

ENERGY CO OF MINAS GERAIS
Form 20-F
June 30, 2006

SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934

or

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

or

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report: N/A

Commission file number 1-15224

COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG

(Exact name of Registrant as specified in its charter)

ENERGY COMPANY OF MINAS GERAIS

(Translation of Registrant's name into English)

BRAZIL

(Jurisdiction of incorporation or organization)

Avenida Barbacena, 1200, Belo Horizonte, M.G., 30190-131

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(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| <u>Title of each class:</u> | <u>Name of exchange on which registered:</u> |
|---|--|
| Preferred Shares, R\$0.01 par value | New York Stock Exchange* |
| American Depositary Shares, each representing 1,000 Preferred Shares, without par value | New York Stock Exchange |

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

70,874,167,923 Common Shares

91,210,522,699 Preferred Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated Filer Non accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

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* Not for trading but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

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Companhia Energética de Minas Gerais CEMIG is a *sociedade de economia mista* (a state-controlled mixed capital company) organized and existing with limited liability under the laws of the Federative Republic of Brazil, or Brazil. References in this annual report to CEMIG, we or the Company are to Companhia Energética de Minas Gerais CEMIG and its consolidated subsidiaries, except when the reference is specifically to Companhia Energética de Minas Gerais CEMIG (parent company only) or the context otherwise requires. References to the *real*, *reais* or R\$ are to Brazilian *reais* (plural) and the Brazilian *real* (singular), the official currency of Brazil, and references to U.S. dollars, dollars or US\$ are to United States dollars.

We maintain our books and records in *reais*. We prepare our financial statements in accordance with accounting practices adopted in Brazil, including the principles that are established primarily through Law No. 6,404 of December 15, 1976, Law No. 9,457 of May 5, 1997 and Law No. 10,303 of October 31, 2001, which we refer to collectively as the Brazilian Corporate Law. For purposes of this annual report, we have presented, and in future reports to be filed with the United States Securities and Exchange Commission, or the Commission, we intend to present, our consolidated financial statements and other financial information in *reais* in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. For purposes of this annual report we prepared balance sheets as of December 31, 2005 and 2004 and the related statements of operations and comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2005, 2004 and 2003, in *reais* all in accordance with U.S. GAAP. Deloitte Touche Tohmatsu Auditores Independentes has audited our consolidated financial statements at December 31, 2005 and 2004 and for each of the three years ended December 31, 2005, 2004 and 2003.

From and after January 1, 1998, Brazil ceased to be considered a highly inflationary economy under U.S. GAAP and we have not restated financial information to reflect the effects of inflation as from that date. Therefore, for subsequent periods and dates, our financial statements and other financial data are presented in nominal *reais* and do not reflect effects of inflation. See Note 2(b) to our consolidated financial statements.

This annual report contains translations of certain *real* amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such U.S. dollar amounts have been translated from *reais* at an exchange rate of R\$2.3340 to US\$1.00, the noon buying rate in New York City for cable transfers in *reais* as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, as of December 30, 2005. The *real* has historically experienced high volatility. See Item 3. Key Information Exchange Rates for additional information regarding exchange rates. We cannot guarantee that U.S. dollars can be converted into *reais*, or that *reais* can be converted into U.S. dollars, at the above rate or at any other rate.

MARKET POSITION AND OTHER INFORMATION

The information contained in this annual report regarding our market position is, unless otherwise indicated, presented for the twelve-month period ended December 31, 2005 and is based on, or derived from, reports issued by the *Agência Nacional de Energia Elétrica* (The Brazilian National Electric Energy Agency), or ANEEL.

Certain terms are defined the first time they are used in this annual report. As used herein, all references to GW and GWh are to gigawatts and gigawatt hours, respectively, references to MW and MWh are to megawatts and megawatt-hours, respectively, and references to kW and kWh are to kilowatts and kilowatt-hours, respectively.

References in this annual report to the common shares and preferred shares are to our common shares and preferred shares, respectively. References to American Depositary Shares or ADSs are to American Depositary Shares, each representing 1,000 preferred shares. The ADSs are evidenced by American Depositary Receipts, or ADRs, issued pursuant to a Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder.

FORWARD-LOOKING INFORMATION

This annual report includes forward-looking statements, principally in Item 3. Key Information and Item 11. Quantitative and Qualitative Disclosures about Market Risk. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions relating to, among other things:

- general economic, political and business conditions, principally in Latin America, Brazil and the State of Minas Gerais, Brazil, or Minas Gerais;
- inflation and changes in currency exchange rates;
- enforcement of legal regulation in Brazil's electricity sector;
- changes in volumes and patterns of consumer electricity usage;
- competitive conditions in Brazil's electricity generation, transmission and distribution markets;
- our expectations and estimates concerning future financial performance, financing plans and the effects of competition;
- our level of debt;
- the likelihood that we will receive payment in connection with accounts receivable;
- trends in the electricity generation, transmission and distribution industry in Brazil and Minas Gerais;
- changes in rainfall and the water levels in the reservoirs used to run our hydroelectric power generation facilities;
- our capital expenditure plans;
- our ability to serve our consumers on a satisfactory basis;

- existing and future governmental regulation as to electricity rates, electricity usage, competition in our concession area and other matters;
- our ability to integrate the operations of companies we may acquire;
- existing and future policies of the Federal Government of Brazil, which we refer to as the Federal Government;
- existing and future policies of the government of Minas Gerais, which we refer to as the State Government, including policies affecting its investment in us and the plans of the State Government for future expansion of electricity generation, transmission and distribution in Minas Gerais; and
- other risk factors as set forth under Item 3. Key Information Risk Factors.

The forward-looking statements referred to above also include information with respect to our capacity expansion projects that are under way and those that we are currently evaluating. In addition to the above risks and uncertainties, our potential expansion projects involve engineering, construction, regulatory and other significant risks, which may:

- delay or prevent successful completion of one or more projects;
- increase the costs of projects; and
- result in the failure of facilities to operate or generate income in accordance with our expectations.

The words believe, may, will, estimate, continue, anticipate, intend, expect and similar words are intended to identify forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

Neither our independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the forward-looking financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and they assume no responsibility for, and disclaim any association with, such forward-looking financial information.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Consolidated Financial Data

The following tables present our selected consolidated financial and operating information in U.S. GAAP as of the dates and for each of the periods indicated. You should read the following information together with our consolidated financial statements, including the notes thereto, included in this annual report and the information set forth in Item 5. Operating and Financial Review and Prospects.

The selected consolidated financial data as of December 31, 2005 and 2004 and for each of the three years ended December 31, 2005, 2004 and 2003 have been derived from our audited consolidated financial statements and the notes thereto included elsewhere in this annual report. The selected consolidated data as of December 31, 2003, 2002 and 2001 and for the each of the two years ended December 31, 2002 and 2001 has been derived from our audited consolidated financial statements and notes thereto, which are not included in this annual report.

U.S. dollar amounts in the table below are presented for your convenience. Unless otherwise indicated, these U.S. dollar amounts have been translated from *reais* at R\$2.3340 per US\$1.00, the noon buying rate as of December 30, 2005. The *real* has historically experienced high volatility. We cannot guarantee that U.S. dollars can be converted into *reais*, or that *reais* can be converted into U.S. dollars, at the above rate or at any other rate. On June 28, 2006, the noon buying rate for *reais* was R\$2.2275 per US\$1.00. See Exchange Rates.

Selected Consolidated Financial Data

| | As of and for the year ended December 31, | | | | | |
|--|---|--|----------|----------|----------|----------|
| | 2005 | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (in millions of US\$)(1)(2) | (In millions of R\$ except per share/ADS data or as otherwise indicated) | | | | |
| Income Statement Data: | | | | | | |
| Net operating revenues | | | | | | |
| Electricity sales to final consumers | 3,731 | 8,708 | 8,541 | 7,163 | 5,458 | 4,587 |
| Regulatory extraordinary rate adjustment(3) | 3 | 8 | 89 | 63 | 281 | 789 |
| Deferred rate adjustment(3) | 47 | 110 | 640 | 199 | | |
| Electricity sales to the interconnected power system | 102 | 237 | 36 | 56 | 161 | 517 |
| Use of basic transmission network | 653 | 1,523 | 245 | 257 | 185 | 154 |
| Other operating revenues | 72 | 168 | 536 | 468 | 260 | 150 |
| Tax on revenues | (1,389) | (3,241) | (2,608) | (2,190) | (1,473) | (1,191) |
| Total net operating revenues | 3,219 | 7,513 | 7,479 | 6,016 | 4,872 | 5,006 |
| Operating costs and expenses | | | | | | |
| Electricity purchased for resale | (623) | (1,455) | (1,370) | (1,396) | (1,333) | (1,914) |
| Natural gas purchased for resale | | | (268) | (246) | (152) | (84) |
| Use of basic transmission network | (304) | (709) | (538) | (310) | (298) | (251) |
| Depreciation and amortization | (287) | (669) | (677) | (686) | (666) | (641) |
| Personnel | (334) | (779) | (788) | (710) | (532) | (531) |
| Regulatory charges | (421) | (983) | (861) | (585) | (548) | (420) |
| Third-party services | (180) | (420) | (329) | (325) | (265) | (216) |
| Employee post-retirement benefits | (110) | (257) | (153) | (109) | (207) | (293) |
| Materials and supplies | (41) | (95) | (83) | (88) | (78) | (70) |
| Employees profit sharing | (111) | (260) | (110) | (93) | (38) | (47) |
| Other | (162) | (379) | (280) | (313) | (200) | (227) |
| Reversal (Provision) for loss on deferred regulatory assets(3) | (78) | (183) | (9) | 174 | (28) | (150) |
| Provision for loss on account receivable from State Government | | | | | - | (754) |
| Total operating costs and expenses | (2,651) | (6,189) | (5,466) | (4,687) | (4,345) | (5,598) |
| Operating income (loss) | 568 | 1,324 | 2,013 | 1,329 | 527 | (592) |
| Financial income (expenses), net | 323 | 754 | 350 | 674 | (525) | (48) |
| Non-Operating Income | 12 | 29 | 105 | | | |
| Income (loss) before income taxes and minority interests | 903 | 2,107 | 2,468 | 2,003 | 2 | (640) |
| Income taxes expense | (129) | (300) | (731) | (607) | (26) | (78) |
| Minority interests | 1 | 2 | 2 | | 12 | (1) |
| Net income (loss) | 775 | 1,809 | 1,739 | 1,396 | (12) | (719) |
| Other comprehensive income (loss) | 11 | 25 | (474) | (64) | 242 | 203 |

