ENERGY CO OF MINAS GERAIS
Form 20-F
July 23, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

or

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

For the fiscal year ended December 31, 2006

or

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

or

o **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 CO 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

(Address of principal executive offices)

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

Title of each class:	**Name of exchange on which registered:**
Preferred Shares, R$5.00 par value	New York Stock Exchange*
American Depositary Shares, each representing 1 Preferred Share, without par value, as of June 11, 2007	New York Stock Exchange
Common Shares, R$5.00 par value	New York Stock Exchange*
American Depositary Shares, each representing 1 Common Share, without par value, as of June 12, 2007	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 x No o

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 o No x

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 x No o

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 x Accelerated Filer o Non accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 o Item 18 x

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 o No x

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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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PRESENTATION OF FINANCIAL INFORMATION

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, 2006 and 2005 and the related statements of operations and comprehensive income, cash flows and changes in shareholders equity for the years ended December 31, 2006, 2005 and 2004, in *reais* all in accordance with U.S. GAAP. Deloitte Touche Tohmatsu Auditores Independentes has audited our consolidated financial statements at December 31, 2006 and 2005 and for each of the three years ended December 31, 2006, 2005 and 2004.

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$2.1342 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 29, 2006. 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, 2006 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 as of December 31, 2006. On May 3, 2007, we effected a partial stock split in the form of a 50% stock dividend of our preferred shares, with a corresponding adjustment to our preferred share ADSs. Effective on June 11, 2007, after giving effect to (i) a reverse stock split of our preferred shares in the form of a consolidation whereby every 500 preferred shares, par value R$0.01, was consolidated into one preferred share with a par value of R$5.00, and (ii) a 100% forward split of the preferred share ADSs, the ADS ratio was changed to one preferred share per ADS. 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, as amended on June 11, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (the Second Amended and Restated Deposit Agreement). Unless otherwise noted herein, the preferred share and ADS and per preferred share and per ADS data in this annual report have not been adjusted for to reflect the reverse stock split and consolidation of our preferred shares or the 100% forward split of our ADSs that we undertook in June 2007.

On May 3, 2007, we effected a partial stock split in the form of a 50% stock dividend of our common shares. On June 11, 2007, we effected a reverse stock split of our common shares in the form of a consolidation whereby every 500 preferred shares, par value R$0.01, was consolidated into one common share with a par value of R$5.00. On June 12, 2007, we established an American Depositary Shares program for our common shares, with each common share ADS representing one common share, referred to as the common share ADSs. Unless otherwise noted herein, the common share and per common share data in this annual report have not been adjusted for to reflect the reverse stock split and consolidation of our common shares that we undertook in June 2007.

Unless indicated otherwise, references herein to American Depositary Shares, ADSs, American Depositary Receipts and ADRs refer only to those represented by our preferred shares.

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:

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- 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;
- our ability to renew our concessions;
- 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-look 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, 2006 and 2005 and for each of the three years ended December 31, 2006, 2005 and 2004 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, 2004, 2003 and 2002 and for the each of the two years ended December 31, 2003 and 2002 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$2.1342 per US$1.00, the noon buying rate as of December 29, 2006. 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 July 17, 2007, the noon buying rate for *reais* was R$1.8639 per US$1.00. See Exchange Rates.

Selected Consolidated Financial Data

	As of and for the year ended December 31,					
	2006 (in millions of US$)(1)(2)	2006	2005	2004	2003	2002
		(In millions of R$ except per share/ADS data or as otherwise indicated)				
Income Statement Data:						
Net operating revenues						
Electricity sales to final consumers	4,367	9,319	8,708	8,541	7,163	5,458
Regulatory extraordinary rate adjustment(3)		1	8	89	63	281
Deferred rate adjustment(3)			110	640	199	
Electricity sales to the interconnected power system	414	884	237	36	56	161
Use of basic transmission and distribution networks	833	1,780	1,523	245	257	185
Other operating revenues	94	199	168	536	468	260
Tax on revenues	(1,660)	(3,543)	(3,241)	(2,608)	(2,190)	(1,473)
Total net operating revenues	4,048	8,640	7,513	7,479	6,016	4,872
Operating costs and expenses						
Electricity purchased for resale	(894)	(1,907)	(1,455)	(1,370)	(1,396)	(1,333)
Natural gas purchased for resale				(268)	(246)	(152)
Use of basic transmission and distribution networks	(322)	(687)	(709)	(538)	(310)	(298)
Depreciation and amortization	(380)	(810)	(669)	(677)	(686)	(666)
Personnel	(490)	(1,046)	(779)	(788)	(710)	(532)
Regulatory charges	(483)	(1,031)	(983)	(861)	(585)	(548)
Regulatory liability special liabilities	(495)	(1,057)				
Third-party services	(223)	(475)	(420)	(329)	(325)	(265)
Employee post-retirement benefits	(115)	(245)	(257)	(153)	(109)	(207)
Materials and supplies	(54)	(116)	(95)	(83)	(88)	(78)
Employees profit sharing	(98)	(210)	(260)	(110)	(93)	(38)
Other	(110)	(234)	(379)	(280)	(313)	(200)
Reversal (Provision) for loss on deferred regulatory assets(3)	(22)	(49)	(183)	(9)	174	(28)
Total operating costs and expenses	(3,686)	(7,867)	(6,189)	(5,466)	(4,687)	(4,345)
Operating income	362	773	1,324	2,013	1,329	527
Financial income (expenses), net	157	335	754	350	674	(525)
Non-Operating Income	43	91	29	105		
Income before income taxes and minority interests	562	1,199	2,107	2,468	2,003	2
Income taxes expense	(233)	(497)	(300)	(731)	(607)	(26)
Minority interests			2	2		12
Net income (loss)	329	702	1,809	1,739	1,396	(12)
Other comprehensive income (loss)	66	140	25	(474)	(64)	242
Comprehensive income	395	842	1,834	1,265	1,332	230
Basic earnings (loss): (5)						
Per common share	0.67	1.44	3.72	3.58	2.87	(0.02)
Per preferred share	0.67	1.44	3.72	3.58	2.87	(0.02)
Per ADS	0.67	1.44	3.72	3.58	2.87	(0.02)
Diluted earnings (loss): (5)						
Per common share	0.66	1.41	3.69	3.58	2.87	(0.02)
Per preferred share	0.66	1.41	3.69	3.58	2.87	(0.02)

