Q2 2005 Earnings Call

Company Participants

- Djalma Bastos De Morais, CEO
- Wilson Nelio Brumer, Chairman

Other Participants

- Eduardo Yermo, Analyst
- Gustavo Gattass, Analyst
- Pedro Bachista, Analyst
- Philip Illiera, Analyst
- Unidentified Speaker

Presentation

Unidentified Speaker

Good afternoon, everyone. This is the presentation to publicize the results of the Second Quarter 2005 of Cemig. I thank you for your attention. And prior to beginning I'm going to make some announcements.

You may have access to this presentation on our website, cemig.com.br/investidores. You can download the presentation file and you might follow as we change the slides here. And we're going to announce that the slides are going to be changed. Those that have problems in their computers or are having trouble following the webcast, we have available through phone calls -- through telephones 11-4613-4525 with the password Cemig access to this conference call. And on this conference call you may even ask questions at the Q&A session later on.

Our program follows practice suggested by analysts in perception studies that we have carried out after each presentation. In the way of getting a (inaudible) time of today's prior till we get our results to (inaudible) we're following exactly this practice.

Today we have with us the President of our Board of Administration, Dr. Wilson Brumer; our Director -- our Chairman, Djalma Bastos de Morais; our Financial Director, FlÃ¡vio Decat de Moura, also Investor Relations. We have our Director of Business Management, Heleni de Mello Fonseca. And Director of Distribution and Commercialization, JosÃ© Maria de Macedo. Our presentation is going to be made up of four parts. The first part will be presented by Dr. Wilson Brumer, Chairman of the Board. Dr. Brumer, please?

Wilson Nelio Brumer {BIO 1524504 <GO>}

Good afternoon, everyone. I would before -- I began in my presentation proper, I would like to say or stress that what we are witnessing in the results that are going to be presented and discussed with you is the fulfillment and the delivery of a strategy that Cemig has discussed in the recent years. And we are trying to follow and deliver to you stockholders effectively that which was discussed by the Board and the Directors -- the executive body of the house. And we are very happy to say that effectively the plan by the Board is being met and indeed fulfilled. We're going to see that within a strategic vision that we are trying to add more and more value to the Company and certainly aiming at profitability of the stocks by the very actions that we are having. We also understand that the management of the Company has to be geared towards the long-term interest of stockholders, because always attentive to actions that have to be taken in the short run. And we have seen that the results of the Company have grown. And today we can state that Cemig has already reached a another standard of profitability. We have left growth of profitability, of generation -- cash generation through a bit -- much higher than what had been taking place in the rest -- in the last few years.

As I said, in the last quarter, net profit of 487 million. That represents profit per share quite substantially better than in the latest years or the latest quarters. And what calls attention also to the platform that we have reached in terms of EBITDA. We saw that in the last EBITDA was about 114 million reals. And I'd like to call your attention to this EBITDA margin and our long-term plan we had placed as a goal to be reached EBITDA of around 42%. We saw that in the last quarter we reached 41% net margin and 24%. With that we have an accumulated profit of 1 billion 42 million. This represents R$6.43 per thousand shares, which means a growth of 187% as compared to the net profit reached in the same period 2004.

And I understand that this result is exactly based on that which we said in the beginning, which is the focus on business. And we try to follow that which had been planned. And I also understand that there is a combination there of trying to find a balance with the interest of our customers. We have to try. We have discussed that internally. And we have today in Brazil a new reality, which is a market, a free market, which is a market that where we certainly have a few [ph] power producers and a customer having almost natural -- being also almost a natural consequence of this production. Today it's different. We have to find and try to add value to our customers and we understand that we're on the market and have to sell our power, our products to customers who today have a freedom of choice. And certainly we have competitors as well. We focus on cost reducing -- operational cost reductions. We believe that the process of de-verticalization has contributed positively for us to have a better view of our costs. Certainly we still have as a result of de-verticalization itself gains still to be made, especially having to do with the fiscal matters and especially with a clear vision of our costs, view of our costs of today's segmented by activity. This gives us a chance to improve our performance at operational cost reduction.

And so one of the aspects that we discussed in our meeting similar to this one was the management of our debt. I also remembered that our debt was extremely concentrated in the short-term. At that time we were still based on BNDS, the National Brazilian Development Bank, as the single lending entity for the Company and to show the capacity of the Company to go to the market and obtain capital compatible with its activity and not dependent so strongly on BNDS, which is still -- and we still want to have it as a bank for the financing of our investments and our growth and our management of our debt as a whole. But not to create such a dependency as we have before. And this is going to be explained by Flavio Decat later on. But it becomes clear to all of you that we have been able to add adequate our debt, which made it much more comfortable having to do with this EBITDA and it's profile that is much more fitting with the activities that the Company has.

And on the Company that is always (inaudible) to call attention to is that the business, all of them, are today presenting positive results. Today we are presenting a clearer manner with the de-verticalization already in place. And independently from that we see that all the businesses in which Cemig is participating have presented positive results. Some of them are still small values. As a whole we have to understand that the concentration of our business is still generation, transmission and distribution. And Cemig has a hold [ph] in managing all that. But we still have the smaller businesses and we have to be very attentive to them so they don't have a destruction -- they don't cause a destruction of value for the Company.