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| | | | | | | |
|-------------------------------|------|-------|-------|-------|--------|--------|
| Comprehensive income (loss) | 786 | 1,834 | 1,265 | 1,332 | 230 | (516) |
| Basic earnings (loss): | | | | | | |
| Per thousand common shares | 4.78 | 11.16 | 10.73 | 8.61 | (0.07) | (4.52) |
| Per thousand preferred shares | 4.78 | 11.16 | 10.73 | 8.61 | (0.07) | (4.52) |
| Per ADS | 4.78 | 11.16 | 10.73 | 8.61 | (0.07) | (4.52) |
| Diluted earnings (loss): | | | | | | |
| Per thousand common shares | 4.74 | 11.07 | 10.73 | 8.61 | (0.07) | (4.52) |
| Per thousand preferred shares | 4.74 | 11.07 | 10.73 | 8.61 | (0.07) | (4.52) |
| Per ADS | 4.74 | 11.07 | 10.73 | 8.61 | (0.07) | (4.52) |

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| | As of and for the year ended December 31, | | | | | |
|---|---|---|------------|------------|------------|------------|
| | 2005 | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (US\$)(1) | (In R\$ or US\$ as indicated, except outstanding shares data) | | | | |
| Balance Sheet Data: | | | | | | |
| Assets | | | | | | |
| Current assets | 2,047 | 4,778 | 3,276 | 2,630 | 1,845 | 1,752 |
| Property, plant and equipment, net | 5,128 | 11,971 | 11,191 | 10,917 | 10,099 | 9,841 |
| Deferred regulatory assets long-term | 992 | 2,315 | 2,929 | 2,069 | 1,670 | 1,245 |
| Account receivable from State | | | | | | |
| Government | 651 | 1,519 | 1,097 | 891 | 755 | 451 |
| Other assets | 327 | 763 | 504 | 612 | 1,139 | 773 |
| Total assets | 9,145 | 21,346 | 18,997 | 17,119 | 15,508 | 14,062 |
| Liabilities | | | | | | |
| Current portion of long-term financing | 422 | 985 | 1,417 | 1,660 | 946 | 451 |
| Other current liabilities | 1,694 | 3,953 | 2,286 | 1,869 | 2,097 | 1,713 |
| Long-term financing | 1,646 | 3,841 | 2,750 | 2,331 | 2,593 | 2,029 |
| Employee post-retirement benefits long-term | | | | | | |
| | 658 | 1,535 | 1,606 | 1,023 | 1,091 | 1,475 |
| Shareholders equity | 3,964 | 9,252 | 9,209 | 8,524 | 7,442 | 7,543 |
| Capital stock | 612 | 1,428 | 1,428 | 1,428 | 1,428 | 1,396 |
| Other Data: | | | | | | |
| Weighted average outstanding shares - basic(thousands) | | | | | | |
| Common | | 70,874,168 | 70,874,168 | 70,874,168 | 70,874,168 | 69,495,478 |
| Preferred | | 91,210,523 | 91,210,523 | 91,210,523 | 91,210,523 | 89,436,237 |
| Dividends per thousand shares | | | | | | |
| Common | US\$4.73 | R\$11.05 | R\$3.58 | R\$1.54 | R\$2.04 | R\$0.65 |
| Preferred | US\$4.73 | R\$11.05 | R\$3.58 | R\$1.54 | R\$2.04 | R\$0.65 |
| Dividends per ADS Preferred | | | | | | |
| | US\$4.73 | R\$11.05 | R\$3.58 | R\$1.54 | R\$2.04 | R\$0.65 |
| Dividends per thousand shares(4) | | | | | | |
| Common | | US\$4.73 | US\$1.35 | US\$0.53 | US\$0.58 | US\$0.28 |
| Preferred | | US\$4.73 | US\$1.35 | US\$0.53 | US\$0.58 | US\$0.28 |
| Dividends per ADS(4) | | | | | | |
| Preferred | | US\$4.73 | US\$1.35 | US\$0.53 | US\$0.58 | US\$0.28 |
| Weighted average outstanding shares diluted (thousands) | | | | | | |
| Common | | 71,483,453 | 70,874,168 | 70,874,168 | 70,874,168 | 69,495,478 |
| Preferred | | 91,994,634 | 91,210,523 | 91,210,523 | 91,210,523 | 89,436,237 |
| Dividends per thousand shares | | | | | | |
| Common | US\$4.70 | R\$10.96 | R\$3.58 | R\$1.54 | R\$2.04 | R\$0.65 |
| Preferred | US\$4.70 | R\$10.96 | R\$3.58 | R\$1.54 | R\$2.04 | R\$0.65 |
| Dividends per ADS | | | | | | |
| Preferred | US\$4.70 | R\$10.96 | R\$3.58 | R\$1.54 | R\$2.04 | R\$0.65 |
| Dividends per thousand shares(4) | | | | | | |
| Common | | US\$4.70 | US\$1.35 | US\$0.53 | US\$0.58 | US\$0.28 |
| Preferred | | US\$4.70 | US\$1.35 | US\$0.53 | US\$0.58 | US\$0.28 |
| Dividends per ADS(4) | | | | | | |
| Preferred | | US\$4.70 | US\$1.35 | US\$0.53 | US\$0.58 | US\$0.28 |

(1) Converted at the exchange rate of US\$1.00 to R\$2.3340, the noon buying rate as of December 31, 2005. See Exchange Rates.

(2) In millions, except per share/ADS data.

- (3) See Note 4 to our consolidated financial statements.
- (4) This information is presented in U.S. dollars at the noon buying rate in effect as of the end of each year.

Exchange Rates

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Prior to March 14, 2005 there were two principal foreign exchange markets in Brazil - the commercial rate exchange market and the floating rate exchange market. Most trade and financial foreign-exchange transactions were carried out on the commercial rate exchange market. The floating market rate generally applied to transactions to which the commercial market rate did not apply. Prior to February 1999, the exchange rate in each market was established independently, resulting in different rates during some periods. As of February 1, 1999, the Central

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Bank of Brazil (Banco Central do Brasil), or the Central Bank, placed the commercial rate exchange market and the floating rate exchange market under identical operational limits, which led to a convergence in the pricing and liquidity of both markets.

On March 4, 2005, the National Monetary Council (Conselho Monetário Nacional) enacted Resolution No. 3,265 that, effective March 14, 2005, consolidated the two foreign exchange markets into one foreign exchange market for the general purpose of making foreign exchange transactions simpler and more efficient. All foreign exchange transactions are now carried out in this single foreign exchange market through financial institutions authorized to operate in the market.

Brazilian law provides that, whenever there (i) is a significant imbalance in Brazil's balance of payments, or (ii) are major reasons to foresee a significant imbalance in Brazil's balance of payments, temporary restrictions may be imposed on remittances of foreign capital abroad. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar and other currencies substantially in the future. Exchange rate fluctuations may affect the U.S. dollar amounts received by the holders of ADSs. We will make any distributions with respect to our preferred shares in *reais* and the depositary will convert these distributions into U.S. dollars for payment to the holders of ADSs. Exchange rate fluctuations may also affect the U.S. dollar equivalent of the *real* price of the preferred shares on the Brazilian stock exchange where they are traded. Exchange rate fluctuations may also affect our results of operations. See Risk Factors Exchange rate instability may adversely affect our business, results of operations and financial condition and the market price of the ADSs and our preferred shares.

