

Q2 2003 Earnings Call

Company Participants

- Flavio Decat De Moura, Companhia Energetica de Minas Gerais
- Luiz Fernanda Rolla, Companhia Energetica de Minas Gerais

Other Participants

- Garligo Vanos, Analyst
- Lilyanna Yang, Analyst
- Ostava Vatas, Analyst
- Rodrigo Forseca, Analyst
- Sergio Tomashiro, Analyst

Presentation

Operator

Please stand by. Good day everyone. We thank you for your patience and welcome to the CEMIG's conference call. Today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference over to the Investor Relations Officer, Mr. Luiz Fernanda Rolla. Mr. Rolla, please go ahead.

Luiz Fernanda Rolla

Thank you, Danielle. Thank you, all for listening in today's conference call. As always, there are two ways you may follow our Second Quarter earning presentation. Firstly, through the web-cast. Click on the icon on our Investor page at CEMIG's Web site and secondly, at the same page, download the presentation and run it in your computer following this live show. First of all, I would like to warn you about -- Bloomberg is going to record this conference call for further broadcasting. Also, we'll be talking about looking forward statements and as always, you know very well that those looking-forward statements are based on assumptions that may vary in the future and dependant on the scenario we may have. And so be aware and that our progression we are going to talk about will be subject to change. In today's presentation, we -- we are going to have making part of today's presentation, Mr. Flavio Decat de Moura, our Chief Financial Officer, Mr. Decat is going to take some questions during the Q & A session with you. I'm going to start by this slide number two.

Flavio Decat De Moura {BIO 5512302 <GO>}

Just a moment. Good afternoon, all. It's a pleasure to be here.

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Luiz Fernanda Rolla

Today, we are going to be talking about the Second Quarter earnings. During the Q & A session, Mr. Decat who is going to take the questions you may have on other subjects as well. One point we have to stress over the last few years is that in spite the countless crises our customers faced, CEMIG has preserved its fundamentals. One, the problem is gone, the good result always come out. This year looks to be of those less stressed years, in spite all fears at the end of 2002. The good performance of the federal administration (inaudible) team has brought a more optimistic perception on the country's outlook which results in appreciation of the real and lower countless [ph] risk. We are happy with the quarterly net income of 384 million reais and with the \$535 million net income on the aggregate of the year. Those are by far the best results in many quarters as we are going to see in the following slides.

The construction of the Second Quarter of 2003 net income was a combination of an appreciation of the real, the total of that is 12.2% lower and the rate adjustment 31.5% went last April by Daniel [ph] which were offset by a higher operating income and operating expense and a lower electricity sales volume as we are going to see afterwards.

In the Second Quarter, at last, it was settled due to transaction done during the rush period during 2001 into February 2002. Contributing to increase the operating expense just [ph] after the audit team made by the arnel [ph] , the total amount owed by CEMIG was raised to 706 million reais, opposed to 676 million as previously required. As disclosed before, last February, we settled the first half of the amount due; 335 million reais financed by the BNDS. The funds to afford the remain amounts came in parts from the BNDS; 176.5 million reais; and the other part from the short-term borrowings raising the marks. We are going to address those transactions later on these presentations.

Let's move on; slide number three. This is the consolidated statement of income broken down by a few dates in where you may see the contribution of each one to the final net income. Expense of that electricity business is the major business we run. And natural gas distribution is a promising one. By the way, the natural gas distribution is one of our highest priority for the coming years, since the outlook for the natural gas mark is very encouraging. And the company's long-term planning has included some gas pipeline expansion projects to meet the demand for this field in state of Minas Gerais.

And (inaudible) data communication business has had a positive result due to the effects transaction gain. But it's one of the business we are reviewing our strategy. Shortly, we'll be announcing the; its new business plan. The other business net income operating margin was the expectation. That's one; slide number four. This slide sets out the statement of income on a quarterly basis and on the aggregate, comparing with those of 2002. In general, the Second Quarter 2003 operating income was the outcome of the written review done early this year, which was supposed to realign rates in order to provide an attractive return to our shareholders. The rate we are adjusting to provide by our large EBITDA; more than 100% higher than that of 2002 and 78% higher than that of the First Quarter 2003.