Another thing that I thinking think is important. And those are actions taken and in a certain way the market has recognized the efforts that has been made and the work that has been carried out, the policies that were adopted and have been fulfilled rigorously which have to do with better payment on the part of -- to the stockholders. We're talking about six-month dividends, 50% of profit. And we have to understand that any growth of the Company, any investment that the Company makes, has to do with modern management concepts with its social environmental responsibility with respect to social and ethical values, preservation of the financial structure that we have. We want more and more to have a solid Company that is financially sound and able to look for better opportunities, to invest in ways that will maximize adequate returns. And we can see that this has been seen by the market in a positive way. And we have seen a valuing of our growth of the value of our shares. In the last quarter we closed this market value in almost 11 billion reals and today we have reached values close to 12 billion reality reals. If we compare the value, the growth of values and our actions with the Dow Jones Index (inaudible) index, we see that Cemig shares of stock has grown above those indices.

And another point that I'd like to call your attention to, which is also going to be given to you in more detail, is the growth of Cemig is (inaudible) action which is part of the strategy to grow beyond our geographic area. We understand it (inaudible) our primary market is our natural place of growth. And to look for opportunities. But we cannot remain outside of opportunities out of the state and aiming always at having safety in what we're doing and adding value. And the very investments that are being made by the Company, to have that as a starting point. (inaudible) in a while is going to explain the situation of investments that are taking place where it becomes clear that even those investments that have a financial -- a very complex of financial equation, which is the Light for All program, we are doing that in accordance with (inaudible) established after obtaining the adequate resources and after solving the financial equation in a compatible manner.

One aspect that is always returned. And I hope it's coming to an end here in a very sincere manner to everyone. And the last opportunity that we -- we had this meeting also.

And I remember that the point that we were discussing was a contract of a renegotiation of CRC. This contract is ready. We have discussed this contract with some the people on the Board and the Executive Board, the group of executives,. And we've seen in the process something that we have to solve before we give it the period -- the final -- which is the fiscal aspect in these (inaudible) there's an incidence of taxes -- of taxation is (inaudible) which is a value that suffers correction by an investor [ph] which is IGB [ph] and one plus interest rates. And this represents a financial revenue. And the financial revenue is taxed. And we're talking about a payment of CRC with a retention of 65% of the dividends attributed to the state. This represents in time and in balance in our cash because we have a financial where the tax (inaudible) which is taxed suffers taxation. And this would make the Company suffer a lack of equity between the recognition of a financial revenue versus the correspondence in cash. And this is a point that our technical team here at Cemig is analyzing prior to us signing the contract so as to solve the problem in 100% way that is in the best Company paid for income tax and all the taxation on the top of the recognition of this financial revenue. And we want, since we're solving the problem in a definitive way, to find an adequate solution for the fiscal problem as well.

And this is the projection for cash generation of the period of 2009 saying that when we think of growth of the Company we're talking about growth with value added. And we believe still that Brazil will offer opportunity in terms of rate [ph] structuring in the segments. But I want in a very clear manner to tell all of the analysts and stockholders that certainly any decision that is made vis-a-vis this topic will be preceded by a wide discussion about value being added. And we're not declaring ourselves to be buyers. We're just open to discussion and analysis of opportunities. And I will say that we are attentive to opportunities that take place. But is becomes clear to all of you that the Company's growth with acquisitions adds more value than the Company remaining stagnant in the size it has today. And this is a process that we will still consider and analyze without any haste. And we don't want any demand in terms of doing things that are not adequate with this established strategy. But it's a Company, given its size and present conditions, it is certainly one player in a process of restructuring in this industry in this country.

Now I give the floor to Djalma, to our CEO.

Djalma Bastos De Morais {BIO 2089645 <GO>}

Good afternoon, ladies and gentlemen. I'm very happy to be here together with you showing the performance of our Company in this last quarter. And we had a very good quarter, better than the First Quarter. And you're going to see in the last projection that we had the best developed -- performance in sales in recent years.

We are the sixth largest generator, the sixth largest transmission company, the largest distributor in the country. And almost 6 billion consumers -- 6 million consumers that is -- and approximately 10,000 -- a little over 10,000 employees. Cemig is considered by consumers the best distributor in the Brazilian southeastern region. We're close into recent years to get in the first place. In the last year, 2002, we were first. And even with the new methodology presented, we are first place to our happiness -- the happiness and satisfaction of our consumers.

Now we are enlarging more and more our presence in other states. We're becoming more present in other states that is. And we -- with two customers in Rio de Janeiro, four industrial clients in Sao Paulo and Santa Catarina and one in (inaudible). We're trying more and more to enlarge strongly our participation in our states. But the competition is -- let's say it has left us in a relatively comfortable situation. We lost a few customers. But our gains have been positive.

The were some attempts made to leave Brazil also. We made some attempts in Bolivia trying to implement rural electrification. Unfortunately, when we were about to go deeper into the project there was a governmental change there in that country. We have some perspections [ph] here in Uruguay.

But for the first time we're almost definitely making investments in Chile, outside of Brazil therefore. And together with Luza [ph] -- Luza with 51% we are now making Rio a project of approximately 60 million with a 20-year concession. And the most important is not investment itself. The most important aspect is that we're going to acquire a different culture in a country with different dynamics, a different economy and a different time for regulation setting [ph]. When we took this proposition to the Board the most important I believe that what had really made members of the Board sensitive to the proposal was Cemig's participation in another kind of market. Not only with the problem of a different kind of sales. But also with the problem if the different kind of legislation and regulations. We have investors. We are doing well with our partner Aluza [ph]. And we believe in success in this enterprise.

We had a growth of 7% relative to 2004 and in this projection, as you can see, that we recovered -- we had a relatively strong increment in the residential segment. This industrial segment with 2.7; commercial, 9.2; rural, 15%, with a total of 7%.