The table below sets forth, for the periods indicated, the low, high, average and period-end noon buying rates for *reais*, expressed in *reais* per US\$1.00.

| Month | Reais per US\$1.00 | | | |
|-----------------------------------|--------------------|--------|---------|------------|
| | Low | High | Average | Period-end |
| December 2005 | 2.1695 | 2.3755 | 2.2809 | 2.3340 |
| January 2006 | 2.2045 | 2.3320 | 2.2666 | 2.2094 |
| February 2006 | 2.1160 | 2.2250 | 2.1587 | 2.1180 |
| March 2006 | 2.1030 | 2.2233 | 2.1528 | 2.1720 |
| April 2006 | 2.0900 | 2.1485 | 2.1281 | 2.0900 |
| May 2006 | 2.0549 | 2.3580 | 2.1697 | 2.3007 |
| June 2006 (through June 28, 2006) | 2.2320 | 2.2920 | 2.2614 | 2.2335 |

| Year Ended December 31, | Reais per US\$1.00 | | | |
|-------------------------|--------------------|--------|---------|------------|
| | Low | High | Average | Period-end |
| 2001 | 1.9380 | 2.7880 | 2.3527 | 2.3120 |
| 2002 | 2.2730 | 3.9450 | 2.9213 | 3.5400 |
| 2003 | 2.8230 | 3.6640 | 3.0757 | 2.8950 |
| 2004 | 2.6510 | 3.2085 | 2.9262 | 2.6550 |
| 2005 | 2.1695 | 2.7755 | 2.4352 | 2.3340 |

Source: Federal Reserve Bank of New York

Risk Factors

You should consider the following risks as well as the other information in this annual report in evaluating an investment in our company.

Risks Relating to CEMIG

We are controlled by the State Government which may have interests that are different from yours.

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As our controlling shareholder, the government of the State of Minas Gerais exercises substantial influence on the management and orientation of the business of CEMIG. It is not possible to analyze the impact and effects this may have on us or our results of operations. The government of the State of Minas Gerais currently holds approximately 51% of our common shares and, consequently, has the right to the majority of votes in decisions of the General Meetings of our Shareholders, and can (i) elect the majority of the members of the Board of Directors of CEMIG, and (ii) decide matters requiring approval by a specific majority of our shareholders, including transactions with related parties, shareholding reorganizations and the date and payment of any dividends.

The operations of CEMIG have had and will continue to have an important impact on the commercial and industrial development of the State of Minas Gerais, and on its social conditions. In the past, the State Government has used, and may use in the future, its status as our controlling shareholder to decide that we should engage in certain activities and make certain investments aimed, principally, to promote its political, economic or social objectives and not necessarily to meet the objective of improving our business and/or operational results.

We are subject to extensive governmental legislation and regulation.

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The Brazilian Federal Government has been implementing policies that have a far-reaching impact on the Brazilian power industry and, in particular, the electricity industry. As part of the restructuring of the industry, Federal Law No. 10,848 of March 15, 2004, (Law No. 10,848/04 or the New Industry Model Law) introduced a new regulatory framework for the Brazilian electricity industry.

Law No. 10,848/04 and Decree 5,163/04 of July 30, 2004 governing the purchase and sale of electricity under the New Industry Model Law remain subject to the implementation of resolutions by ANEEL. Moreover, the constitutionality of Law No. 10,848/04 is currently being challenged before the Brazilian Supreme Court. The Brazilian Supreme Court has not yet reached a final decision and, therefore, Law No. 10,848/04 is currently in force. If all or a portion of Law No. 10,848/04 is considered to be unconstitutional by the Brazilian Supreme Court, all or a portion of the regulatory scheme introduced by Law No. 10,848/04 may not come into effect, generating uncertainty as to how and when the Federal Government will be able to introduce changes to the electricity industry. Accordingly, we cannot now evaluate the impact of the new regulation to be issued by ANEEL or the impact that a decision on the constitutionality of Law No. 10,848/04 would have on our future activities, results of operations and financial condition.

New rules for the sale of electric energy and market conditions may affect our generation sale prices.

Under the New Industry Model Law, our generation company must sell our electric energy that was previously sold under self-dealing initial supply contracts between our generating and distribution companies with regulated prices (the Initial Contracts) directly in a regulated market through public auctions conducted by ANEEL or in the Free Contracting Environment (the ACL). We also expect to have additional power capacity from new developments yet to be operational that we are planning to sell under the auctions to be held under the Regulated Contracting Environment (the ACR) or in the ACL as described in this annual report. Legislation allows distributors that contract with our generation company under the ACR to reduce the quantity of energy contracted under these contracts until a certain limit, exposing the generation company to the risk of failing to contract this reduced energy with adequate prices.

Contracts in the ACL with consumers allowed to purchase energy directly from generating companies or energy traders (generally consumers with demand equal to or greater than 3 MW, and referred to as Free

Consumers) will also give such consumers the flexibility to purchase less energy from us than was originally contracted for by such consumers, which may adversely impact our business, results of operations and financial condition.

If we are unable to sell all of our energy capacity in the auctions or in the ACL, we may be forced to sell it at significantly lower prices in the spot market and our revenues and our results of operations may be adversely affected.

ANEEL has substantial discretion to establish the rates we charge to captive consumers and the rates we charge to Free Consumers for using our distribution system. Such rates are determined pursuant to concession contracts entered with ANEEL and in accordance with ANEEL's regulatory decision-making authority.

Concession agreements and Brazilian law establish a price cap mechanism that permits three types of rate adjustments: (1) the annual adjustment; (2) the periodic revision; and (3) the extraordinary revision. We are entitled to apply each year for the annual adjustment, which is designed to offset some of the effects of inflation on rates and pass through to consumers certain changes in our cost structure that are beyond our control, such as the cost of electricity we purchase from certain sources and certain other regulatory charges, including charges for the use of transmission and distribution facilities. In addition, ANEEL carries out a periodic revision every five years that is aimed at identifying variations in our costs as well as setting a factor based on our operational efficiency that will be applied against the index of our ongoing annual rate adjustments, the intended effect of which is to reward the good management of our costs while sharing any related gains with our consumers. We are also entitled to request an extraordinary revision of our rates if unpredictable events significantly alter our cost structure. The periodic revision and extraordinary revision are subject to a certain degree of ANEEL's discretion.

Although our concession agreement provides that the company must remain in economic and financial balance, we cannot assure you that ANEEL will establish rates that will adequately compensate us and that our revenues and results of operations will not be adversely affected by such rates. In addition, to the extent any of these adjustments are not granted by ANEEL in a timely manner, our business, results of operations and financial condition may be adversely affected.

We may not be able to collect the full amount of a significant receivable from the State Government.

We have an account receivable from the State Government, referred to as the CRC Account, that totaled R\$2,942 million as of December 31, 2004. The agreement between CEMIG and the State Government that governs the CRC Account receivable is referred to as the CRC Account Agreement. Historically we have had difficulty collecting amounts due from the State Government under the CRC Account. On January 23, 2006, CEMIG and the State Government executed a Fourth Amendment to the CRC Account Agreement, under which the State Government agreed to pay its debt in 61 semi-annual payments and irrevocably authorized us to retain 65% of the dividends and interest on capital due to it through June 30, 2035 to offset amounts due under the CRC Account Agreement. However, no assurance can be given that we will be able to pay dividends sufficient to allow us to retain dividends due to the State Government in the amount necessary to cover the repayment of the full amount of the principal and interest due under the CRC Account. See Item 10. Additional Information Material Contracts CRC Account Agreement .

We are strictly liable for any damages resulting from inadequate rendering of electricity services, and our contracted insurance policies may not fully cover such damages.

Under Brazilian law, we are strictly liable for direct and indirect damages resulting from the inadequate rendering of electricity transmission and distribution services. In addition, the damages caused to end consumers as a result of interruptions or disturbances arising from the generation, transmission or distribution systems, whenever these interruptions or disturbances are not attributed to an identifiable member of the Operador Nacional do Sistema (National System Operator, or ONS) or the ONS itself, shall be shared among generation, distribution and transmission companies. Until a final criteria is defined, the liability for such damages shall be shared in the proportion of 35.7% to distribution agents, 28.6% to transmission agents and 35.7% to generation agents. Therefore, our business, results of operations and financial condition may be adversely affected.

We are subject to rules and limits applied to levels of public sector borrowing and to restrictions on the use of certain funds we raise, which could prevent us from obtaining financing.

As a state controlled company, we are subject to rules and limits on the level of credit applicable to the public sector issued by the National Monetary Council and by the Central Bank. These rules set certain parameters and conditions for financial institutions to be able to offer credit to public sector entities. Thus, if our operations do not fall within these parameters and conditions, we may have difficulty in obtaining financing from Brazilian financial institutions, which could create difficulties in the implementation of our investment plan or in refinancing our financial obligations. Brazilian legislation also establishes that a state-controlled company, in general, may only use proceeds of external or local transactions (debt, including bonds) to refinance financial obligations for which there is no other source of repayment. As a result of these regulations, our capacity to incur debt is again limited, and this could negatively affect the implementation of our investment plan or the refinancing of our obligations.

There are contractual restrictions on our capacity to incur debt.

We are subject to certain restrictions on our ability to incur debt due to covenants set forth in our loan agreements. In the event of our non-compliance with any such covenants in our loan agreements, the total principal, future interest and any penalties due under these agreements may become immediately due and payable. Early maturity of our obligations could adversely affect our financial condition especially in light of cross default provisions in several of our loan and financing contracts. The existence of limitations on our indebtedness could prevent us from borrowing to finance our operations or to refinance our existing obligations which could adversely affect our business, results of operations and financial condition.