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As you may see, despite the great enhancement, we have not reached the level which the consensus of the analysts points out. The EBITDA margin is still below 40% and the net margin is around 28. For sure, some multiples will have a great improvement. But not enough to reach the target desired by the marks [ph] . Therefore, the stock price won't translated per [ph] (inaudible), only as our claims of a higher rate than they will accept.

Let's move onto the next slide on reais so I can see more details. In my view, the great increase of the retails sales revenue 30% higher than that of the first half of 2002 is explained by the rate increase of 31.5% bought by (inaudible) last April and by the 2.5% for electricity sales volume growth year over year.

It happens that the rate increase is not fully reflect in the quarter, though the billing process, which takes a little bit longer to charge with the new rates 100% of the consumers.

The quarterly retail revenues in the Second Quarter 2003 was 32.6% higher than that of the same period in 2002. Comparing to the First Quarter 2003, the increase was only 28% higher, because the Second Quarter sales volume was lower. We are going to see in the next slide.

The other expense were significantly higher, because of higher transmission and used revenues. Our combination of higher rates, 7.5% and the higher use of the, by the industry agents.

Let's move on to slide number six. One of the great concern we have when the rate increase was grant was the impact that the increase might have on the delinquency level. That has not proved to be true, it seems that you may see, by their charts, the delinquency levels are pretty much in the historical levels. In terms of also the sharp age of the delinquency, in 30 days the amount of overdue bills falls from 22% of the monthly revenues to five %. After that it remains in the very low level.

Let's move on, in slide number seven, as a whole, the first half consumption grew 2.5% compared to the same period 2002. Lab, by the residential, 6.1% and in commercial, 4.9% categories.

The industrial clients tends for 53% of the total sales, the only 38% of the total revenues.

Move on, in slide number eight, it's widely known that the per capita income in Brazil has been strongly reduced by the recurrent economic compliance and that holding down the inflation. It's easily seen that the residential electricity consumption has a strong correlation with the per capita income. Once more reduced by the electricity rate increase.

That seems to have impacted the Second Quarter residential consumption, which was 4.8% lower than the First Quarter volume. The quarterly industrial consumption has been

affect by the expiration. And not renewed of the supply contract for our large clients, which have developed power projects in attempt to reduce costs.

The next slide that will be very clear, slide number nine, as you will see in this side, the loss of the aluminum industry client who's contract expired and was not renewed, reduced the overall consumption by nearly 1,000 gigawatt hours. The good news is that all their industrial clients have increased consumption partially offsetting that loss. This is a trend for the future. With the electricity pricing going up, especially for the high intensive users. But even by the removing of the (inaudible) subsidy in the rate structure as announced by the federal government, more and more projects carry out by those kind of clients will be attractive and economically feasible.

On the residential side, the average residential consumption in spite of going after the rushening [ph] had a decrease as a result of the rate increase which we believe will be offset in the coming months. Moving on, the Second Quarter, operating expense were flat. They adjustments of rates derived from the rate review. When the rate is adjust. So are the personal A [ph] cost items. That's because those items -- those expense were up 7.5% when compared to those of the First Quarter.

The best example in the Second Quarter energy purchase exempt -- expense, which was up 33% compared to that of the First Quarter. In this quarter, the CD charge were paid for the first time. Apart from that, the other expense are tagged to the inflation rate, 18% year-over-year measured by the GPM. Let's move on to slide number 11. In this slide, I would like to draw your attention to three major points. Firstly, the appreciation of the real, 18% year over year, which yielded gains amounting to 356 million reais, derived from 12% lower foreign currency than innate [ph] debt, returning part of the loss incurred last year.

Secondly, the recording of the CRC receivables interest charge in monetary statement, amounting to 82 million reais. This is related to the third amendment of the CRC assignment contract. Those related to the second amendment written down early this year are booked for tax purposes and after revert. Thirdly, the one tied [ph] by the Asian non-receivables, related to the rushening [ph] loss ex (inaudible) , amounting to 224 million reais.