Now activity in Minas Gerais is reflected growth of consumption by residential and commercial users. In the residential we were very stable. We had a good growth this quarter.

And lastly, our best performance in the last ten years, as you can see, that we are going -- surpassing in sales prior to the power deficit that we had, we had in the first months of the year very strong growth becoming stable the last two months. And we believe that we have a growth -- we will have a growth up to the end of the year on an average of 4, 4% something. It is important because for the very first time we went beyond the level that we have reached prior to the energy crisis that we had some time ago. Thank you, very much.

Our pluri-annual [ph] multi-year investment plan, as you can see, we continue very strong in generation and transmission. And one important project, which is the Light for All program, we have some problems in this enterprise. But we have been able to launch it last week. It's a program that we will have a strong subsidy [ph] on the part of the Company. It is going to be made feasible with money coming from Electrobras. We had first signed with the participation of 3800 to the consumer. The project was something around -- a little over 9000 reals. We're negotiation with Electrobras and we had some signs of improvement. Over 100% of this project -- of this amount initially made available for 3800 reals per consumer. We hope that next week we're going to have this cost defined so we can take it to the Board and make the rest feasible, the 150,000 properties which is of the commitment of the government of the state and Cemig and all its concession area.

Our generation capacity is specified, as you can see there, beginning -- we have begun the generation with the first machine in (inaudible) and we have the time chart of each one of our enterprises amortized. Imorez [ph] possibly finishing 330 MW in 2005. (inaudible) 2006 and Capim Branco not 2007. But 2006, as everything seems to indicate.

Our capacity is within that which was programmed. Our objectives are being reached. And we understand that it is fundamentally important for us to be able to begin, or to continue that is, within searching [ph] and participating in all the enterprises and all the generation enterprises that might arise. We're looking forward and we're ready, actually, to have concessions liberated by the federal government. All these enterprises are relatively delayed -- our delayed, slightly delayed. And may generate problems in the future. But we're ready to invest in this direction as soon as we have the chance to do so.

This is it. Thank you, very much.

FlÃ¡vio Decat de Moura: Good afternoon, everyone. I'm FlÃ¡vio Decat. I'm the Financial Director of this Company. And it is my job to talk about the financial management, to talk a little bit about the cash flow, the management of debt and risk protection policy.

The financial management that the Company has tried to develop is totally adherent to the master plan that was publicized among US stockholders as the 30-year plan with sustainable development with some things that we have tried to meet the debt on -- the cash generation debt on EBITDA equal to smaller -- greater -- smaller than 2 and the debt plus stockholders equity less than 40% cash flow is adequate to the now (inaudible) Cemig. Now we have very complex cash management and also in all the companies that with which we work now in our holding and for our Company in the process of expansion. As the Chairman of the board has said, Dr. Brumer, it as always an expansion very safely -- is carried out very safely without any haste, adding value. And this expansion will have a financing structure that will allow for each step to reduce the weighted mean cost of the Company. And we are going to try to elongate the debt, the long-term debt maturities, lengthening it. We did -- we actually rolled over -- we had the portfolio (inaudible) referring to 2005, we were able to reduce our exposure to our FX risk practically 100% of our debt in foreign currency. And with that, we aim always at guaranteeing an improvement of the valuation of the quality of our credit by the agencies and by you who have demonstrated to us a great appetite for our stock. And our stock has raised reached here in Brazil a level of 81 reals per preferential share, significantly over the level that we had been operated on in the past.

Now our cash flow continues strong. We have operated since the beginning of the year with the cash around 900 million reals, which is certainly one factor to reduce the cost of our debt roll over. We began the year with 900 million -- 896 million in cash. We spent our First Quarter with 919. And today we're close to -- we already have 971 million free.

And the debt, Cemig's debt -- indebtedness, the consolidated Cemig presented a total of 4.5 billion reals. And in foreign currency 20% of that. And this 20% of that was in net in cash. And the balance of debt -- the net debt understood -- the total debt minus availability and (inaudible) about 3.2 million, which the net debt of 3.2 showing the net -- the generation -- the cash generation was 5.74 to debt and 1.54 and actually leverage of 36%.

The most important creditors, the main creditors are the debenture holders, 1.4 million. And banks, a sequence of banks, a series of banks, some among the most important banks that we work with.

The indexers of our debt are preferentially following IGPM and CDI following the policy IGPM because our tariff [ph] is indexed in IGPM and CDI because all of us we hope that our CDI will be reduced substantially in the next few months and years.

Now, the quality of the credit of Cemig enables it to take advantage of the liquidity of the banking market, make it very successful. For the debt from June to December totally 1.5, which was one of the factors of the weakness of the finance of our Company which was a concentration on the short-term debt. These are 1.5 billion. We made one operation to several banks. And we were able to roll it over at a rate of (inaudible) plus 1.27% and we had a stand-by credit of funds to be used for the debentures that are -- should be redeemed in November this year. And in the case of debenture holders choose values lower than this of (inaudible) plus 1.7 plus rate of retention rate of this credit we're going to pay up until November we're going to roll over -- roll the debt over. In case this is not done we have the debt guaranteed. This represents in the next bar chart we have growth of the debt maturity timetable which looks very favorable with a mean payment time of a average tenure of six years and flat profile with a commitment of about 500 million reals a year [ph] for the Company, the generation of cash of which goes beyond 3 million reals -- 3 billion reals. So it's a very comfortable level of the debt and very comfortable level of the structure of the cash flow in this Company.