We could be penalized by ANEEL for failing to comply with the terms of our concession agreements, which could result in fines, other penalties and, depending on the severity of non-compliance, expropriation of the concession agreements.

We conduct our generation, transmission and distribution activities pursuant to concession agreements entered into with the Federal Government through ANEEL. ANEEL may impose penalties on us if we fail to comply with any provision of the concession agreements, including compliance with the established quality standards. Depending on the severity of the non-compliance, these penalties could include:

- fines per breach of up to 2.0% of the concessionaire's revenues in the year ended immediately prior to the date of the relevant breach;
- injunctions related to the construction of new facilities and equipment;
- restrictions on the operation of existing facilities and equipment;
- temporary suspension from participating in bidding processes for new concessions;
- intervention by ANEEL in the management of the concessionaire in breach; and
- termination of the concession.

In addition, the Federal Government has the power to terminate any of our concessions prior to the end of the concession term in the case of bankruptcy or dissolution, or by means of expropriation for reasons related to the public interest.

We cannot assure you that ANEEL will not impose penalties or terminate our concessions in the event of a breach. Any compensation we may receive upon the termination of the concession contract may not be sufficient to compensate us for the full value of certain investments. If any of our concession agreements are terminated and we are at fault, the effective amount of compensation could be reduced through fines or other penalties. Termination or imposition of penalties could adversely affect our business, results of operations and financial condition.

We are uncertain as to the renewal of our concessions.

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We carry out our generation, transmission and distribution activities pursuant to concession agreements entered into with the Federal Government. The Brazilian Constitution requires that all concessions relating to public services be awarded through a bidding process. In 1995, in an effort to implement these constitutional provisions, the Federal Government adopted certain laws and regulations, known collectively as the Concessions Law, governing bidding procedures in the electricity industry. In accordance with the Concessions Law, as modified by the New Industry Model Law, upon application by the concessionaire, existing concessions may be renewed by the Federal Government for additional periods of up to 20 years without being subject to the bidding process, provided that the concessionaire has met minimum performance standards and that the proposal is otherwise acceptable to the Federal Government.

In light of the degree of discretion granted to the Federal Government by the Concessions Law with respect to new concession contracts and the renewal of existing concessions, and given the lack of long-standing precedents with respect to the Federal Government's exercise of such discretion and interpretation and application of the Concessions Law, we cannot assure you that new concessions will be obtained or that concessions will be renewed on terms as favorable as those currently in effect. See Item 4. Information on the Company Competition Concessions and The Brazilian Power Industry Concessions in Annex A. Non-renewal of our concessions could adversely affect our business, results operations and financial condition.

The present structure of the Brazilian electricity sector is highly concentrated in hydroelectric generation, which makes it subject to certain risks.

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The Brazilian electricity industry is highly concentrated in hydroelectric generation and faces a natural limitation on its generation capacity, as hydroelectric power plants cannot generate more electricity than is made possible by the country's water resources. As a result, natural factors may affect our generating capacity, by increasing or reducing the level of reservoirs. Control of the level of reservoirs by the ONS seeks to optimize the level of water available for hydroelectric generation in each of the power plants associated with the respective reservoirs. In this context, the ONS could, for example, prevent a generating plant located at the beginning of a river from increasing its throughput of water, if this increase were to negatively affect other plants further downstream. In the same way, the ONS may decide to increase thermal generation and reduce hydro generation in order to conserve water in the reservoirs.

Shortages and/or rationing due to bad hydrological conditions not covered by the Energy Reallocation Mechanism (as described in The Brazilian Power Industry Energy Reallocation Mechanism Annex A) could result in increased costs and reduced cash flow. In addition, if the new energy auctions under the new industry model fail to result in an expansion in electricity generation capacity to adequate levels to meet growing demand, rationing measures could be implemented. Any limitation on our electricity generation capacity could adversely affect our business, results of operations and financial condition.

Delays in the expansion of our facilities may significantly increase our costs.

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We are currently engaged in the construction of additional hydroelectric plants and the evaluation of other potential expansion projects. Our ability to complete an expansion project on time, within a determined budget and without adverse economic effects, is subject to a number of risks. For instance:

- we may experience problems in the construction phase of an expansion project;
- we may face regulatory or legal challenges that delay the initial operation date of an expansion project;
- our new or modified facilities may not operate at designated capacity or may cost more to operate than we expect;
- we may not be able to obtain adequate working capital to finance our expansion projects; and

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- we may encounter environmental issues and claims by the local population during power plant construction.

If we experience these or other problems relating to the expansion of our electricity generation, transmission or distribution capacity, our ability to sell electric energy in amounts in line with our projections may be harmed and we may be exposed to increased costs. Consequently, we may fail to produce the revenues we anticipate in connection with such expansion projects.

Impositions and restrictions by the environmental agencies could cause additional costs for us.

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Our operations related to the generation, transmission and distribution of electricity as well as to the distribution of natural gas, are subject to various federal, state and municipal laws and regulations, and also to numerous requirements relating to the protection of health and the environment.

Non-compliance with environmental laws and regulations could, independently of the obligation to redress any damages that may be caused, result in criminal and administrative sanctions being applied. Based on Brazilian legislation, criminal penalties such as restricting rights, and even imprisonment, may be applied to individuals (including managers of legal entities), and penalties such as fines, restriction of rights or community service may be applied to legal entities. With respect to administrative sanctions, depending on the circumstances, the environmental authorities may impose warnings and fines, require partial or total suspension of activities; suspend or restrict tax benefits or cancel or suspend financing lines from governmental lending establishments as well as prohibit the entity from contracting with governmental agencies, companies and authorities. Any of these events could adversely affect our business, results of operations or financial condition.

Our level of consumer default could adversely affect our business, results of operations and financial condition.

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As of December 31, 2005, our total past due receivables from final consumers were approximately R\$547 million, corresponding to 7.1% of our net revenue for 2005. As of December 31, 2005, our allowance for doubtful accounts was R\$214 million. Approximately 15.4% of the past due receivables were owed by entities in the public sector. We may be unable to recover debts from several municipalities and other defaulting clients. If these debts are not totally or partially recovered, we will experience an adverse impact on our business, results of operations and financial condition. In addition, any consumer defaults in excess of our allowance for doubtful accounts could have an adverse effect on our business, results of operations and financial condition.

We may not be able to complete our proposed capital expenditure program.

We plan to spend approximately R\$4.0 billion during the period from 2006 through 2010 on the construction of new power installations and the refurbishment and maintenance of existing power plants and transmission and distribution systems. Our ability to carry out this capital expenditure program is dependent upon a number of factors, including our ability to charge adequate rates for our services, our access to domestic and international capital markets and a variety of operating and other factors. In addition, our plans to expand our generation and transmission capacity are subject to the competitive bidding process governed by the Concessions Law. We cannot give you any assurance that we will have the financial resources to complete this program.

Our ability to distribute dividends is subject to limitations.

Whether or not you receive a dividend depends on the amount of the mandatory distribution required under our bylaws, whether our financial condition permits us to distribute dividends under Brazilian law, and whether our shareholders, on the recommendation of our Board of Directors acting in its discretion, determine that our financial condition warrants a suspension of the distribution of dividends.

Because Companhia Energética de Minas Gerais CEMIG is a holding company with no revenue-producing operations other than those of its operating subsidiaries, we will be able to distribute dividends to shareholders only if Companhia Energética de Minas Gerais CEMIG receives dividends or other cash distributions

from its operating subsidiaries. The dividends that our regulated subsidiaries may distribute to us depend on our subsidiaries generating a sufficient profit in any given fiscal year. Dividends can be paid out from accumulated profits from previous years or from capital reserves. Such profits are calculated and paid in accordance with Brazilian Corporate Law and the provisions of the bylaws of each of our regulated subsidiaries. Any capital reduction that would enable our shareholders to receive distributions would be subject to the prior approval of ANEEL.

Our investment in the telecommunications sector may not have the return we expect.

Empresa de Infovias S.A., our telecommunications subsidiary, began operations in January 2001 and its subsidiary, WAY TV Belo Horizonte S.A., or WAY TV, began operations in 2002. In light of the need for additional investments in our telecommunications subsidiaries in order to take advantage of the opportunities in voice over internet protocol services, our Board of Directors decided on December 22, 2005 to authorize the sale, through an auction on a stock exchange, of all of Empresa de Infovias S.A.'s equity interest in WAY TV. A minimum sale amount will be set based on the estimated market value of 100% of WAY TV of R\$80 million. The sale is conditional upon the sale of 100% of the shares of WAY TV by all its shareholders, through an auction on the Bovespa stock exchange. On June 14, 2006 the auction notice was published and the auction is expected to take place at Bovespa on July 27, 2006. We also perform periodic evaluations of Empresa de Infovias S.A. and WAY TV, in order to determine their ability to run their businesses on a stand-alone and profitable basis, as well as to determine the need for an impairment reserve for this investment. Although currently available projections do not indicate a need for an impairment reserve, we can not assure that such an impairment reserve will not be required or that our investment in the telecommunications sector will not have an adverse impact on our financial condition.

We operate without general third party liability and catastrophe insurance policies.