Let's move on. Let's talk a little bit on our debt structure. As of June 30th, 2003, the FX debt accounts for 45% of the total debt, excluding the pension fund unfunded liability, down from 51% of last June 30th, 2002. Translating to dollars, the FX debt around \$500 million, which is lower than 2002, \$588 million outstanding balance.

This lower percentage of FX debt is a result of our strategy to reduce exposure to the FX risk. The total debt, 3.144 billion is net of the funds deposited in the Central Bank escrow accounts, as complied with the regulation force for the state-owned companies. Additionally, we have partially had our short-term debt amounting to approximately \$98 million through several strategic transactions.

Let's move on. For the remainder of the year, the total FX debt maturing roughly \$300 million reais, or \$100 million. This amounting does not include the short term borrowing

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raised to (inaudible) transaction linked expense, as mentioned before. The debt maturity schedule is of concern due to the high concentration of the shorter to medium term. And it is the aim of our review undertaken on the company's financial plan. We procure a longer maturity debt in the lesser exposure to the dollar. Shortly after the approval by the board, we will be announcing our strategy to restructure the debt.

Moving on, slide number 14, as for the financing contract covenant, which weren't an issue in the First Quarter, they are in the good shape right now. And the outlook for the remaining months of the year is to be far below those to the limits.

Let's move on. Slide number 15. Over the first six months of the year, the cash flow situation was very tight, requiring a conservative cash management policy, driven by preserving of the financial solidness of the company. The financial markets were volatile, as well as the company's risk, which resulted in the higher spreads for the Brazilian corporate debt. Consequently, all the transactions done in the first six months were for the short term. The company managed to face those difficulties postponing an expenditure. Currently, we are expect that the CVA [ph] related loan be offered late [ph] at the very short term since the federal government officials have the state several times on the finally release of those filings.

In some mixed [ph] cases, the amount to be financed is close to 320 million reais. Let's move on to slide number 16. Let's turn to the loan one [ph] outlook. One of the first measures taken by the current administration when they took over was to review the then-current set of strategies to drive the long-term planning about the company to a suspendable growth and value adding to the shareholders, as recommended by the majority of the shareholder in the state of Minas Gerais. This new attitude brought up many cash on how the company could grow in the faster way. Accordingly, some priorities were relaxed and some were are (inaudible) .

It spans out the focus on the implementation of the best practice of corporate governance, topping with the elections by the preferred shareholders of a new board member. The idea is to be complied with the world-class practice, incorporating all the requirements prescribed by the Sarbanes-Oxley act.

Let's move on. Slide number 17. That is our most-likely electricity sale forecast for 2003. This forecast includes the heavy impact of not-renewed supply contracts with large industrial clients as a major point. However, we are bullish regarding other categories which are going to be the drivers of 2003 growth, coupled with the connection of new clients. Let's move on.

We are now on slide number 18. For the long run, we expect to grow in average 2.5% per year. This long-term forecast is widely depending on the GDP and the per capita income growth. Our (inaudible) to the company's strategy to outside of the state of Minas Gerais. Let's move on. The impact from the large client strategy of using their own park lands [ph] will reduce the volume of electricity sales in the next years. We estimated that by 2007, 12% of the electricity consumed in the Minas Gerais will come from those plants.

As we say, the company plans to sell the electricity used by those consumers to other industrial clients of the smaller consumption. In doing so. And focusing on high-margin clients, the company expects that the revenues will go up due to the higher rates paid by the new clients. Let's move on, slide number 20. Those are our estimate for the (inaudible) growth, taking into accounts the forecast for the sales volume presented in the previous slide and for the rate reducing projection for the period seen in the chart.

In 2003, (inaudible) will be above 50% at the worst case scenario. And at the best maybe can reach 100% growth.

Let's move on. This slide sets out our cap ex forecast for 2003 and beyond. As you may see, the power project under construction will consume the majority of the funds available. It's worth mentioning that the distribution system expansion will require large amount of investment to connect new clients, estimating over 600,000 clients, in line with the business plan review, it may happen that some project can be postponed in order to clean expenditure in case of shortage of cash or lack of finance.