So now I give the floor to Dr. (inaudible) who's going to talk about the results in detail.

Unidentified Speaker

Thank you, very much Dr. FlÃ¡vio Decat. Before we proceed I'd like to report here the presence of our Vice President, Francisco Sales Dias Horta. And our Generation and Transmission Director, (inaudible).

My role in this presentation is going to be the presentation of the results. We're going to present the results to you, the consolidated results. And we're going to talk about some of the parameters of the financial performance of the Company.

As you can see in the next slide, we had a net profit that's quite substantial net profit in the Second Quarter 2005 with a growth by 87%, as our Chairman of the Board, Dr. Wilson Brumer, has mentioned. This result is extremely positive. And maybe more positive than the result that we had in the First Quarter 2005, which was even higher because that result of the market growth at a better price for our assets. And this of course resulted in cash generation in the Second Quarter around 840 million reals, which represented a margin around 41%, which takes us through a level that is quite close to the established goal by our master plan. And we believe that during the rest of the year we will be able to reach our established goals in the master plan.

Now in general the results have been positive. I'm not going to analyze -- I'm going to analyze in detail some of these lines there.

In the next slide you would see our operational revenue. And I made a point of separating the revenue relative to tuition [ph] in order to give you a better transparency in the transition of the de-verticalization process. In 2004 we had a two-year -- we had -- we're including all of the revenues. There were not separate at the time. We didn't charge separately. We didn't bill separately. So as we started serving new customers through our Cemig generation company we had to bill through the distributing company of this the free -- the free customer rates. So we had a revenue that actually covered all of the impact of these consumers leaving the Company, the free customers leaving. So we didn't have any problem relative to the probability and the margins due to migration of customers from our distributing company to our generating company.

Now in the next -- on the next page you can have a very clear view of our evolution of operational expenses, operational costs. As mentioned by the previous presenters, we had a focus on cost reduction and this is being reflected in our numbers, in our figures. And not only in some items. If you pay closer attention to the figures, you're going to see that actually we are really improving our performance in every front. Now we had this last quarter very significant contribution of reduction in some of the non-controllable costs, which contributed to a reduction of 9% vis-a-vis the previous quarter and 3% also relative to the same quarter 2004.

In the next slide you have our financial revenue, our financial results. Of course this result is better reflected in that slide where Dr. Flavio Decat presented the cash flow. And this reflects all the adjustments so that you have a precise idea of the financial result. But it's worth remembering that in this table we have a strong influence of the payment of interest on our own capital, which is about 283 million, made up for. But the exchange gains due to a 12% valuing of the real vis-a-vis the dollar we generated gains and a hedge that was a compensation. But Cemig, which had a growth of 17%, it actually gave better correction to our regulating assets. As you know, both RTE [ph] is readjusted by Cemig, which generates additional gains as well.

In the next slide I have some comments about one topic that we had to discuss in the Second Quarter, more specifically in the month of June, which has to do with the billing of the sales tax (inaudible) on TUSD. In the previous slides we started billing or charging for this distribution services two or three customers. And based on (inaudible) opinion, we were not applying the sales tax (inaudible) on that -- or to that. However, we had a manifestation from the State Department of the Treasury demanding the billing and demanding us to charge ICMS [ph] having to do with the risk [ph] that we were Cemig and decided to start paying -- spontaneously pay the sales tax, which resulted in an expenditure of 221 million. As you can see, (inaudible) back on our cash flow in the slide previous presented by Dr. Flavio. However, we still made -- took some action so as to mitigate the impact (inaudible) due to this decision. So we started to (inaudible) has been made clear cut in the next -- beginning June 2005 the sales tax is made clear there. And in Paulo [ph] we filed a lawsuit contesting payment of CNS [ph] based on the (inaudible) opinion that I mentioned before. And given this aspect, we had an impact on our cash flow of 221 million.

And this next slide, to conclude, brought some data referring to the deferred tariff adjustment. They are today -- which was quite a discussed -- debated topic because of our tariff revision. As you know, Aneel readjusted the increase that we had in 2003 of 31.53 to 44.4 in April -- last April. This generated some regulating assets. And in the slide you have the details of the figures in order to help you understand the impact upon the result of the Second Quarter. As you can see, the impact in the Second Quarter was quite small; not really significant as it was in the First Quarter. For that reason. And I said that our results in the Second Quarter, it's much more positive than it was in the First Quarter.

These were the slides that we would like to bring see you, this afternoon. Now we're moving on to the question-and-answer session. And before we begin. And those who have access only to the webcast, you can ask your questions. It is enough to send an e-mail. Just send an e-mailed to our address ri@cemig.com.br. We're going to try to answer all the questions. I would like then to begin the Q&A session right now.

Questions And Answers

Operator

(Operator Instructions)

Q - Unidentified Speaker

Our first question is coming from Mr. Eduardo Yermo [ph] of Petro Bank [ph].

Q - Eduardo Yermo

Good afternoon, everyone. I would like -- I have three questions I would like to ask. The first if you could give us an idea of the growth for this year. What is you opinion for the year, having in mind that in the month of June, if you look at Anel there was a deceleration. So to see if this is going to continue? The second question has to do with the -- to know if all the 49 million that were accounted for in the quarter, what would be in the Second Quarter, what would be in the first -- in other quarter. And other question involves CRC, having in mind the time, I imagine, to solve this issue, any case it is not possible to solve this problem in the short run or the mid-term. If it would be sold 100% of the dividends to the state [ph], how does it look like?