We do not have general third party liability insurance covering accidents and have not asked for bids relating to this type of insurance. In addition, we have not asked for bids for, nor do we carry, insurance coverage for major catastrophes affecting our facilities such as earthquakes and floods, for business interruption risk or for operating system failures. Accidents or catastrophic events may adversely affect our business, results of operations or financial condition. See Item 10. Additional Information Insurance.

We will need short-term funds to pay and refinance our obligations.

On December 31, 2005, our total debt was R\$4,826 million, of which R\$985 million matures in 2006. We will need funds in the short term to pay and refinance these obligations. For this reason, we intend to refinance our debt profile in 2006 to lengthen maturities. We plan to raise approximately R\$2,3 billion in 2006.

We cannot assure you that we will be able to raise these funds prior to the maturities of our current debt obligations, in the amounts necessary or at competitive rates. If the refinancing does not successfully take place, we may not be able to pay our debt. On the other hand, if we simply pay our debt without refinancing, our investment program could suffer significant delays, which could adversely affect our business, results of operations or financial condition.

We may incur losses in connection with pending litigation and arbitration.

We are currently defending several legal proceedings relating to civil, administrative, environmental, tax and other claims. These claims involve a wide range of issues and seek substantial amounts of money. Several individual disputes account for a significant part of the total amount of claims against us. Our consolidated financial statements include reserves relating to litigation and arbitration claims totaling R\$263 million as of December 31, 2005 (excluding labor-related matters) for probable and reasonably estimable losses and expenses we may incur in connection with pending litigation. In the event that our reserves for litigation and arbitration claims prove to be insufficient, the payment of litigation claims in an amount in excess of the reserved amounts could have an adverse effect on our business, results of operations or financial condition.

Labor-related legal claims, strikes and/or work stoppages could have an adverse impact on our business.

Substantially all of our employees are covered by Brazilian labor legislation applicable to private sector employees. We have entered into a collective bargaining agreement with the labor unions representing most of these employees.

We are currently defending a number of labor-related claims brought by our employees that generally relate to overtime and hazardous occupation compensation. As of December 31, 2005, these employees were seeking, in the aggregate, approximately R\$141.9 million in compensation, and at that date we had accrued a liability of approximately R\$114 million for losses we expect from these claims. For a more detailed discussion of labor-related proceedings, see Item 8. Financial Information Legal Proceedings Labor and Pension Fund Obligations.

We have not experienced any material labor unrest during the last five years. Nevertheless, our operations might be interrupted by a labor disturbance in the future. We do not carry insurance for losses incurred as a result of business interruptions caused by labor action. In the event of a strike, we might face an immediate loss of revenue.

Contract disputes, strikes, legal claims or other types of conflicts relating to our employees or the labor unions that represent them may have an adverse effect on our business, results of operations or financial condition and our ability to maintain ordinary service levels or otherwise operate our business in the manner that our consumers expect.

Foreign shareholders may not be able to enforce judgments against our directors or officers.

All of our directors and officers named in this annual report reside in Brazil. Substantially all of our assets, as well as the assets of these persons, are located in Brazil. As a result, it may not be possible for foreign shareholders to effect service of process within the United States or other jurisdictions outside Brazil upon these persons, attach their assets, or enforce against them or us in United States courts, or the courts of other jurisdictions outside Brazil, judgments predicated upon the civil liability provisions of the securities laws of the United States or the laws of such other jurisdictions. See Item 10. Additional Information Difficulties of Enforcing Civil Liabilities Against Non-U.S. Persons.

Effective control of CEMIG is subject to judicial challenge.

In connection with the purchase in 1997 of approximately 33% of our common shares by Southern Electric Brasil Participações Ltda., or Southern, the State Government entered into a shareholders' agreement with Southern, granting Southern control over certain significant corporate decisions. In 1999, the State Government filed a lawsuit seeking to nullify the shareholders' agreement on constitutional grounds. In August 2001, after several rulings and appeals, the Minas Gerais State Court of Appeals ruled that the shareholders' agreement is null and void. In December 2003, this ruling was appealed to the Superior Tribunal de Justiça (Superior Court of Justice), which upheld the Minas Gerais State Court of Appeals ruling. The decision of the Superior Court of Justice is subject to request for amendment and therefore the effective control of CEMIG remains subject to further judicial challenge in the Supreme Court (Supremo Tribunal Federal). As a result, Southern could retroactively challenge the legitimacy of certain decisions taken by our Board of Directors while these legal proceedings are pending. See Item 8. Financial Information Legal Proceedings Shareholders' Agreement and Item 10. Additional Information Material Contracts Shareholders' Agreement, dated June 18, 1997, between the State Government and Southern.

Risks Relating to Brazil

The Federal Government exercises significant influence on the Brazilian economy. Political and economic conditions can have a direct impact on our business.

The Federal Government intervenes frequently in the country's economy and occasionally makes significant changes in monetary, fiscal and regulatory policy. Our business, results of operations or financial condition may be adversely affected by changes in government policies, and also by:

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- fluctuations in the exchange rate;
- inflation;
- instability of prices;
- changes in interest rates;
- fiscal policy;
- other political, diplomatic, social and economic developments which may affect Brazil or the international markets;
- control on capital flow; and
- limits on foreign trade.

Measures by the Brazilian government to maintain economic stability, and also speculation on any future acts of the government, can generate uncertainties in the Brazilian economy and increased volatility in the domestic capital markets, adversely affecting our business, results of operations or financial condition. If the political and economic situations deteriorate, we may face increased costs.

A presidential election will be held in Brazil in October 2006. The President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses, such as our company. The run-up to the presidential election may result in changes to existing governmental policies, and the post-election administration even if the President of Brazil is reelected may seek to implement new policies. We cannot assure you that the policies of the current or any new administration would not have an adverse effect on our business, results of operations or financial condition.

Inflation and certain governmental measures to curb inflation may contribute significantly to economic uncertainty in Brazil and could harm our business and the market value of the ADSs and our preferred shares.

Brazil has in the past experienced extremely high rates of inflation. Inflation, and some of the Brazilian government's measures taken in an attempt to curb inflation, have had significant negative effects on the Brazilian economy. Since the introduction of the *real* in 1994, Brazil's inflation rate has been substantially lower than in previous periods. However, inflationary pressures persist, and action taken in an effort to curb inflation, coupled with speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. According to the *Índice Nacional de Preços ao Consumidor Amplo*, or IPCA, a consumer price index, the Brazilian annual inflation rates were 9.3%, 7.6% and 5.7% in 2003, 2004 and 2005, respectively. No assurance can be given that inflation will remain at these levels.

Future measures taken by the Brazilian government, including interest rate increases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation, and consequently, have adverse economic impacts on our business, results of operations and financial condition. If Brazil experiences high inflation in the future, we may not be able to adjust the rates we charge our consumers to offset the effects of inflation on our cost structure.

Substantially all of our cash operating expenses are denominated in *reais* and tend to increase with Brazilian inflation. Inflationary pressures may also hinder our ability to access foreign financial markets or may lead to further government intervention in the economy, including the introduction of government policies that could harm our business, results of operations and financial condition or adversely affect the market value of our preferred shares and as a result, our ADSs.

Exchange rate instability may adversely affect our business, results of operations and financial condition and the market price of the ADSs and our preferred shares.

The Brazilian currency has been devalued periodically during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods depreciation of the Brazilian currency generally has correlated with the rate of inflation in Brazil, devaluation over shorter periods has resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and currencies of other countries.

In 2002, the *real* depreciated 52.3% against the U.S. dollar, due in part to political uncertainty surrounding the Brazilian presidential elections and the global economic slowdown. Although the *real* appreciated 18.25% against the U.S. dollar in 2003, 8.1% in 2004 and a further 12.1% in 2005, no assurance can be given that the *real* will not depreciate against the U.S. dollar again. On June 28, 2006, the noon buying U.S. dollar/*real* exchange rate was R\$2.2275 per U.S.\$1.00. See Exchange Rates .

As of December 31, 2005, approximately 16.1% of our total indebtedness was denominated in currencies other than the *real* (83.82% in U.S. dollars). If the U.S. dollar/*real* exchange rate appreciates, our financing expenses will increase and our results of operations and financial condition could be adversely affected. Although 40.8% of our debt denominated in foreign currencies is subject to currency swaps that convert our foreign currency obligations into *reais* in order mitigate this risk.

We also have entered into certain power purchase agreements that are dollar denominated, we cannot assure you that these hedging arrangements and the proceeds from our dollar-denominated purchase agreements will be sufficient to avoid an adverse effect on our business, results of operations and financial condition in case of unfavorable exchange rate fluctuations. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Exchange Rate Risk for information about our foreign exchange risk hedging policy.

Changes in economic and market conditions in other countries, especially Latin American and emerging market countries, may adversely affect our business, results of operations and financial condition, as well as the market price of our preferred shares and ADSs.

The market value of securities of Brazilian companies is affected to varying degrees by economic and markets conditions in other countries, including other Latin American and emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in other emerging market countries may diminish investor interest in securities of Brazilian issuers, including us. This could also make it more difficult for us access the capital markets and finance our operations in the future on acceptable terms or at all. Due to the characteristics of the Brazilian electricity industry (which requires significant investments in operating assets) and due to our financing needs, if access to the capital and credit markets is limited, we could face difficulties in completing our investment plan and refinancing our obligations which could adversely affect our business, results of operations and financial condition.