Let's move on.

As a last point, we have listed the major proposal on the industry restructuring and recently disclosed by the federal government. We understand that their proposals are up for discussion and not complete. The same official state that the transition wordwere not to be disclosed yet. In the company's view, the purpose of the restructuring is to make up that the long-term electricity supply is guaranteed through a sustainable growth of the generating capacity.

The expansion will be afforded by both state and private investment. And to attract private investors is key. The creation of a pool which buys 100% of the power production through long-term contract and sell it to distributors at an average price. In doing so, according to the plan, the price invested risk perception is more favorable. And consequently, the required return would be lower. Thus, it will assure rate affordability for the consumers. Therefore, the key issue is the price the pool is going to pay for the electricity.

For the new plants, the price will be set through capacity options and for the existing plants, despite some rumors on that, we assessing based rates, the way the price will be set has been, has not been disclosed yet. This will come, with the transition was supposed to prevail over the next four years.

Exactly that is our concern. The pricing of the electricity produced was a key issue in the recent rate review and it still is. We understand that this price must provide in, high-end loss to allow the compliment to grow in a sustainable way, expanding it's generating capacity.

Well that is all I have prepared for this first part of presentation. From now on we could take some question. Daniel, would you proceed with the Q&A session please.

Questions And Answers

Operator

Absolutely, Mr. Moura. The question-and-answer session will be conducted electronically. If you would like to ask a question, please press the star key followed by the digit one. Remember, if you are on a speaker phone, to turn off your mute function to allow your signal to reach our equipment. Again, if you would like to ask a question, please press star one now. We'll pause for just a moment. Our first question comes from Garligo Vanos [ph] with (inaudible) .

Q - Garligo Vanos

Yes. Hello Fernando. Hello Luiz.

A - Luiz Fernanda Rolla

Hello.

Q - Garligo Vanos

With -- regarding the provision of measure, (inaudible) said last week that the provision of measure should be announced very soon, probably in less five day and we haven't heard of this provision of measure so far. Do you have any information on how the progress of this provision of measure and (inaudible) is at this time?

A - Luiz Fernanda Rolla

Mr. Decat you answer this question.

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

Hello Garligo [ph] . We haven't heard anything about the new measure -- the provisional measures. Just rumors, while just waiting the secretary Hoomustky [ph] to call out and to present these measures.

Q - Garligo Vanos

Okay. Just to remind you, last week in the inits committee [ph] conference, it said that no later than this week the provision of measure would be published. So, we should be seeing something soon. And the other question comes also regarding the old energy issue that you just mentioned, that there are many rumors, many complaints now from cyclo [ph] agents that they could sell, ship energy. And enough to buy the energy more expenses at the average price and we ourselves did some simulation showing that Minas Gerais Paranuy [ph] and the northeast consumers could be harmed if these initial proposal was conducted. My question is how well is the negotiations with the government proceeding and what's the rule for the government to provide a higher tariff for CEMIG generation?

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

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Well, we talked to the Minister and Tomasky (inaudible). We have two points about this question. First point, to have a claim now regarding the other rate to increase it to 62 reais the rate for our generation company from 60 reais to 62 reais it's close to the average price of the pool. So the problem that we will have will be reduced. At the second one, is similar to the Copio [ph] claim. We intend that -- we intend not to sell our energy by a lower price than the average price for of the pool. But we are still talking to the Minister as Mr. Rolla said in his presentation. And his model is just beginning to be discussed and we expect that this issue can be solved favorably [ph] .

Q - Garligo Vanos

Okay. Just to see if I understood it correctly, there is an understanding that if the pool is adopted, CEMIG's tariffs would be 62, (inaudible), right? That's some kind of commitment from the government?

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

No. They said that they would help us in these claims. But the decision was a (inaudible) decision. (inaudible) .

Q - Garligo Vanos

Okay. Thank you, very much.

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

Thank you, Garligo [ph] .