Q - Unidentified Speaker

I'm going to begin by the third question relative to CRC. We, as I said -- as I tried to convey during my presentation, we have a contract ready. And we would be following a model that we have been considering also ready to when we sign it to submit it to the other approvals. And we think those are important parties, the state legislature and Aneel and the stockholder assembly and the Company.

But as I said, we understand that there is a fiscal aspect that cannot be neglected. And it has a very strong impact on this solution. Considering that only as a reference between rates -- interest rates and the index are 10% a year, we will be talking about financial revenue on this stock of CRC around 300 million reals. Certainly on this value we will have income tax and other (inaudible) and taxes which we want to avoid. And of course we are working on this fiscal aspect. And we are going to see whether we present the stockholders a solution that will provide a solution for this fiscal aspect as well. If we can't find one, we're going to go back to the previous idea. But I'm optimistic that we're going to find a solution that will satisfy fully all the fiscal aspect, the (inaudible) and total closure of the subject.

As for the market, that's the first part of the question, the power -- the electric power market, we have worked, or have been working, with a prospective growth of 3.5%. But the growth that we had in the quarter, in the Second Quarter relative to the first one was 7%, which was much stronger than previously imagined. Therefore, we have been thinking about revising this position and going up. We're still working within 3.5. As for the other part, CDA [ph] was how do we -- as for your question, practically 47 million reals are what was registered in CDA is nonrecurring, therefore it is not going to be repeated in the next quarters. Thank you.

Our next question comes from Mr. Pedro Bachista [ph] of Perpatual Bank [ph].

Q - Pedro Bachista

Good afternoon. I have two points I'd like to consider. First one has to do the number the Company reported in the First Quarter. The 400 million reals is a low number if we consider what was budgeted for the year, 2 billion reals. So I imagine that this is related to the Light for Everyone project because there was no investment yet. So I would like to understand why you're not adhering to the goal of 2 billion reals investment in 2005 and 2 million [ph] in 2006. I'd like to understand that.

And other issue, in CapEx we're closing to the new power auction. And I want to understand it from the strategic point of view about Cemig's negotiation with potential private customers because of the limitation of bank debts for new investments because it's a public company. I'd like to understand the new auctions and what is the negotiation with the private customers. That will be it. Thank you, very much.

Q - Unidentified Speaker

Good afternoon, Pedro Bachista. It's always a pleasure to have you on the other side of the line. A very remarkable question.

CapEx, in fact ours is 2 billion forecast and we realized around 400 million. Two factors have been relevant. First one is the process of de-verticalization of Cemig which made every business -- we're sort of paralyzed for an important time. All the management changes, all of that caused the small -- we stopped for about 25 days or so, changing our paradigm with our SAP in the process of transition from one company to several companies.

And another process was the programs that the Company had in the bidding process of the Light for Everyone program. As you all know, the first tranche that was approved by the Board and for which we have our financing approved by Electrobras served 96,000 customers. The Company has the capacity for construction work of around 32, 33, 4000 consumers per year. This we have been doing, following the normal process.

The remainder is all under the shelter of this turnkey that was a bid. This first part was approved by the Board and the rest according to the information given to the Board today and which will be made available to you analysts and stockholders on our website, the other aspects will come after the approval of the funding that we're seeking with the Electrobras and (inaudible) energy. This was the delay that we had as a result of the (inaudible) process that was ongoing. And this led to a problem in the process. So it's specifically on Light for Everyone a total of the two budgets. The turnkey or the work to be carried out in a traditional way.

This CapEx is being reduced in the revision by 110 million. So we had 605 million. Now it's going to be executed 495 million.

Now we are revising at this very time as we speak only vestment [ph] budget. Evidently we -- the Company is not going to realize the 2 billion forecast for this year. We did 400 million. And if the Board approves the other service orders of the turnkey contract within this project we will have the 400 million more. And then we will end up to within 800 million. Now we have a management group with the main superintendents connected to this budgeting issue analyzing how much of the 800 million of the 1 billion 200 [ph] remainder remaining, how much of that will be actually done. So there's going to be a substantial reduction.

If you will allow me, I would like to add another point. I understand that this is always a natural concern of the analysts -- what is going on in this quarter shows a little of that we are again trying to fill to the letter that which we had intended so our projects have to have a financial equation that is adequate. It has to have return and value added that had been established. That is always that concern.

I say again it's natural because it's a state owned company that investments will be made at any cost. It's not true. So much so that we are really trying to make the investments. We're aware of the need to invest, for example, in Light for Everyone program. But this will be preceded by negotiation with Electrobras and the Ministry of Mines and Power. And leveraging all the resources and adequate conditions for this process. And then, only then will we be ready. It's a demonstration -- I apologize for the interruption.

This is a concern. I understand that. But I want to make clear that this orientation has been fulfilled. We have every interest in doing it from the point of view also of my other function which is one of government. We have every interest in doing that very quickly. But we also understand that we cannot do this at any cost. We have to do it understanding that the resources will have to be compatible with the investment so as not to harm other projects and other businesses of the Company which will certainly take the losses that would not be measurable at this time.

As for partnerships for the partners, the new power auction, our policy -- our extension policy is to expand in partnerships preferably with a private initiative. We have a good experience with private partners and we tend to have our expansion and generation, transmission and even distribution itself by means of private partners. The new power auction which will take place in the First Quarter, the first half of December we're going to participate actively. And we intend to do that with private partners again. And this is our focus and that is the guidelines that come from the top management to operate along these lines. We are concerned that plants will come to this auction so that we can participate.