Political and economic instability in Brazil may affect us.

In 2005, allegations of unethical or illegal conduct were made with respect to certain figures in the Brazilian government, legislators and party officials. The allegations, which are currently under investigation by the Brazilian congress, relate to alleged violations of rules relating to election laws and campaign financing, allegations of influencing officials and other allegedly corrupt behavior. Several members of both the Brazilian government and the political party of the current president (including the president's chief of staff) have resigned as a result. If the allegations or investigations lead to a materially adverse perception of Brazil among investors, the trading value of our preferred shares and ADSs may decline and our ability to access international markets would suffer. In addition, any political instability resulting from the allegations or investigations could cause us to re-evaluate our strategies if the Brazilian economy suffers as a result.

Risks Relating to the Preferred Shares and ADSs

The preferred shares and ADSs generally do not have voting rights.

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In accordance with the Brazilian Corporate Law and our by-laws, holders of the preferred shares, and, by extension, holders of the ADSs, are not entitled to vote at our shareholders' meetings, except in very limited circumstances. Holders of ADSs may also encounter difficulties in the exercise of certain rights, including limited voting rights. Under some circumstances, such as failure to provide the depositary with voting materials on a timely basis, holders of ADSs may not be able to vote by instructing the depositary.

Exchange controls and restrictions on remittances abroad may adversely affect holders of ADSs.

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You may be adversely affected by the imposition of restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and the conversion of *reais* into foreign currencies. The Federal Government imposed remittance restrictions for approximately three months in late 1989 and early 1990. Restrictions like these would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of preferred shares, as the case may be, from *reais* into U.S. dollars and the remittance of U.S. dollars abroad. We cannot assure you that the Federal Government will not take similar measures in the future. See Item 3. Key Information Exchange Rates.

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of our preferred shares or ADSs.

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Law No. 10,833 of December 29, 2003 provides that the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. This provision results in the imposition of income tax on the gains arising from a disposition of our preferred shares by a non-resident of Brazil to another non-resident of Brazil. There is no judicial guidance as to the application of Law No. 10,833 and, accordingly, we are unable to predict whether Brazilian courts may decide that it applies to dispositions of our ADSs between non-residents of Brazil. However, in the event that the disposition of assets is interpreted to include a disposition of our ADSs, this tax law would accordingly result in the imposition of withholding taxes on the disposition of our ADSs by a non-resident of Brazil to another non-resident of Brazil.

Exchanging ADSs for the underlying preferred shares may have unfavorable consequences.

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The Brazilian custodian for the preferred shares must obtain an electronic certificate of registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds related thereto. If you decide to exchange your ADSs for the underlying preferred shares, you will be entitled to continue to rely, for five business days from the date of the exchange, on the depositary bank's electronic certificate of registration. Thereafter, you may not be able to obtain and remit U.S. dollars abroad upon the disposition of the preferred shares, or distributions relating to the preferred shares, unless you obtain your own certificate of registration under Resolution No. 2,689 of January 26, 2000, of the Brazilian *Conselho Monetário Nacional*, or National Monetary Council, which entitles foreign investors to buy and sell on the Brazilian stock exchanges. If you do not obtain this certificate, you will be subject to less favorable tax treatment on gains with respect to the preferred shares. If you attempt to obtain your own certificate of registration, you may incur expenses or suffer significant delays in the application process. Obtaining a certificate of registration involves generating significant documentation, including completing and filing various electronic forms with the Central Bank and the *Comissão de Valores Mobiliários* (the Brazilian securities regulatory body), or the CVM. In order to complete this process, the investor will usually need to have a consultant or attorney who has expertise in Central Bank and CVM regulations. Any delay in obtaining this certificate could adversely impact your ability to receive dividends or distributions relating to the preferred shares abroad or the return of your capital in a timely manner. If you decide to exchange your preferred shares back into ADSs once you have registered your investment in the preferred shares, you may deposit your preferred shares with the custodian and rely on the depositary bank's certificate of registration, subject to certain conditions. See Item 10. Additional Information Taxation Brazilian Tax Considerations.

We cannot assure you that the depositary bank's certificate of registration or any certificate of foreign capital registration obtained by you may not be affected by future legislative or other regulatory changes, or that additional Brazilian restrictions applicable to you, the disposition of the underlying preferred shares or the repatriation of the proceeds from disposition could not be imposed in the future.

The relative volatility and illiquidity of the Brazilian securities market may adversely affect our shareholders.

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Investing in Latin American securities, such as the preferred shares or the ADSs, involves a higher degree of risk than investing in securities of issuers from countries with more stable political and economic environments and such investments are generally considered speculative in nature. These investments are subject to certain economic and political risks, such as, among others:

- changes to the regulatory, tax, economic and political environment that may affect the ability of investors to receive payment, in whole or in part, with respect to their investments; and
- restrictions on foreign investment and on repatriation of capital invested.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. This may substantially limit your ability to sell the preferred shares underlying your ADSs at a price and time at which you wish to do so. The *Bolsa de Valores de São Paulo* – BOVESPA, or São Paulo Stock Exchange, the only stock exchange in Brazil upon which shares are traded, had a market capitalization of approximately US\$482 billion as of December 31, 2005 and an average daily trading volume of approximately US\$558 million for 2005. In comparison, the New York Stock Exchange, Inc., or the NYSE, had a market capitalization of US\$21.4 trillion as of December 31, 2005 and an average monthly trading volume of approximately US\$1,177.1 billion for 2005.

There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 51.5% of the aggregate market capitalization of the São Paulo Stock Exchange as of December 31, 2005. The top ten stocks in terms of trading volume accounted for approximately 51.3% of all shares traded on the São Paulo Stock Exchange in 2005. See Item 9. The Offer and Listing Trading Market.

Shareholders may receive reduced dividend payments if our net income does not reach certain levels.

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Under the Brazilian Corporate Law and our by-laws, we must pay our shareholders a mandatory distribution equal to at least 50% of our adjusted net income for the preceding fiscal year, based on our financial statements prepared in accordance with the accounting practices adopted in Brazil, with holders of preferred shares having priority of payment. In addition, our by-laws require us to pay holders of our preferred shares annual dividends equal to the greater of 10% of the par value of our shares or 3% of the book value of our shares. If we do not have net income or our net income is insufficient in a fiscal year, our management may recommend at the annual shareholders' meeting in respect of that year that the payment of the mandatory dividend should not be made. However, under the guarantee of the State Government, our controlling shareholder, a minimum annual dividend of 6% of par value would in any event be payable to all holders of common shares and preferred shares issued up to August 5, 2004 (other than public and governmental holders) in the event that mandatory distributions were not made for a fiscal year. See Item 8. Financial Information - Dividend Policy and Payments for a more detailed discussion.

Holders of the ADSs and holders of preferred shares have less well-defined shareholders' rights than holders of shares in U.S. companies.

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Our corporate governance, disclosure requirements and accounting standards applicable to Brazilian companies are governed by our by-laws and by the Brazilian Corporate Law, which may differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as Delaware or New York, or in other jurisdictions outside Brazil. Your rights to protect your interests relative to actions taken by our

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Board of Directors or by our controlling shareholder may be less well defined and less well supported by established rules and judicial precedents than under the laws of certain jurisdictions outside Brazil.

Although Brazilian law imposes restrictions on insider trading and price manipulation, the Brazilian securities market is not as highly regulated and supervised as the U.S. securities market or markets in certain other jurisdictions. In addition, rules and policies against self-dealing and regarding the preservation of shareholder interests are less developed and enforced in Brazil than in the United States, potentially disadvantaging holders of the preferred shares and ADSs.

Shares eligible for future sale may adversely affect the market price of the preferred shares and the ADSs.

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Sales of a substantial number of shares or the perception that such sales could take place could adversely affect the prevailing market price of the preferred shares and ADSs. As a consequence of the issuance of new shares or sales by existing shareholders, the market price of the preferred shares and, by extension, the ADSs, may decrease significantly.

You may not be able to exercise preemptive rights with respect to the preferred shares.

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You may not be able to exercise the preemptive rights relating to the preferred shares underlying your ADSs unless a registration statement under the United States Securities Act of 1933, as amended, or the Securities Act, is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights, and we cannot assure you that we will file any such registration statement. Unless we file a registration statement or an exemption from registration applies, you may receive only the net proceeds from the sale of your preemptive rights by the depositary or, if the preemptive rights cannot be sold, they will be allowed to lapse.

Item 4. Information on the Company

Organization and Historical Background

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We were organized in Minas Gerais, Brazil on May 22, 1952 as a *sociedade de economia mista* (a state-controlled mixed capital company) with limited liability and indefinite duration, pursuant to Minas Gerais State Law No. 828 of December 14, 1951 and its implementing regulation, Minas Gerais State Decree 3,710 of February 20, 1952. Our full legal name is Companhia Energética de Minas Gerais CEMIG, but we are also known as CEMIG. Our headquarters are located at Avenida Barbacena, 1200, Belo Horizonte, Minas Gerais, Brazil. Our main telephone number is (55-31) 3299 3711.