Operator

Next from Bear Stearns we have Lilyanna Yang.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi, Mr. Decat de Moura. Sorry to insist on this pool model. But when we talked to the regulators and to the meetings of (inaudible) who are managing, they both indicated to us that a good proxy for the price of CEMIG's energy or so-called old capacity will be the company's initial contract, which is now set at 50 reais per megawatt hour. On the other hand, CEMIG's distribution or CEMIG's consumers will be buying directly from the pool at an average price of 65 to 75 reais.

I understand you are currently under negotiations to see what the generation testing of CEMIG could be under the pool model. But is there also a parallel negotiation with the regulator to already increase the new generation test in the short term or would you believe that, for instance, (inaudible) the regulator would be waiting for the pool mortar to be fully (inaudible) so that they could argue for, or you could argue for a higher 62 per-megawatt-tariff?

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

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In fact, these negotiations with (inaudible) , since we've started on April of this year in the occasion that they make the revision of our rate. At that moment the fixed preliminary, the rate of power generation, the other job for our generator with a price of 50 (inaudible) . And the correct price was and is 62 (inaudible) . So, this question can managing two ways. If we succeed in our claim that we found (inaudible) and they readjust our generation rate to 62 reais, we have one problem. If not, the problem is very high on the first one.

It's Okay Lilyanna?

Q - Lilyanna Yang {BIO 14003234 <GO>}

Yes. Thank you.

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

Okay, thank you.

Operator

Next we have Gostava Ostava Vatas [ph] with UBS.

Q - Ostava Vatas

Hi, Flavio. Hi, Luiz. How are you? There are two questions for both of you, first probably for Flavio. You talked a lot little while ago about bringing a new dividend policy for the company. Has there been any kind of news on this?

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

Well, we intend to present one proposal, putting that proposal to the board in maybe the next two meetings of the board. So, maybe in September we'll have a position at the company. That's our study and new proposal with (inaudible) new policies to be brought in a meeting of this month and probably they will decide about it in one month more.

Q - Ostava Vatas

Okay. Let me ask you a question quickly upon the proposal for the new model. One of the issues that they were talking about was actually preventing energy crises to go up. But the other issue that has come up over and over again was the issue of expiring concessions. I know that that problem seems to be a little bit diffused, does (inaudible) thinks they may lead to privatization. But how are you guys dealing with the concessions that you have expiring in the next year.

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

Well we are waiting for the final position of the new restrictions. Due to the, our last debate about this one week later, we caught in Rio. And we talked to Mr. Tomasky (ph.) that one way that the government has to change these concessions, change hands of just concessions to sell (inaudible) . And in this case, the consequence will be that these old concession will be privatized, what the new government don't want to do.

So, these secretary in this debate and the minister, after that, they said that they would change this part of the model. What we are waiting for the final position of the government.

Q - Ostava Vatas

Have you in any way already moved to extend those concessions or not?

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

Yes. I think that we'll have heard rumors that they were extend these concessions giving them to the, to the present owners, concessionaries. And maybe they are talking about the new price off energy. But it is something that is still under discussion.

Q - Ostava Vatas

Okay, my last one, just quickly, on your provisions of this quarter, first I'd like to ask you if you could just break up the provisions that you did on the IPR for the first half, for the First Quarter as well. So that we can see what happened in the first and the second that would be good then.

But specifically on what you booked in Second Quarter, is there a sound rationale for actual booking more provisions over to RTE [ph] now?

A - Luiz Fernanda Rolla

Ostava [ph] , I'm going to take this question.

Q - Ostava Vatas

Okay.

A - Luiz Fernanda Rolla

Actually what we are doing is to employ the right accounting practices for the month. As we have not reviewed yet, our projection for the coming years. And we have not discussed, really discussed the issue with the auditors. We are just applying what the best accounting practices start to us. That is we are adjusting the provision. It may happen in the next coming quarters, one we are going to review the projections. We could revert part of these additional, loss provision we are accruing right now. Okay?

Q - Ostava Vatas

Okay. So this one was just an adjustment on the value that you had already had to (inaudible) or something like that.

A - Luiz Fernanda Rolla

Exactly.

Q - Ostava Vatas

Okay, Okay, perfect, thanks.

A - Luiz Fernanda Rolla

(inaudible).