Q - Pedro Bachista

How about the possibility for Cemig to acquire some stakes in some construction projects or that had the concession bid in the previous government? Is this an alternative that's being studied?

Q - Unidentified Speaker

Yes. Cemig today is studying some projects whose concession had been bid, especially projects still not under construction. But once again, bringing here to the table that which our President and our Chairman has said. And also the Chairman of the Board has said, for Cemig to go in the business to (inaudible) in Minas we like a good deal -- little money and a lot of return. So we always go to auctions. If it's a good deal, we're coming in. But we haven't found any business -- any deal that will give us the return the Company wants. As a good (inaudible) I like that too.

Our next question comes from Gustavo Gattass from UBS Bank.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Good afternoon. I have some questions here but I think they are very detailed about the quarter numbers. I'm going to ask them one by one. I think that makes it easier. First thing I want to see if you could explain to me why we see such a drastic fall in the mean rate (inaudible) rate from the First Quarter to the Second Quarter.

Q - Unidentified Speaker

This question -- this issue we have to make an adjustment relative to (inaudible) as calculated in the First Quarter. And therefore, we had part of a reversal in the (inaudible) that was done for the First Quarter.

Q - Gustavo Gattass {BIO 1702868 <GO>}

So when I had to start looking to see what is recurring from now on is theoretically would be as the mean, as the average between (inaudible) one quarter and the other?

Q - Unidentified Speaker

Exactly, yes.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. In the consolidated semester?

Q - Unidentified Speaker

In the semester no impact. In the quarterly you have to average of that out.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Now the second thing I wanted to say was -- what you registered as the TUSD revenue. I'd like to ask -- to request for the future for you to make available to us what is the volume associated to this TUSD in order to understand better how it worked. But beforehand I would like to understand in the one that you included as this quarter's revenue and also Second Quarter, everything was included that had to do with CNS [ph] (inaudible) CNS.

Q - Unidentified Speaker

In the figure that we publicized in the Second Quarter we include the part of ICMS relative the billion of the previous quarter. So I have 222 million reals referring to that was paid or had less or more than that 174 million. 221 and 174 that we are billing, plus 50 something which is actually a fine [ph] that Cemig is paying. The fine is in the financial result.

Q - Gustavo Gattass {BIO 1702868 <GO>}

So it's 174 of extra tax and 174 of additional revenue. Is that the idea?

Q - Unidentified Speaker

Yes.

Q - Gustavo Gattass {BIO 1702868 <GO>}

The revenue that hasn't come in yet. It has been accounted?

Q - Unidentified Speaker

Yes.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Has this revenue not been included?

Q - Unidentified Speaker

Yes it has.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Just as follow-up in this question to see now in the Second Quarter you had a lot that was included under the First Quarter tariff, prior to the tariff readjustment. Normally there's a small part of the revenue still reflecting the older tariff, the previous quarter's tariff.

Q - Unidentified Speaker

As you know, the billing process is spread out for more than three months. So the impact is normally around 15 to 20%.

Q - Gustavo Gattass {BIO 1702868 <GO>}

And do you think that by any chance this impact on this quarter could have been higher than it should have been?

Q - Unidentified Speaker

What you mean?

Q - Gustavo Gattass {BIO 1702868 <GO>}

I could have more things in the previous tariff than things in the new tariff in accordance with the previous Second Quarters of the past.

Q - Unidentified Speaker

Now our situation with the new customers has become regularized, now so there's not going to be any differentiated impact vis-a-vis last year.

Q - Gustavo Gattass {BIO 1702868 <GO>}

So it is the same kind of pattern for the Second Quarter I had last year, probably the quarter -- the pattern for the quarter this year. I still think the growth is not too big that you have -- that was my doubt.

Third thing that I'd like to know is the aspect of CRC just to understand. And I understand that I don't have -- this decision has not been totally made; you're still studying that. But my doubt has to do with the following criteria. When the CRC goes back to the balance sheet (inaudible)

Q - Unidentified Speaker

I don't know if this is possible. But we would like to take this business -- this subject out of the balance sheet and all the problems that it has been causing. But I will wait until the technicians will make a good analysis and an alternative situation.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Thank you.

Q - Unidentified Speaker

Our next question comes from Oswald (inaudible) of (inaudible) Bank.

Good afternoon. I have here three questions. The first one is about energy sales, especially from (inaudible) that is acquisitions about 300 million in the previous quarter and it came down to 138 million in the Second Quarter this year. So I'd like to have an idea whether -- why this happened and what can we expect for the future.

Second question, once again going to CRC, is whether you gave yourself some time to solve this situation or it is going to happen as it has to be without any set date.

And the third question, somebody mentioned quickly, I didn't understand very well, it's about the network level or the hedge level. You have about 100% hedge around the debt, that was -- those were the questions.

(inaudible) the biggest impact really is the exchange rate and the dollar and the real. In the First Quarter we had a valuing of 12% of the real vis-a-vis $2 and growth of the real and this compared with a value of the dollar included in our tariff revision of 2004. We had a gain that was quite significant. However, there was another impact which is the application of Resolution 153 of Aneel which also changed all the criteria to calculate the CVA [ph] as for the purchased energy purchase power and this affected -- as we answered already, we had a CVA which was higher because in the power purchases -- in the case of (inaudible) it was affected by the dollar drop.

This is not the level that we're going to see in the next quarter, is it?