In order to comply with legal and regulatory provisions pursuant to which we were required to unbundle our vertically integrated businesses, we have incorporated two wholly-owned subsidiaries of CEMIG Cemig Geração e Transmissão S.A., referred to as Cemig Generation and Transmission, and Cemig Distribuição S.A., referred to as Cemig Distribution. Cemig Generation and Transmission and Cemig Distribution were created to carry out the activities of generation and transmission, and distribution, respectively.

On August 4, 2004 the State of Minas Gerais issued Law 15,290 governing the corporate restructuring of CEMIG. Subsequently, ANEEL, by Resolution 407/2004 dated December 23, 2004, approved our proposal for transfer of the concessions, assets and liabilities to the two new companies created, with CEMIG being maintained as a holding company. On December 30, 2004, an extraordinary general shareholders meeting of CEMIG authorized the transfer of assets and liabilities of CEMIG to the two wholly-owned subsidiaries Cemig Generation and Transmission and Cemig Distribution. On the same date, extraordinary general shareholders meetings of Cemig Generation and Transmission and of Cemig Distribution were held and approved capital increases of such subsidiaries. Pursuant to such shareholders meetings, CEMIG subscribed newly issued shares of each such subsidiary, which shares were paid in with assets of CEMIG. As a consequence of this process, the assets and liabilities of the generation and transmission operations and distribution operations were transferred to Cemig

Generation and Transmission and Cemig Distribution, respectively. Cemig Generation and Transmission and Cemig Distribution began their operations on January 1, 2005.

The following chart shows our corporate structure as of June 28, 2006:

| Subsidiary | Ownership (%) |
|-------------------------------------|----------------------|
| 1. CEMIG Distribuição S.A | 100.00 |
| 2. CEMIG Geração e Transmissão S.A. | 100.00 |
| 3. CEMIG Capim Branco Energia S.A. | 100.00 |
| 4. Rosal Energia S.A | 100.00 |
| 5. CEMIG PCH S.A. | 100.00 |

| Subsidiary | Ownership (%) |
|--|--|
| 6. Horizontes Energia S.A. | 100.00 |
| 7. Sá Carvalho S.A. | 100.00 |
| 8. Central Termelétrica de Cogeração S.A. | 100.00 |
| 9. Usina Térmica Barreiro S.A. | 100.00 |
| 10. Usina Térmica Ipatinga S.A. | 100.00 |
| 11. Central Hidrelétrica Pai Joaquim S.A. | 100.00 |
| 12. Companhia Transleste de Transmissão | 25.00 |
| 13. Companhia Transirapé de Transmissão | 24.50 |
| 14. Companhia de Transmissão Centroeste de Minas | 51.00 |
| 15. Companhia Transudeste de Transmissão | 24.00 |
| 16. Transchile Charrúa Transmisión S.A. | 49.00 |
| 17. CEMIG Trading S.A. | 100.00 |
| 18. Companhia de Gás de Minas Gerais S. A. | 55.19 |
| 19. Efficientia S.A. | 100.00 |
| 20. Rio Minas Energia Participações S.A. | 25.00 |
| 21. Empresa Paraense de Transmissão de Energia S.A. | 25.00 |
| 22. Empresa Norte de Transmissão de Energia S.A. | 18.00 |
| 23. Empresa Regional de Transmissão de Energia S.A. | 18.00 |
| 24. Empresa Amazonense de Transmissão de Energia S.A. | 25.00 |
| 25. Empresa Catarinense de Transmissão de Energia S.A. | 7.50 |
| 26. Empresa de Infovias S.A. | 99.94 |
| 27. WAY TV Belo Horizonte S.A | 69.25 (through Empresa de Infovias S.A.) |

Rio Minas Energia Participações S.A. (RME) is a company formed by us together with Andrade Gutierrez Concessões S.A., J.L.A. Participações S.A. and Pactual Energia Participações S.A., in which each partner has a 25% interest. On March 28, 2006, RME signed an agreement (the EDFI Agreement) with EDF International S.A. (EDFI) to purchase from EDFI 88.84% of its shares of LIGHT S.A. (LIGHT), which corresponds to 79.57% of the total registered capital of LIGHT. LIGHT is the holding company which controls, among other companies, the electricity distribution company Light Serviços de Eletricidade S.A., which serves 3.8 million consumers (6.4% of the Brazilian market) in 31 municipalities of the State of Rio de Janeiro, and the generating company Light Energia S.A., which has hydroelectric power plants with aggregate generating capacity of 852 MW. Under the EDFI Agreement, RME will pay US\$319,809,871.91 for EDFI s shares of LIGHT being sold. The total value of the assets to be acquired is approximately US\$1,758,000,000. Closing of the transaction is subject to certain conditions as set forth in the EDFI Agreement including, among others, approval of the transfer of control of Light S.A. being given by ANEEL, the Commission des Participations et des Transferts of France, the Brazilian Development Bank (BNDES) and by other creditors. Additionally, in accordance with Brazilian Corporate Law, RME will launch an offer to buy the remaining floating shares of Light. The transaction will also be submitted to the Brazilian monopolies authority, CADE (Economic Defense Council), in accordance with Law 8884/94.

On May 4, 2006, CEMIG, in partnership with MDU Brasil Ltda. (MDU) and Brascan Brasil Ltda. (Brascan), signed certain share purchase and sale agreements (the Agreements) with Schahin Holding S.A. (Schahin), as seller, and Schahin Engenharia S.A. and Schahin Energia S.A., as guarantors, in connection with the acquisition of Schahin s 50% interest in electricity transmission concessions Empresa Amazonense de Transmissão de Energia S.A. EATE, Empresa Paraense de Transmissão de Energia S.A. ETEP, Empresa Norte de Transmissão de Energia S.A. ENTE and Empresa Regional de Transmissão de Energia S.A. ERTE, and Schahin s 40% interest in Empresa Catarinense de Transmissão de Energia S.A. ECTE. CEMIG, MDU and Brascan agreed to pay R\$656,000,000 for all of Schahin s holdings in the above-mentioned companies. Closing of this transaction is subject to compliance with certain conditions established in the Agreements, including approval of the transfer of shares of the above-mentioned companies by ANEEL, BNDES, and other regulatory agencies. The Brazilian monopolies authority, CADE, will also be notified of the transaction in accordance with Law 8884/94. The following table shows the percentage ownership of the transmission lines by CEMIG, MDU and Brascan upon the closing of this transaction:

| | EATE | ETEP | ECTE | ERTE | ENTE |
|---------|--------|--------|--------|--------|--------|
| CEMIG | 25.00% | 25.00% | 7.50% | 18.00% | 18.00% |
| MDU | | | 25.00% | 14.00% | 14.00% |
| Brascan | 25.00% | 25.00% | 7.50% | 18.00% | 18.00% |

Through our subsidiaries, we believe we are the largest integrated concessionaire of electric power generation, transmission and distribution in Brazil. We operate our generation, transmission and distribution businesses pursuant to concession agreements with the Federal Government. Until 1997, we had individual concessions for each of our generation facilities and for various regions within our distribution area. On July 10, 1997, we entered into new concession agreements with ANEEL that consolidated our various generation concessions into one agreement and our several distribution concessions into four distribution concessions covering the northern, southern, eastern and western regions of Minas Gerais. On the same date, we also entered into a new concession agreement with ANEEL with respect to our transmission operations. In connection with the unbundling, our concession for distribution services was transferred to Cemig Distribution on September 16, 2005, and our concession for transmission services was transferred to Cemig Generation and Transmission on September 16, 2005. Our generation concession will also be transferred to Cemig Generation and Transmission, although we cannot assure you of the timing of that transfer as it will be determined by ANEEL.

At December 31, 2005, we generated electricity at 49 hydroelectric plants, four thermoelectric plants and one wind farm, and had a total installed capacity of 6,113 MW. At the same date, we owned and operated 3,040 miles of transmission lines and 245,714 miles of distribution lines. We hold concessions to distribute electricity in 96.7% of the territory of Minas Gerais.

The Brazilian electricity industry has undergone extensive regulatory restructuring as a result of which our electric generation, transmission and distribution businesses have been and will continue to be subjected to increased competition. For a more detailed description of regulatory changes that affect our business, see *The Brazilian Power Industry* in Annex A.

Pursuant to Minas Gerais state legislation, our by-laws were amended in 1984 to allow us to participate in an expanded range of activities relating to the energy sector through separate companies. In 1986, we created *Companhia de Gás de Minas Gerais* - GASMIG, or Gasmig, as a subsidiary to undertake the distribution of natural gas through pipelines located in Minas Gerais. In December 2004, we sold a 40% stake in Gasmig to Petrobras Gás S.A. - Gaspetro, or Gaspetro, and TSS Participações S.A., or TSS, both of which are wholly-owned subsidiaries of Petrobras S.A., for approximately R\$154 million. See *Item 10. Additional Information* - *Material Contracts* - *Gasmig Shareholders Agreement and Association Agreement*.

Additional Minas Gerais state legislative changes enacted in 1997 authorized us to participate in non-energy activities that can be carried out using our operating assets. In January 1999, we incorporated *Empresa de Infovias S.A.*, a telecommunication service provider, as a joint venture with *AES Força Empreendimentos Ltda.*, part of the AES Corporation Group. In 2002, we purchased *AES Força Empreendimentos Ltda.*'s interest in *Empresa de Infovias S.A.* We also provide consulting services and have entered into consulting agreements with electricity companies in several countries.