Operator

Next up we have Sergio Tomashiro [ph] with Nurvanco [ph] .

Q - Sergio Tomashiro

Hi Mr. Rolla, hi Luiz Fernando. My first question comes from, according to your 20 (inaudible) , just announced that you are not aware if you're under any other customer except for ALCOA that's investing in out of producing state. And this morning, (inaudible) which is your largest customer, just announced that they are inventure [ph] invest in ultradosam [ph] . How's that going to affect your long-term strategy?

A - Luiz Fernanda Rolla

Well Samachato [ph] , exactly we -- we know our presentation. We have mentioned that we have some projections for the loss of for some of those clients in the future. In slide number 19, we have a projection for the share of the self-generation project on the Bay State consumption. You see that the many clients right now are for suring [ph] as such a kind of project because as you know, the plan implemented by the federal realm is to remove the cross subsidies impeveting [ph] the rate of structure. That will foster those consumers to bute [ph] power plants and what we can do -- as you know, they have some tax crest [ph] benefits as well so that we cannot be competitive with such a project and so what we have done is to take an energy [ph] that would used by those clients to sell to other industrial clients. Marginally, the state of Missouri. But also outside of the state, Okay?

Q - Sergio Tomashiro

Okay. Therefore, you're already considering that CEMIG is not using them -- is not going to be your customer anymore, because (inaudible) who present hopefully 2,000 gigawatts power per year.

A - Luiz Fernanda Rolla

Well, this plan announced by (inaudible) does not cover for the short term that amount of electricity. Those products [ph] to mature will take at least two or three years to complete and so that will give us enough time to find other clients to supply.

Q - Sergio Tomashiro

Okay. Just going for the previous questions from Ostava. And, some -- two major other plants are not -- terminating in July 2005. Is there any chances that this conceptual [ph]

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will not be extended by the current loss that for meets automatic special for -- by 20 years?

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

It has been good legal position about this with the concession contracts we had until now. But, I expect that the final position of the Governor at this point will be changed quickly. Okay?

Q - Sergio Tomashiro

Okay. And another question. Just -- could you give a guidance for the unbilled [ph] revenue that in the First Quarter came at negative \$15 million, Second Quarter came positive \$88 million. Could you give a short term or long term guidance for this unbilled revenue?

A - Luiz Fernanda Rolla

Well in general Sergio [ph] , bill of sales comes, one day is a big difference between the rates, applied over the consumption. And so, when we changed the rates last April, the amount in reais, coming from those clients were very higher than those of last year. And so, the difference between the two is recorded as unbilled revenues. That can happen also if the market goes down sharply. The volume is reduced and consequently, the revenue as well. And so, there is a difference between the current unbilled estimate and that happened at the end of the previous year.

And so, that is very difficult to project for the long run. And I suggest you must project this because the final impact of these unbilled revenues is going to be very immaterial if you assume that the rate increase has taken place and we do not expect another sharp decrease in our consumption, Okay?

Q - Sergio Tomashiro

Okay. My last question comes from the new (inaudible) project, (inaudible) . I believe you have not signed a contract with final customers. And is there any chance that this new energy would not be approved by INEL(inaudible) ? (Gap In Audio)

Operator

Mr. Tomashiro [ph] , did you have anything further?

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

Well, let me answer this last question, Daniel.

Operator

Thank you.

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

The problem, Sergio [ph] , is that despite we have not signed a contract yet with neither a consumer nor with the Cenig distributor. The idea is to establish a price for (inaudible) based on the assumptions we made once we won the concession bidding. And so, we understand. And we have already presented our claim to them. Now the price of the (inaudible) by those (inaudible) should be priced as very close to (inaudible) , Okay? But just to be frank, we do not have an answer from (inaudible) so far.

Q - Sergio Tomashiro

Okay. Thank you.

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

Thank you, sir.

Operator

Our next question comes from Bernardo Adaljo [ph] with RX Capital [ph] .