In the next quarter and the next semesters we're going to have a repetition because the new tariff includes this new exchange rate of March 31st. That was less than half and the exchange rate hasn't changed that much. As I said, it was a combined effect of the two impacts of the exchange rate and the application of the annual criteria Resolution 153.

Separately, you have -- you can sort them out how much the resolution -- what kind of impact the resolution had on -- we can do this later -- on (inaudible) that is if you send us an e-mail we can answer that easily. Thank you.

As for the question about CRC, again I think that I forgot first to answer. I think it was Pedro who asked something whether we continue to have a rotation [ph] by the Company of the state's dividends. Yes, that is the answer. We are already practicing the policy of 50%, 65% which would be attributed [ph]. The state is already being retained [ph] since the last dividend.

And answering your question, our goal, as I said, is within this quarter to solve this problem one way or the other in order to close this topic because it's really draining our energy in terms of looking for a good solution. We're going to work so that this quarter we can solve this problem in such a way that the next quarter this subject is effectively solved.

As for a hedge, in fact we had 100% of our flow hedged (inaudible) with the contracts in the US dollars those are power contracts that we signed with three [ph] customers in US dollars which will grant the counterparts of the payments required by the debts.

Okay, thank you.

Our next question comes from Philip Illiera [ph] from Merrill Lynch.

Q - Philip Illiera

Good afternoon. I have some questions first having to do with ICMS, retroactive ICMS. I see that we have already billed the free [ph] customers in order to charge that. And also the interest rates and fines. And what are the conditions for paying off this debt that you established? And if you have any concern with the possibility of some of these free customers challenge you in court and take more -- longer to pay for that.

Second question has to do with (inaudible). I would like to know whether the fact of the market, the captive market of Cemig Distributor Company is reduced with the exit of free customers did this change the quota of the Itapou [ph] -- Itapou's quota of the Company.

Lastly I have a request. If you could open the provision that is of the supply and the revenue productivity how much was sold in power by the distributing, how much by the generator to the final consumers, which was the revenue for each one of the parts?

Q - Unidentified Speaker

You want me to talk about ICMS here? In the case of ICMS, we did not negotiate the division installments of the billing. We did bill 100% and we negotiated a parcel of the payment and of course at a cost of interest. Some customers we were successful in negotiating with them. With other customers we're not successful. The customers, most of them, or a large portion, actually went into a court action, a litigation process in order to postpone this payment process. So the 224 million, as I said, 174 we did bill to the customers. Out of these about 85 million are held in court and about 50 million we did receive. And the remainder are under negotiation.

Would you repeat the second question?

Q - Philip Illiera

The second question has to do with (inaudible) whether the fact of the captive market of Cemig has reduced because of the free customers exiting. Was there any impact in the quota in the Itapou [ph] quota sales that is purchaser of power from -- by Cemig.

Q - Unidentified Speaker

There's no impact. You're still purchasing the same amount of power as before from Itapou [ph].

Q - Philip Illiera

Can this change?

Q - Unidentified Speaker

We don't think so.

Q - Philip Illiera

And lastly, actually, can you tell us about the revenues? Can you tell us later about the supply -- the power supply both in volumes in terms of (inaudible). Of your total supply of power to your customers how much was relative to the generating company and how much was the distributing company?

Q - Unidentified Speaker

We can tell you this a little later.

Q - Philip Illiera

Thank you, very much.

Q - Unidentified Speaker

The next question comes from (inaudible)

Good afternoon, everyone. My first question has to do with the expansion plan of Cemig beyond its geographic area and the role of the Company in a consolidation of the sector of the industry in Brazil. I'd like to know if you have some focus on distribution, generation, on transmission in you expansion plan. And if you have some kind of financial consultancy looking for opportunities on the market.

We believe in the management of this Company that the regulating process that today establishes the tariff at the transmission. It should not last long under this format. And we today -- transmission is excellent business, riskless (inaudible) long-term application, guaranteed revenues. But the load of this guaranteed transmission revenue and the revenue and the payment for the power and electric power as a whole is very high. So we expect this process to suffer some changes, to undergo change. And this is a priority focus because it's good business, maybe the best in the industry, transmission. And we have acted very actively in every auction. And we are publicly analyzing some assets that are for sale, especially companies that have a characteristic of being builders. They build; they don't want to have those assets for 30 years; Cemig wants the assets for 100 to 200 years. One of our purposes is to operate in the electric power industry. This is a focus, a very clear focus, to us in terms of expansion.

As for the generation, we're going to act in the auction in the new power auctions also again actively trying to find and to have good funding and good returns. And in distribution it's a matter of opportunity. That is in distribution we have an appetite for that. But prior to anything it is necessary to have someone wanting to sell a distribution asset at the price that we what the return -- that will give us the return we want.

As for hiring consultants, Cemig is actually finishing a process -- a bid in process in order to build a bank or a database of financial consultants that we can use in the short run. We have used at each acquisition we hire we have a bidding process and we hire financial consultants to help us through the process. This is a process that due to the legislation, the bidding legislation, is a long process in terms of time-wise. What we're doing today is a database we're going to have this bidding process in order to classify many consultants in order to be able to from within this data bank to make direct price choosing so that if consultants are interested in working with Cemig in that you can actually sign up for this bidding process.

Now, your (inaudible) is it coming out this month, or the announcement is it coming out?

Yes it is coming of this month. It's going to be published. The President, the Chairman of the Board just reminded me that we did not mention here the issue of the small hydroelectric plants. We have a process, a very strong process (inaudible) PCH and we're going to act in partnership with private investors in the development of these small power plants, especially here in Minas Gerais. But we are open to projects that are offered to us outside of Minas Gerais.

Thank you. Second question has to do with the management of the debt. Last June when there was a conference call explaining that you were still negotiating another tranche with ABN (inaudible) and Santander to roll over the credits, more expensive credit next year. I don't know -- I want to know if this moved forward in negotiations -- 677 million reals -- if this has really moved forward. And whether the Company intends to recur to the market of debentures or even to the external market looking for some funding -- raising funds for this possible acquisitions, participation in your projects.

Effectively the Company has closed this deal with the banks, ABN, this consortium. And Santander as well. It is a credit line of around 690 million. We have used part of this credit line. The Board has authorized us to leverage the Company, using the tax credit that we had from TUSD. And we're negotiating with the banks prepayment of more expensive debts. We're having some difficulty because evidently as the bank likes to have prepayment of debts. But we're trying to with this money to pay off debts that are more expensive to the Company.

The other Company [ph] is whether the Company intends to use the market to go back to the market, trying to raise funds, both domestically by means of debentures or Eurobonds externally, looking for funding for these possible acquisitions or new opportunities or new projects. The idea -- the expansion idea is for expansion to be carried out with the leveraged financial structure that is within this line that I show a reduce in the capital costs of the Company. We intend for our financial aides to make an evaluation to help us in the acquisition process. But also to participate or guarantee that necessary funding for these acquisitions.

As for the acquisition, this is our line of action. It is also a guidance from the Board and also the management so that we have to go abroad. We have to go abroad because of funding needs -- but not because of that. But to maintain the visibility of the Company on the external market. So possibly within the next year, the next 12 months, we're going to try some movements in the external market. But thinking in terms of keeping the Company visible on the external market.

Will you allow me to interrupt. We still have one more question and our Chairman of the Board has time problems. Could you ask your additional questions by e-mail to (inaudible) ir@cemig.com.br. We will be very happy to answer your questions.

Okay thank you.

Our next question comes from Gustavo Gattass from UBS Bank.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Good morning. Just one in order to -- for Brumer before he leaves. Just out of curiosity I'd like to understand why to expand outside of the country. Maybe there was the strategic question that really bothered me. And for (inaudible) problem in Bolivia or Uruguay, is there any specific rationale for that?

Q - Unidentified Speaker

First, we did not have any reason not to. Second, it is necessary. A question that came up, what was the focus of our business, whether it was generation, transmission or distribution. Our focus is a good deal for the Company. Our focus is and will be a good deal. But it's good business whatever it may be, distribution generation or transmission. And the same goes for gas and the acquisition of gas assets and generation assets and transmission assets.

We went to Chile because it was a good deal. It was a good business. We visualized a good business for the Company. This side has given us the conditions and the expertise of the Company to have a contact for the new market with a new type of regulation (inaudible) and also help us grow and know how people act in different processes. And different contexts. I would like to actually reassure you that Cemig has no specific focus. It is looking for a good deal. And evidently all of them are taken to the Board and taken to the top management, which had been very critical of some processes and have made possible good projects for the Company.

Just answering, Gustavo, the question about Bolivia and Uruguay that you mentioned, just to make it clear that in both cases, when it comes to the Board or what came to the Board, we discussed this with the management of the Company was one of giving service then participation. In the case of Bolivia, what there was in a program of investments in rural electrification [ph] we, with the experience that we had in Brazil we understood that we could participate in a process of this technology transfer to Bolivia. But as a result of the situation that we're going through, this subject has made no progress.

The second point, having to do with Uruguay, also along the line of the experience of Cemig. And we were there recently for other reasons, Uruguay, visiting a group of companies in the market. And we detected there a loss of power by the Company, the state owned Company. It's a large loss of power. And once again we had this exchange of experience between Cemig and EUT [ph] which is the local company. But once again in terms of service, not in terms of partnerships or investments.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Thank you. We have two more questions related only once again to the figures, the quarter figures. Not necessarily -- so if Dr. Brumer has something to do it makes no sense remaining just for them.

But the first one has to do with the transmission charges that were not included in the accounting for the Second Quarter. There was a fall relative to the First Quarter. Once again I wanted to understand if there's also any readjustment made relative to the First Quarter in the transmission accounts are or not.

Q - Unidentified Speaker

No, not in this case. The adjustment which is normally done which is the CVA [ph] impact. The CVA impact is reflected both in the first and the Second Quarter. Of course when we moved to the Second Quarter because of the new tariff those are new values in of charges in CVA that are actually taken over.

Q - Gustavo Gattass {BIO 1702868 <GO>}

The last quarter we had an interesting and a significant rise. And I imagine that part of that had to do with the new contracts that were not initial contracts. Your transmission tariffs even included CVA had risen. and that's why I didn't understand.

Q - Unidentified Speaker

What we can do. And as I don't have available the figures to provide them -- to provide you with them, if you agree we can talk later. And I will give you the figures.

Very well. I'd like to thank you for your presence. Those of you who have more questions, please send them by means of the e-mail addresses that I mentioned. I have here one question from Stuart Ragger [ph] from (inaudible). Stuart, I'm going to answer your question via e-mail. It is a question about the sales growth. And soon after our conference call I'm going to go back to my computer and give you an answer.

Now I would ask those journalists who are listening to us to remain online together with the local newspapermen to proceed with the press conference. Thank you, very much. Have a good afternoon.