Brazil's Energy Market

General

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Traditionally, in the Brazilian electricity sector, generation, transmission and distribution activities are separated, but conducted by a small number of companies that had always been the property of either the Federal Government, or of governments of Brazil's individual states. In the last ten years, several companies controlled by the state were privatized, in an effort to increase efficiency and competition. The previous administration stated its objective to privatize the state-controlled part of the electricity sector, but the present administration has stopped this process, and has implemented a new industry model for the Brazilian electricity sector as set forth in Law No. 10,848, of March 15, 2004.

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The New Industry Model

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The main objectives of the new industry model are to guarantee: (i) security of supply; and (ii) reasonableness of rates. To guarantee supply, the new model creates the requirements (a) that distributors must contract their entire load, and will be responsible for making realistic projections of demand requirements and (b) that building new hydroelectric and thermal plants will be determined in ways that best balance security of supply and reasonableness of rates. The means of achieving reasonableness of rates include the following: (a) all purchases of electricity by distributors will occur by auction, based on the lowest-rate criterion; (b) contracting is to be through the Pool system, as described below; and (c) contracting of load will be separated into two types of transactions, both of which will always be by auction: (i) contracting of the electricity of the new plants, which will target expansion; and (ii) contracting of the electricity of the existing plants, which will target the existing electricity demand.

The new industry model also creates two environments for the contracting of electricity supply: (i) the Regulated Contracting Environment (the ACR), for contracting of electricity to meet the demands of distributors supplying captive consumers under regulated rates; and (ii) the Free Contracting Environment (the ACL), for contracting of energy to supply Free Consumers, through freely negotiated contracts. Distributors will be allowed to operate only in the regulated environment, while generators may operate in both, maintaining their competitive characteristics.

Expansion of the sector will be executed by the Federal Government through the Ministry of Mines and Energy (the MME). Two new institutional agents have been created: (i) the Energy Research Company (the EPE), a state-controlled company responsible for execution of the planning of expansion of generation and transmission; and (ii) the Electricity Trading Chamber (the CCEE), a private company, which is the successor of the Wholesale Energy Market, (formerly the MAE), and is responsible for management of the joint contracting of electricity to meet the needs of regulated consumers (the Pool system).

Regulation under the new industry model

The Brazilian electricity industry is regulated and supervised by ANEEL. After the enactment of Law No. 10,848, ANEEL's primary responsibility is to regulate and supervise the power industry in line with the policy to be dictated by the MME and to respond to matters which are delegated to it by the Federal Government and by the MME. ANEEL's current responsibilities include, among others, (i) administering concessions for electricity generation, transmission and distribution activities, including the approval of electricity rates, (ii) enacting regulations for the electricity industry, (iii) implementing and regulating the exploitation of hydroelectric resources, (iv) promoting the public bidding process for new concessions, (v) settling administrative disputes among electricity generation entities and electricity purchasers and (vi) defining the criteria and methodology for the determination of distribution and transmission rates.

Rates

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Electric energy rates in Brazil are set by ANEEL, which has the authority to readjust and review rates in accordance with the provisions under the relevant concession contracts. Each distribution company's concession contract provides for an annual rate adjustment (reajuste anual). In general, Parcel A costs are fully passed through to consumers. Parcel A costs are the portion of the regular rate calculation formula, which provides for the recovery of certain costs that are not within the control of the distribution company. Parcel B costs, which are costs that are under the control of the distributors, are restated for inflation in accordance with the General Market Price Index (Índice Geral de Preços do Mercado), or IGP-M index.

As part of our annual rate adjustment for 2006, ANEEL, through Resolution No. 310 dated as of April 6, 2006, established an average rate adjustment of 16.19%. This adjustment includes a component of 1.45% to recoup revenue we did not achieve in 2004 due to the lower rates under re-issued Resolution No. 83. On April 6, 2005, through Resolution No. 87, ANEEL established an average rate increase of 23.88%. This adjustment included a component of 1.67% representing an increase to recoup revenue we did not achieve in 2004 due to the lower rates under re-issued Resolution No. 83.

The average annual rate adjustment includes components such as the inter-year variation of fixed costs (CVA) and other financial adjustments, which compensate for changes in the company's costs that were not previously taken into account in the tariff we charged the year before. Since this inter-year variation is to reimburse changes in costs that took place in the previous year, it should not be part of next year's annual adjustment. As a result, our authorized average annual rate for 2006 increase was 16.19%, but the actual increase in the rates we charge from our end consumers during the same period was 6.70%.

Concessionaires of electricity distribution are also entitled to periodic revisions (*revisão periódica*) every few years. These revisions are aimed at (i) assuring necessary revenues to cover efficient Parcel B operational costs and adequate compensation for investments deemed essential for the services within the scope of each such company's concession and (ii) determining the X factor, which is calculated based on expected productivity gains from increases in scale, evaluations by consumers (verified by ANEEL) and labor costs.

On April 8, 2003, we went through our first periodic rate revision and ANEEL established a 31.53% temporary average increase to be applied to our rates. On April 4, 2005, through Resolution No. 71, ANEEL reconsidered such decision and established a 44.41% average increase to be applied to our rates. In order to guarantee low rates to our end consumers, ANEEL only allowed us to reposition our rates up to 31.53% retroactive to April 8, 2003. ANEEL has also indicated that the rate adjustments expected for the years from 2004 to 2007 would be adjusted to recover the difference between the average rate increase of 44.41% we were entitled to and the 31.53% rate adjustment that was authorized. Our rate adjustments on April 8, 2005 and April 8, 2006 each included a recovery of a portion of the difference between the average rate increase of 44.41% we were entitled to by the periodic revision and the rate adjustment of 31.53% that was authorized.

In addition, concessionaires of electricity distribution are entitled to extraordinary review of rates (*revisão extraordinária*), on a case by case basis, to ensure their financial equilibrium and compensate them for unpredictable costs, including taxes, that significantly change their cost structure.

ANEEL has also issued regulations that govern the access to the distribution and transmission facilities and establish the rate for use of the local distribution grid, or Distribution Usage Rates (TUSD), and the rate for the use of the interconnected transmission grid, or Transmission Usage Rates (TUST). The rates to be paid by distribution companies, generators and Free Consumers for use of the interconnected power system are reviewed annually. The review of the TUST takes into account the revenues that are permitted of transmission concessionaires pursuant to their concession contracts. For more detailed information regarding the rate-setting structure in Brazil, see The Brazilian Power Industry Rates for the Use of the Distribution and Transmission Systems in Annex A.

Concessions

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Under the Brazilian Constitution, companies seeking to construct or operate a generation, transmission or distribution facility in Brazil are required to apply for an authorization or a concession from the Federal Government which is generally granted through a public bidding process conducted by ANEEL. Concessions grant exclusive rights to generate electricity in a particular plant, and to transmit or distribute electricity in a particular area for a specified period of time, generally 35 years for new generation concessions, 30 years for new transmission and distribution concessions, and 20 years for the renewal of existing concessions. For more detailed information regarding concessions, see The Brazilian Power Industry Concessions in Annex A.

Land Acquisition

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The concessions granted to us by the Federal Government do not include a grant of the land upon which the plants are located. Electricity concessionaires in Brazil typically have to negotiate with the individual landowners to obtain needed land. However, in the event that a concessionaire is unable to obtain needed land in this way, such land may be condemned for the concessionaire's use through specific legislation. In cases of governmental condemnation, the concessionaires may have to participate in negotiations relating to the amount of compensation with landowners and the resettlement of communities to other locations. Our resettlement policy has generally resulted in the settlement of condemnation disputes.

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Unbundling under the New Industry Model

Law No. 10,848/04, which provides for the new industry model, prohibits holders of distribution concessions, permissions or authorizations that operate in the interconnected power system from: (i) performing activities related to generation, transmission and sale of energy to Free Consumers at freely negotiated prices; (ii) holding interest in other companies, directly or indirectly, other than (a) in companies whose corporate purpose is to manage financial resources necessary for rendering of services or (b) as provided in the concession contracts; or (iii) performing activities outside their corporate purpose, except as provided by law and the concession contracts. These restrictions do not apply to distributors: (i) supplying energy to isolated electricity systems; (ii) supplying their own market, provided such market has a demand of less than 500 GWh/year and the totality of energy produced is destined to such market; or (iii) when funding, investing or borrowing funds destined to the distributor itself or a company of the same economic group, subject to prior agreement by ANEEL. Holders of generation concessions or authorizations that operate in the interconnected system may not be affiliates or controlling shareholders of companies which are responsible for distribution activities.

In order to comply with regulatory provisions pursuant to which we were required to unbundle our vertically integrated businesses, we have incorporated two wholly-owned subsidiaries of CEMIG – Cemig Generation and Transmission, and Cemig Distribution – created to carry out the activities of electricity generation and transmission, and distribution, respectively. For more detailed information regarding these entities and the corporate restructuring of CEMIG, see Organization and Historical Background.

Capital Expenditures

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Capital expenditures for the years ended December 31, 2005, 2004 and 2003, in millions of *reais*, are as follows: