotiations we have to grow a little bit faster than we have so far. With that growth we are going to enter into some acquisitions. Either generating capacity or distribution contracts. That's pretty much the strategy to grow faster. That's necessary because we would like to be more profitable in the near term so that requires some more in the organic growth.

So we have not included the possible acquisition in this CapEx. But those acquisitions will be funded with debt rollover if necessary and that's pretty much our strategy in this regard. We cannot, using our CapEx right now, because you don't know what we intend to buy. That, as you know, will pop up at the time. So we have to wait for our projects and

then once we announce the project we are going to disclose what kind of funding we are using to finance that project.

Q - Gustavo Vetas

Okay. Thank you.

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

Okay.

Operator

(Operator Instructions) We have a follow up question from Lilyanna Yang.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi Luiz. You mentioned in the presentation that you are having an assumption GDP growth of between 3.5% and 4% per year. What sales figures growth assumption do you have?

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

Lilyanna, it was going to be around 3.5% per year.

Q - Lilyanna Yang {BIO 14003234 <GO>}

In line with GDP?

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

In line with GDP growth and that's derived from the fact we have some clients using the account partner. That may adjust a little bit our electricity capacity growth okay.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay. And another thing, you increased your CapEx guidance for 2008 basically in transmission. When do you expect this project, or which kind of transmission line you expect to be like auctioned in the short-term so that you already have the assumption of increasing estimate by 2008, which I think is a little bit far from now?

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

A good question Lilyanna. We, in this regard we have 2 kinds of process. The one for those transmission lines authorized by ANEEL, this is a kind of investment we have done over the last few quarters and has resulted in additional revenue for the transmission business. This is pretty much in line with ANEEL's plans. We have to follow their directive on that.

The second piece is regarding the national grid expansion project. Both projects will be subject to the profitability. Then we will have to compete for those effects. We have

included a long-term plan on the project we would like to get the capacity. Those projects have a lot of synergy with our current existing -- our existing transmission lines and substations. That is pretty much our plan. Depending on what capacity we are at at the auction.

So I would say there is a probability that those CapEx will not come through on this. But otherwise if we are successful, it may happen that we can get even higher investments than we have planned. That of course will be based on how profitable those projects are. Okay.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay. Thanks. One last question. You had a reversal provision in this quarter when you usually have provisions. What is it referring to?

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

We got doubtful debt provision reversal in this quarter. Delinquency has been reduced in this quarter so that our auditors are start we could register this provision okay.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Any kind of -- any particular type of client that has started paying?

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

No, that was in general. I would say our clients right after the first impact on the way they start repaying the (inaudible). So that is positive for us.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay, thanks.

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

Thank you.

Operator

Your next question comes from Stewart (Regar).

Q - Stewart Regar

Hi Luiz. I had a question--

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

Hi Stewart, how are you?

Q - Stewart Regar

Good. I understand there was a process going on down in Minas Gerais where ANEEL was doing surveys about customer satisfaction and I understand that this is now 1 component of 3 in the X factors. So I'm presuming that next April your X factor is going to incorporate this. I'm just wondering if you know the result? Where they generally happy, or not pleased or if you can mention that?

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

Well there was a (inaudible) by ANEEL and the (inaudible) addressed a couple of the points you mentioned. Quality of the (service) whether by CEMIG. Of course (inaudible) are very confused. We don't have a lot of people complaining about their sales, complaining about the time they remain without service and we have many have other concerns with the projects we are undergoing, we are undertaking in this space. So that is pretty much a novel process in order to realize on the kind of service and whether to the client.

We regard positive points from the client as (inaudible). We render other companies (inaudible). We lean very heavily on some fields. They are saying right now that the level of tax invalid in those fields as well. Other complaining about the delays when we have breakdowns, when we are slow to (inaudible).

That's pretty much normal. We believe ANEEL has learned about those complaints and for sure will come with a proposal in order to increase the service.

We have talked with ANEEL as well. We are addressing those points. We are implementing a new tactic in order to improve sales quality. So I believe it is pretty much normal the kind of (result you're hearing) and the result for sure is going to be positive. Not only for ANEEL, but for the clients.

Q - Stewart Regar

Okay. Thank you.

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

Okay.

Operator

You have a follow up question from Gustavo.

Q - Gustavo Vetas

Hi Luiz. Just 1 quick question for you. On your tariff increase for this year, the 19.13%, how much was the absolute amount that you actually had in CVA pass through?

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

Considering the (two piece)?

Q - Gustavo Vetas

Yes.

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

85.

Q - Gustavo Vetas

No, no, I mean the absolute amount in reais.

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

In reais?

Q - Gustavo Vetas

Yes. The number I have in my head is R\$700m. I just want to double check.

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

Well I will have to double check this out. I do not have this figure in mind right now. I believe it was close to that. But I have to check okay.

Q - Gustavo Vetas

Okay. Thank you.

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

I can call you later on in order to provide this figure.

Q - Gustavo Vetas

Okay. Perfect. Thanks.

Operator

At this time there are no further questions.

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

So if we just close this Q&A session and go to the final statement okay.

Well my final statement is just remember that the guidance that we have disclosed this year is going to be achieved by year-end. As I said during my presentation, our forecast for EBITDA growth is going to be matched at the end of the year. The Third Quarter EBITDA was very strong. It is very likely the Fourth Quarter performance is going to be even better so that there is a possibility we are performing a little bit better than we have projected. But that is the point we would like to stress. We would like to very simple. We

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would like to come every quarter, show the results we have projected and that is the goal. That is the guideline approved by the Board and it is very likely our projection for 2005 is going to be good as well and we are going to for sure the performance that we have projected possibly in 2005.

The fact that we have disclosed the separate business projections is also a commitment regarding the corporate governance practices. We would like, as you know, we are negotiating with our creditors on the reallocation of the debt of the new Companies and to do that we have to disclose to the public the figures we are presenting to them. That's why we decided in this presentation those slides regarding the separation of the business, especially those projections. We have reported, as I said, those figures to ANEEL and very soon we are going to be presenting those figures with the bondholder. Then we're seen to be very transparent and very clear to everyone. That is pretty much the commitment that the Company has in this regard.

I would like to thank you for this opportunity. I would add that CEMIG is going to present the final results of the CRC negotiation very soon as well. That is our mission. We are very strongly engaged. So very soon we are going to have some news on that.

I would like again to thank you for your hearing our conference call. Bye bye.

Operator

This concludes today's conference. You may disconnect.

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