Q - Rodrigo Forseca

Good afternoon. This is actually Rodrigo Forseca [ph] speaking. I have two questions. First one, you mentioned there was a delay in the billing process for the tariff readjustment impact revenues completely. So, is it your understanding that there's a residual effect of the tariff increase that should include results in the Third Quarter. And if so, if you can quantify this effect in a percentage of revenues?

And the second question is related to cost. You have mentioned the intention to reduce costs to try to match the NEL [ph] cost structure. I wanted to know if there's any timing expected for this to start to happen and also if you have an explanation for the increase in personal expense this quarter. You mentioned there was a 11% rate salary increase and number of employees almost flat. So I wonder why it increase so much. I don't know if you can help me with that. Thank you, very much.

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

Well (inaudible) , first of all, according to the billing process, we are going to have the rate increase fully reflect only in the Third Quarter, Okay? In the Second Quarter, I would say take into account the bill of sales methodology, we have reflect already something around 90%. In the Third Quarter we are going to have 100%, Okay.

Second question on the cost of structure, that benchmark established by the D&L [ph] , the plan of the current administration is to implement cost cutting (inaudible) in that benchmark. We believe until the end of this year, we are going to (inaudible) these cuts.

We understand that in terms of balance sheet, that will be reflect only from the First Quarter 2004, one. But in meanwhile, we have already taken some measures in order to

reduce cost. And the benefits and the savings of those cuts will be shown in the Third Quarter and the Fourth Quarter.

Regarding the labor cost, that is a very good question, because it was a surprise for us as well, this unexpected increase in the Second Quarter. The reason why the Second Quarter labor expense were a little bit higher than the first, was because we recognized in this quarter some labor expense incurred during the rationing. You remember during the rationing that the federal government established conditions to recognize expense derived from the rationing. And the personnel we employed during this time were also included. And that was done during the rationing period. And right now we were reimbursed by those expenses. And so we booked some additional labor expense this quarter, arising from that period. And that's why we got these expect increase in the labor expense. Okay?

Q - Rodrigo Forseca

Thank you. Do you have this value of this expenses that were reimbursed, that you would like extra this quarter?

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

It's around four million reais.

Q - Rodrigo Forseca

Okay, thank you.

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

Thanks a lot Rod [ph] .

Operator

And we have time for one final question. That will be a follow-up coming from Rodrigo Forseca [ph] with RX [ph] .

Q - Rodrigo Forseca

Yes. (inaudible) . I just want to know if there is any room for a reduction in cap ex this year as you've seen. Then the Analysts meeting -- it was said that eventually this number could be closer to the \$800 million figure.

A - Luiz Fernanda Rolla

Well, Rodgrigo [ph] , the idea is to -- to reduce the cap ex to match that limit we mentioned before, right? Of course, we have plans and we are discussing those plans with the Board and we are implementing some additional cards [ph] in this month. And, it's very likely that the final cap ex for 2003 will be very close to \$800 million reais in terms of this imbursement, Okay? In economical terms, it may be a little bit higher than that. But

in terms of this imbursement, we are going to pay something around \$800 million reais for the total year, Okay?

Q - Rodrigo Forseca

Okay. Thank you, very much.

Operator

Mr. Rolla, I'll turn the conference back over to you for any additional or closing remarks.

A - Luiz Fernanda Rolla

Well, as our final remarks, we would like to say that these two are very confident that the company will prevail on the new regulatory structure proposed by the federal government. We understand that there are many points weeks ago. And that we are confident that because of the transparency, because they're waiting to discuss the details of the plans shown by the Minister and the Secretary as well. We'll be able to convince those on some points which can affect mostly. We understand this new proposal is crucial for for CEMIG and is crucial for -- as the latest prospect for CEMIG grow [ph] and take it for sure that's how our administration is falling, the development of the discussion very closely. We are trying to influence the governments on the points I mentioned for CEMIG . That being the confidence we have and be sure that the other (inaudible) structure (inaudible) will be very attractive in terms of -- as an investment opportunity for interest. I would like to thank you for returning to the conference call and we hope the next we are going to repeat the same performance we did in the Second Quarter. Thank all and have a very good afternoon. Bye, bye.

Operator

That does conclude today's conference call. Thank you, everyone for your participation.

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