Per ADS	0.66	1.41	3.69	3.58	2.87	(0.02)

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	As of and for the year ended December 31,					
	2006 (in millions of US$)(1)(2)	2006	2005	2004	2003	2002
		(In millions of R$ except per share/ADS data or as otherwise indicated)				
Balance Sheet Data:						
Assets						
Current assets	2,274	4,853	4,778	3,276	2,630	1,845
Property, plant and equipment, net	6,403	13,665	11,971	11,191	10,917	10,099
Deferred regulatory assets long-term	725	1,548	2,315	2,929	2,069	1,670
Account receivable from State Government	809	1,726	1,519	1,097	891	755
Other assets	795	1,696	763	504	612	1,139
Total assets	11,006	23,488	21,346	18,997	17,119	15,508
Liabilities						
Current portion of long-term financing	324	691	985	1,417	1,660	946
Other current liabilities	1,734	3,700	3,953	2,286	1,869	2,097
Long-term financing	2,733	5,833	3,841	2,750	2,331	2,593
Employee post-retirement benefits long-term	781	1,666	1,535	1,606	1,023	1,091
Shareholders equity	3,922	8,370	9,252	9,209	8,524	7,442
Capital stock	669	1,428	1,428	1,428	1,428	1,428
Other Data:						
Weighted average outstanding shares - basic (5)						
Common		212,622,504	212,622,504	212,622,504	212,622,504	212,622,504
Preferred		273,631,569	273,631,569	273,631,569	273,631,569	273,631,569
Dividends per share						
Common	1.30	R$2.77	R$3.68	R$1.19	R$0.51	R$0.68
Preferred	1.30	R$2.77	R$3.68	R$1.19	R$0.51	R$0.68
Dividends per ADS						
Preferred	1.30	R$2.77	R$3.68	R$1.19	R$0.51	R$0.68
Dividends per share (4)						
Common		US$1.30	US$1.58	US$0.45	US$0.18	US$0.19
Preferred		US$1.30	US$1.58	US$0.45	US$0.18	US$0.19
Dividends per ADS(4)						
Preferred		US$1.30	US$1.58	US$0.45	US$0.18	US$0.19
Weighted average outstanding shares diluted (5)						
Common		217,250,274	214,450,359	212,622,504	212,622,504	212,622,504
Preferred		279,587,214	275,983,902	273,631,569	273,631,569	273,631,569
Dividends per share diluted						
Common	1.27	R$2.71	R$3.65	R$1.19	R$0.51	R$0.68
Preferred	1.27	R$2.71	R$3.65	R$1.19	R$0.51	R$0.68
Dividends per ADS						
Preferred	1.27	R$2.71	R$3.65	R$1.19	R$0.51	R$0.68
Dividends per share diluted (4)						
Common		US$1.27	US$1.57	US$0.45	US$0.18	US$0.19
Preferred		US$1.27	US$1.57	US$0.45	US$0.18	US$0.19

Dividends per ADS diluted (4)					
Preferred	US$1.27	US$1.57	US$0.45	US$0.18	US$0.19

(1) Converted at the exchange rate of US$1.00 to R$2.1342, the noon buying rate as of December 29, 2006. 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.

(5) Per share numbers have been adjusted to reflect the reverse stock split and consolidation of our shares, and per ADS numbers have been adjusted to reflect the 100% forward split of our ADSs, each of which occurred in June, 2007. See Note 31, items g and h to our consolidated financial statements.

Exchange Rates

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. 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 Federal 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 or common share ADSs. We will make any distributions with respect to our preferred shares or common shares in *reais* and the depositary will convert these distributions into U.S. dollars for payment to the holders of ADSs and common share ADSs. Exchange rate fluctuations may also affect the U.S. dollar equivalent of the *real* price of the preferred shares or common 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 our shares, the ADSs and the common share ADSs.

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.

	Reais per US$1.00			
Month	**Low**	**High**	**Average**	**Period-end**
December 2006	2.1342	2.1675	2.1476	2.1342
January 2007	2.1225	2.1520	2.1376	2.1225
February 2007	2.0740	2.1200	2.0939	2.1200
March 2007	2.0540	2.1385	2.0883	2.0580
April 2007	2.0192	2.0465	2.0302	2.0308
May 2007	1.9225	2.0330	1.9836	1.9225
June 2007	1.9010	1.9680	1.9323	1.9301
July 2007 (through July 17, 2007)	1.8639	1.9160	1.8912	1.8639

	Reais per US$1.00			
Year Ended December 31,	**Low**	**High**	**Average**	**Period-end**
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
2006	2.0549	2.3580	2.1738	2.1342

Source: Federal Reserve Bank of New York

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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.

You should consider the following risks as well as the other information in this annual report in evaluating an investm

Risks Relating to CEMIG

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

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.

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.

The new rules for the sale of electric energy and market conditions could affect our generation selling prices.

Under the law creating the new model for the industry, our generation company is not allowed to sell energy directly to our distribution company. As a result, we have to sell our electricity in a regulated market through public auctions conducted by ANEEL, or in the Free Contracting Environment (the ACL). Legislation allows distributors that contract with our generation company under the Regulated Contracting Environment (the ACR) to reduce the quantity of energy contracted under these contracts up to a certain limit, exposing our generation company to the risk of failing to contract that energy at adequate prices.

Contracts in the ACL with consumers that are allowed to purchase energy directly from generating companies or from energy traders (these are generally consumers with demand equal to or greater than 3 MW or consumers with demand between 500 KW and 3 MW if they choose to purchase their energy from renewable energy sources, such as small hydroelectric facilities, and referred to as Free Consumers) also give such consumers the flexibility to purchase less energy (nearly 10%) 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 in the spot market, where prices are very volatile. If this occurs in periods of low spot prices, our revenues and results of operations could be adversely affected.

The new rules for the sale of electric energy and market conditions could affect our generation selling prices.

ANEEL has substantial discretion to establish the rates we charge to captive consumers and the rates we charge to Free Consumers and to power generating companies 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$1,726 million as of December 31, 2006. 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. In addition, a fifth amendment to the CRC Account is currently being considered, to adjust the outstanding balance of the CRC Agreement in accordance with a provision in the Fourth Amendment in which the parties recognized that there was a disagreement regarding the outstanding balance of the CRC Agreement at December 31, 2004. 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. 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.

The new rules for the sale of electric energy and market conditions could affect our generation selling prices.

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The new rules for the sale of electric energy and market conditions could affect our generation selling prices.

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. In the past we have, at times, been in non-compliance with our covenants under our loan agreements, and although we were able to obtain waivers from our creditors, no assurance can be given that we would be successful in obtaining any waivers in the future. 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.

We carry out our power 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 present structure of the Brazilian electricity sector is highly concentrated in hydroelectric generation, which mak

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 adverse 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.

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
- 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.

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.

As of December 31, 2006, our total past due receivables from final consumers were approximately R$804 million, corresponding to 9.3% of our net revenue for 2006. As of December 31, 2006, our allowance for doubtful accounts was R$297 million. Approximately 10.6% 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$6.0 billion during the period from 2007 through 2011 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 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 by-laws, 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 by-laws 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.

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, 2006, our total debt was R$6,524 million, of which R$691 million matures in 2007. 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 2007 to lengthen maturities. We plan to raise approximately R$600 million in 2007.

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.

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 claims totaling R$245 million as of December 31, 2006 (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 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, 2006, these employees were seeking, in the aggregate, approximately R$135.8 million in compensation, and at that date we had accrued a liability of approximately R$35 million for losses we expect from

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

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 six years, although in 2006 three work stoppages did occur. 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 review and therefore the effective control of CEMIG remains subject to further judicial challenge in the Supreme Court (Supremo Tribunal Federal). 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:

- 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.

Brazil s President was recently reelected for another four-year term. The President 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 CEMIG. In his new term, the President may seek to implement new policies and/or make changes to existing governmental policies. We cannot make any assurances that such policies 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 our shares, the ADSs and the common share ADSs.

Brazil has in the past experienced extremely high rates of inflation. Inflation, and some of the Federal 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 Amplified National Consumer Price Index, or IPCA, Brazilian annual inflation rates in 2004, 2005 and 2006 were 7.6%, 5.7% and 3.1%, respectively. No assurance can be given that inflation will remain at these levels.

Future measures taken by the Federal 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 shares and as a result, our ADSs and common share ADSs.

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

The Brazilian currency has been devalued periodically during the last four decades. Throughout this period, the Federal 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 39.71% against the U.S. dollar from 2003 to 2006, no assurance can be given that the *real* will not depreciate against the dollar again. On December 29, 2006, the noon buying U.S. dollar/*real* exchange rate was R$2.1342/US$1.00. See Exchange Rates .

As of December 31, 2006, approximately 10.13% of our total indebtedness from loans, financings and debentures was denominated in currencies other than the *real* (83.81% 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 45.84% 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 derivatives instruments 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.

The Federal Government exercises significant influence on the Brazilian economy. Political and economic condition

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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 shares, the ADS and the common share 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.

During Luis Inácio Lula da Silva s first term as President of Brazil, allegations of unethical or illegal conduct were made with respect to certain figures in his government, including legislators and party officials. Some of these allegations are still under investigation by Brazilian authorities, and 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 Federal 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 shares, the ADSs and the common share 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, ADSs and Common Share ADSs

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

In accordance with the Brazilian Corporate Law and our by-laws, holders of the preferred shares, and, by extension, holders of the ADSs representing preferred shares, 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 and common share ADSs may not be able to vote by instructing the depositary.

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

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 shares, ADSs or common share ADSs.

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 or common 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 and common share ADSs between non-residents of Brazil. However, in the event that the disposition of assets is interpreted to include a disposition of our ADSs and common share ADSs, this tax law would accordingly result in the imposition of withholding taxes on the disposition of our ADSs and common share ADSs by a non-resident of Brazil to another non-resident of Brazil.

Exchanging ADSs or common share ADSs for underlying shares may have unfavorable consequences.

The Brazilian custodian for the preferred shares and common 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 or common share ADSs for the underlying 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 shares, or distributions relating to the 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 or common 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 Mobilíarios* (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 or common shares abroad or the return of your capital in a timely manner. If you decide to exchange your preferred shares or common shares back into ADSs or common share ADSs, respectively, once you have registered your investment in the preferred shares or common shares, you may deposit your preferred shares or common 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.

Investing in Latin American securities, such as the preferred shares, common shares, ADSs or common share 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 shares underlying your ADSs or common share 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$722 billion as of December 31, 2006 and an average daily trading volume of approximately US$948 million for 2006. In comparison, the New York Stock Exchange, Inc., or the NYSE, had a market capitalization of US$25.0 trillion as of December 31, 2006 and an average daily trading volume of approximately US$65 billion for 2006.

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 51.2% of the aggregate market capitalization of the São Paulo Stock Exchange as of December 31, 2006. The top ten stocks in terms of trading volume accounted for approximately 46.1% of all shares traded on the São Paulo Stock Exchange in 2006. See Item 9. The Offer and Listing Trading Market.

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

Under the Brazilian Corporate Law and our by-laws, we must pay our shareholders a mandatory distribution equal to at least 50% of our 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 common share ADS and holders of our shares have less well-defined shareholders rights than holders of shares in U.S. companies.

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 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, common shares, ADSs and common share ADSs.

Shares eligible for future sale may adversely affect the market price of our shares and the ADSs and common share ADS.

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

You may not be able to exercise preemptive rights with respect to our securities.

You may not be able to exercise the preemptive rights relating to the shares underlying your ADSs or common share 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

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) 3506-3711.

In order to comply with legal and regulatory provisions pursuant to which we were required to unbundle our vertically integrated businesses, in 2004 we 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 electricity 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 power generation and transmission operations and electricity 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 May 31, 2007.

COMPANIES AND CONSORTIA OF THE CEMIG GROUP

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.

On December 31, 2006, we generated electricity at 51 hydroelectric plants, four thermoelectric plants and one wind farm, and had a total installed capacity of 6,523 MW. At the same date, we owned and operated 3,040 miles of transmission lines and 255,095 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 subject 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.

Investment in Light

Through Rio Minas Energia Participações S.A. (RME), we also hold an indirect interest in Light S.A. (Light). RME is a company formed by us together with Andrade Gutierrez Concessões S.A., Luce Brasil Fundo de Investimento em Participações 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, which represented 79.39% of the total registered capital of Light at the time of the purchase.

Completion of the transaction was subject to approval by ANEEL, issuance of a Ministerial Decree in France after a Statement of Opinion by the Commission des Participants et des Transferts of France (CPT), and also agreement of third parties, under contracts signed by Light or by Light Serviços de Electricidade S.A. (Light SESA), including BNDES Participações S.A. - BNDESPar. On August 10, 2006 the transfer to RME of the shares in Light and in Lidil Comercial owned by EDFI was completed. The restructuring and change in the controlling block was duly authorized by ANEEL, through Authorizing Resolution 641/06.

On May 16, 2007, the Brazilian Development Bank (BNDES), which held convertible debentures issued by Light, exercised its option and converted 90% of the convertible debentures into shares. As a result of this conversion, representing approximately R$713 million, BNDES became the holder of 31.44% of the total capital of Light. The conversion by BNDES of its convertible debentures of Light into shares of Light diluted the percentage holdings of the other stockholders of Light. RME, which controls Light, had its percentage holding reduced from 79.39% to 54.17%. BNDES became the second largest stockholder, outside the control block, now holding a larger percentage than the previous controlling stockholder, EDFI, which had its interest reduced from 9.98% to 6.82%.

In March 2006, CEMIG entered into an agreement with its partners in one of CEMIG s unconsolidated equity investments, which gives CEMIG an option to purchase its partners interests in the power generation assets of the underlying equity investee. The option price amounted to R$1,124 million as of December 31, 2006. The option price is restated based on the IGP-M variation plus interest of 13.44% per year.

Pursuant to the agreement, the option expires in two years on March 23, 2008 and, under certain restricted conditions, may be extended for an additional two-year period. The exercise of the option is contingent upon the completion of a corporate restructuring by the equity investee to spin-off its power generation assets.

The Company s management believes that the possibility that CEMIG will exercise this option is remote considering that its terms are currently economically unfeasible.

The Business

Light has a history of more than 100 years in Brazil. It was created on May 31, 1905, to provide gas transmission and supply services in the city of Rio de Janeiro. In the same year it acquired the city s gas lighting concession holder.

The company has head office and is incorporated in the city of Rio de Janeiro, in the State of Rio de Janeiro, at Avenida Marechal Floriano 168, 2nd Floor, Corridor A, Centro, and its corporate purpose is to provide electricity generation, transmission and distribution services, and other related services, directly or indirectly though other companies.

Ownership Structure

The following chart shows Light s corporate structure as of May 31, 2007:

Light Group Activities

The main activities of Light Group are as follows :

Generation. Light Energia S.A. (Light Energia) is involved in the generation of electricity. Light Energia uses the hydroelectric energy of the Paraíba do Sul and Ribeirão das Lajes rivers for its generation plants located in the States of Rio de Janeiro and São Paulo. The maximum total capacity of the generating system of Light Energia is 852 MW. This installed system is made up of five generating plants, two elevation plants and other hydraulic structures such as reservoirs, dams, canals, dykes, spillways, tunnels, rotor channels and dam gates.

Distribution. Light SESA is involved in the distribution of electricity. Light SESA serves a total area of 10,970 km2 of the State of Rio de Janeiro, supplying approximately 10 million people. The company distributes energy to 3.8 million clients, operating in a concession area that covers 31 municipalities of the State of Rio de Janeiro.

In 2006 the company invoiced a total of 18,260 GWh. The breakdown of these sales by consumer group was approximately 39% from the residential segment, 31% from the commercial segment, 13% from the industrial segment and 17% from other consumers.

Energy trading. Light Esco Ltda., a wholly owned subsidiary of Light, is an energy trading company which operates in the free market (ACL) and also deals with alternative energy sources and is an ESCO (Energy Services Company), a provider of energy and infrastructure services, focused on energy solutions for its clients.

Operational Data

The following table shows Light s principal operational data as of December 31, 2006 and 2005.

		December 31, 2006		**December 31, 2005**	
Concession area (km²)		10,970		10,970	
Municipalities served		31		31	

Consumer units billed	3,801,692	3,775,342
Sourced energy (GWh)	25,264	25,559
Energy billed and internal consumption (GWh)	18,260	19,139
Installed generation capacity (MW)(1)	852	852
Assured energy (average MW)	637	637
Number of substations	96	96
DEC Consumer Outage Time per 12 months	7.4	8.8
FEC Consumer Outage Frequency per 12 months	5.5	7.7

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(1) Including elevation stations, the capacity is 973.6MW.

The Market

Electricity invoiced by Light SESA in 2006 totaled 18,260 GWh, compared to 19,139 GWh in 2005, a reduction in sales volume of 4.6%, mainly due to migration of captive consumers to the free contracting environment.

Number of Light consumers by category	December 31, 2006	December 31, 2005
Residential	3,495,597	3,465,954
Industrial	13,380	14,513
Commercial, services and others	271,568	273,928
Rural	10,641	10,559
Public authorities	8,844	8,750
Public illumination	148	148
Public service	1,187	1,155
Own consumption	328	333
Total	3,801,692	3,775,342

The highest percentage of Light s energy sales are to residential consumers. The total number of clients billed by Light in 2006 was 3,801,692 consumer units, 0.7% more than in 2005, with 26,350 new clients linked to Light s distribution network in 2006.

Energy sourced by Light in 2006 totaled 25,940 GWh, of which 8,288 GWh came from energy purchases from Itaipu; 11,907 GWh from auctions; 6,351.0 GWh from Norte Fluminense Thermoeletric Power Plant, 224.2 GWh from the *Program to Encourage Alternative Energy Sources PROINFA*, and 333 GWh from Tractebel Energia S.A. Through an auction held on December 7, 2004, quantities of 380 average MW and 130 average MW were contracted, under 8-year contracts, with supply beginning in January of the years 2005 and 2006, respectively. These amounts make up 95% of the limit of energy to be sold by Light (assured energy).

Performance Indicators

At the end of 2006 the indicators that measure quality of supply by Light SESA (DEC Consumer Outage Duration in hours per year, and FEC, Number of Outages Per Year) were 7.4 and 5.5 for Light respectively, compared to 8.8 and 7.7 in 2005.

Losses and Default

Light s energy losses in 2006 totaled 6,251 GWh, representing 25.5% of Light s total load, in comparison with a loss of 5,899 GWh in 2005, or 23.6% of Light s load.

The change in the total percentage of losses from 2005 reflects the effect of a lower average number of days billing in 2006, compared with 2005 (two days less high voltage billing and three days less low voltage billing), the impact on load and energy invoiced of the migration of 10 clients from the captive market to the free market, and the reduction, as from September, of the volume of electricity recovery actions due to the implementation and stabilization of the new commercial management system (CCS-SAP).

Light has been making efforts to reduce default, especially through negotiations with the public authorities, Light s main debtors. In the fourth quarter of 2006 Light negotiated the amount of R$77.8 million with six municipalities. Also in 2006, a total of R$134.8 million was negotiated with the water utility Cedae. An ICMS tax credit in the amount of R$43.3 million was deducted from this amount, to be credited in 40 installments, the remaining R$91.5 million to be paid in 46 installments using a mechanism of compulsory guaranteed transfer of amounts from Cedae s current account.

Capital Expenditure

Light invested a total of R$322 million in 2006 in the acquisition of fixed assets and improvements to and expansion of the distribution system, expansion of the fleet, combat of losses and waste of electricity and the improvement of the billing system,

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contributing toward more efficient service and better quality for its clients. This amount represented a 16.7% increase from the same period of the previous year, when capital expenditure were R$276 million.

Concession Agreement

On June 4, 1996 Light signed Concession Agreement 001/96 with the Federal Government, regulating commercial operation by Light of public electricity generation, distribution and transmission services in the State of Rio de Janeiro, under the terms of a decree issued on May 28, 1996.

The electricity distribution concession area under Light s Concession Agreement 001/96 is the metropolitan region of the city of Rio de Janeiro. The contract expires 30 years from the date of its signature, on June 4, 2026. This contract can be renewed upon application by Light, which must be presented 36 months or more before the termination of the period of the contract, accompanied by proofs of regularity and compliance with tax and Social Security obligations and the liabilities and charges undertaken with the Federal Government.

Acquisition of Transmission Concession Holders

On May 4, 2006, CEMIG, in partnership with MDU Brasil Ltda. and Brascan Brasil Ltda., entered into share purchase and sale contracts with Schahin Holding S.A. (Schahin) for the acquisition of 100% of Schahin s (i) 50% ownership of the voting share capital of electricity transmission concession holders Empresa Amazonense de Transmissão de Energia S.A., Empresa Paraense de Transmissão de Energia S.A., Empresa Norte de Transmissão de Energia S.A. and Empresa Regional de Transmissão de Energia S.A. and (ii) 40% ownership of the voting capital of electricity transmission concession holder ECTE Empresa Catarinense de Transmissão de Energia S.A. The total purchase price for the transaction will be R$656 million. Approval was obtained from ANEEL and BNDES, and this transaction closed on August 16, 2006.

In these companies concession contracts, revenues to be earned in the final 15 years are 50.0% lower than those in the first 15 years of the concession. We recognize revenue on these contracts on a straight-line basis, in accordance with the nature of the services provided.

Description of the transmission concession holders

Empresa Amazonense de Transmissão de Energia S.A. EATE

Empresa Amazonense de Transmissão de Energia S.A. (EATE) was incorporated in March 2001 and began operations in February 2003, with the specific purpose of commercial operation of electricity transmission lines. By a concession contract dated July 12, 2001, granted by the Federal Government through ANEEL, EATE acquired the right to commercial operation of public electricity transmission service for a period of 30 years, renewable for the same period. This concession consists of a 500kV transmission line connecting the substations of Tucuruí, Marabá, Açaílândia, Imperatriz and Presidente Dutra, in the states of Pará and Maranhão, totaling 577 miles. The provision of services of operation and maintenance of the transmission lines is carried out by Eletronorte.

The ownership structure of the voting capital of EATE is as follows:

Empresa Catarinense de Transmissão de Energia S.A. ECTE

Empresa Catarinense de Transmissão de Energia S.A. (ECTE) was incorporated in August 2000 and began operating in March 2002, with the specific purpose of commercial operation of electricity transmission lines. By a concession contract dated November 1, 2000, granted by the Federal Government through ANEEL, ECTE acquired the right to commercial operation of public electricity transmission service for a period of 30 years, renewable for the same period. This concession consists of a 500kV

transmission line connecting the substations of Campos Novos and Blumenau, in the State of Santa Catarina, totaling 157 miles. The provision of services of operation and maintenance of the transmission lines is carried out by Celesc.

The ownership structure of ECTE is as follows:

Empresa Norte de Transmissão de Energia S.A - ENTE

Empresa Norte de Transmissão de Energia S.A. (ENTE) was incorporated in September 2002 and began operating in February 2005, with the specific purpose of commercial operation of electricity transmission lines. By a concession contract dated December 11, 2002, granted by the Federal Government through ANEEL, ENTE acquired the right to commercial operation of public electricity transmission service for a period of 30 years, renewable for the same period. This concession consists of a 500kV transmission line linking the substations of Tucuruí, Marabá and Açailândia, in the State of Pará, totaling 285 miles. The provision of services of operation and maintenance of the transmission lines will be executed by Eletronorte.

The ownership structure of ENTE is as follows:

Empresa Regional de Transmissão de Energia S.A - ERTE

Empresa Regional de Transmissão de Energia S.A. (ERTE) was incorporated in September 2002 and began operating in September 2004, with the specific purpose of operating electricity transmission lines. By a concession contract dated December 11, 2002, granted by the Federal Government through ANEEL, ERTE acquired the right to commercial operation of public electricity transmission service for a period of 30 years, renewable for the same period. This concession consists of a 230kV transmission line linking the substations of Vila do Conde and Santa Maria, in the State of Pará, passing through the future substation to be built in Castanhal, totaling 96 miles. The provision of services of operation and maintenance of the transmission lines is carried out by Eletronorte.

The ownership structure of ENTE is as follows:

The ownership structure of ERTE is as follows:

Empresa Paraense de Transmissão de Energia S.A - ETEP

Empresa Paraense de Transmissão de Energia S.A. (ETEP) was incorporated in March 2001 and began operating in August 2002, with the specific purpose of operating electricity transmission lines. By a concession contract dated July 12, 2001, granted by the Federal Government through ANEEL, ETEP acquired the right of commercial operation of public electricity transmission service for a period of 30 years, renewable for the same period. This concession consists of a 500kV transmission line linking the substations of Tucuruí and Vila do Conde, in the State of Pará, totalling 201 miles. The provision of services of operation and maintenance of the transmission lines is carried out by Eletronorte.

The ownership structure of the voting capital of ETEP is as follows:

Brazil s Energy Market

General

Traditionally, in the Brazilian electricity sector, generation, transmission and distribution activities were 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, ruled by Fernando Henrique Cardoso (1995-2002), 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.

The ***New Industry Model***

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 requirements of the sector will be evaluated 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 the accounting and settlement of the short term energy. The CCEE is also responsible, through delegation by ANEEL, for organizing and conducting the public power auctions in the ACR in which all distributors buy energy, referred to as 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

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 (Indice Geral de Preços do Mercado), or IGP-M index.

As part of our annual rate adjustment for 2007, ANEEL, through Resolution No. 446 dated as of April 3, 2007, established an average rate adjustment of 9.43%. This adjustment includes a component of 1.47% to recoup revenue we did not achieve in 2004 due to the lower rates under re-issued Resolution No. 83. On April 6, 2006, through Resolution No. 310, ANEEL established an average rate increase of 16.19%. This adjustment included a component of 1.45% representing an increase to recoup revenue we did not achieve in 2004 as stated above. Our next annual rate adjustment will take place in April 2008.

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 rate 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 the 2007 increase was 9.43%, but the actual increase after adjusting for the CVA was 5.16%.

Concessionaires of electricity distribution are also entitled to periodic revisions *(revisão periódica)* . Our concession agreements establish a five-year period between periodic revisions. 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, April 8, 2006 and April 3, 2007 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. However, during the process of the last annual adjustment, ANEEL postponed to the next year the recovery of the portion we were entitled to receive in 2007. The next periodic rate revision will take place in April 2008.

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

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

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.

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

Capital expenditures for the years ended December 31, 2006, 2005 and 2004, in millions of *reais*, are as follows:

	Year ended December 31,		
	2006	2005	2004
Acquisition of interest in Light through RME	174		
Acquisition of interests in transmission companies	349		
Other acquisitions	45	32	10
Total capital expenditures under affiliates	568	32	10
Generation power projects under Property, plant and equipment	264	575	679
Transmission network expansion	55	48	59
Distribution network expansion	983	868	245
Others	26	20	78
Total capital expenditures under property, plant and equipment	1,328	1,511	1,061
Total Capital expenditures	1,896	1,543	1,071

We currently project total capital expenditures of approximately R$1,148 million in 2007. The principal uses of these expenditures are expected to be for expansion of our distribution infrastructure and increases in our generation capacity.

Business Overview

General

We are required, like other Brazilian electric utilities, to purchase electricity from Itaipu in an amount determined by the Federal Government based on our electricity sales. See Generation and Purchase of Electric Power Purchase of Electric Power Itaipu. In addition, we purchase energy from other concessionaires and the interconnected power system. See Generation and Purchase of Electric Power Purchase of Electric Power Interconnected Power System. We also purchase energy generated by self power producers, or SPPs, and independent power producers, or IPPs, that are located within our concession area.

The following table sets forth certain information, in GWh, pertaining to the electricity that we generated, purchased from other sources and delivered during the periods specified:

CEMIG S ELECTRIC ENERGY BALANCE

(GWh)	Year ended December 31, 2006	2005	2004
RESOURCES(1)	63,964	52,748	45,117
Electricity generated by CEMIG(2)	32,187	30,411	26,922
Electricity generated by auto-producers	1,147	1,098	1,581
Electricity generated by Ipatinga	300	299	237
Electricity generated by Barreiro	51	18	72
Electricity generated by Sá Carvalho(3)	395	467	468
Electricity generated by Horizontes(3)(4)	41	76	105
Electricity generated by Cemig PCH(4)	7	16	
Electricity generated by Rosal	326	417	
Electricity generated by Capim Branco	243		
Electricity bought from Itaipu	12,109	12,144	11,936
Electricity bought from CCEE and other companies(5) (6)	17,158	7,802	3,796
REQUIREMENTS	63,964	52,748	45,117
Electricity delivered to final consumers(7)	37,707	38,068	36,669
Electricity delivered to auto-producers	1,013	974	1,472
Electricity delivered by Ipatinga	300	299	237
Electricity delivered by Barreiro	97	76	72
Electricity delivered by Sá Carvalho(3)	472	472	474
Electricity delivered by Horizontes(3)	95	84	80
Electricity delivered by Pai Joaquim	105	61	
Electricity delivered by Rosal	262	263	
Electricity delivered to the national grid and other companies(8)			9,720
Electricity delivered to the CCEE and other companies(5) (6)	18,476	8,355	1,798
Losses	5,437	4,096	4,315

(1) In 2004 there was a change in the method of calculating and recording transactions in the wholesale market and with other companies, as stated in Notes 6 and 7 below. This change is responsible for the variation in the figures for sources and demand from 2003 to 2004.

(2) Discounting the losses attributed to generation (662 GWh) and the internal consumption of the generating plants.

(3) Up to 2003, these portions referred to the total amounts of energy available and demand. Beginning in 2004, the short-term transactions on the CCEE and with other companies are included in the items Electricity bought from the CCEE and other companies and Electricity delivered to the CCEE and other companies .

(4) For 2004, the generation by the Pai Joaquim small hydro plant was included together with Horizontes.

(5) Beginning in 2004, this amount refers to contracts, purchases and sales of electricity under the CCEE, including the Energy Reallocation Mechanism (*Mecanismo de Realocação de Energia*).

(6) Includes bilateral contracts with other agents of the CCEE.

(7) Includes electricity delivered to consumers outside the concession area.

(8) In previous years, this portion represented contracts and the physical interchanges between CEMIG s network and the national grid, and also optimization supply.

Generation

According to ANEEL, at December 31, 2006, we were the fifth largest electric power generation concessionaire in Brazil as measured by total installed capacity. At December 31, 2006, we generated electricity at 51 hydroelectric plants, four thermoelectric plants and one wind farm and had a total installed generation capacity of 6,523 MW, of which hydroelectric plants accounted for 6,338 MW, thermoelectric plants accounted for 184.3 MW and our wind farm accounted for 1 MW. Eight of our hydroelectric plants accounted for approximately 82.5% of our installed electric generation capacity in 2006. We supplied approximately 96.1% of the electricity consumed in Minas Gerais during 2006.

Transmission

We are engaged in the electric power transmission business, which consists of transporting electric power from the facilities where it is generated to the distribution networks for delivery to end users. We transport energy produced at our own generation

facilities as well as energy that we purchase from Itaipu, the interconnected power system and other concessionaires. Our transmission network is comprised of power transmission lines with a voltage capacity equal to or greater than 230 kV and is part of the national transmission grid regulated by the ONS. See The Brazilian Power Industry in Annex A. As of December 31, 2006, our transmission network in Minas Gerais consisted of 1,352 miles of 500 kV lines, 1,202 miles of 345 kV lines and 467 miles of 230 kV lines, as well as 33 substations with a total of 92 transformers and an aggregate transformation capacity of 15,393 MVA.

Distribution

We have a distribution concession in Minas Gerais that grants us rights to supply electric energy to consumers within our concession area except for consumers that may be eligible, in accordance with the legislation, to become Free Consumers (currently consumers with demand equal to or greater than 3 MW). Our concession area covers approximately 219,103 square miles, or 96.7% of the territory of the state. As of December 31, 2006, we owned and operated 255,095 miles of distribution lines, through which we supplied electricity to approximately 6.2 million consumers. At December 31, 2006, we were the largest electricity distribution concessionaire in Brazil in terms of GWh transported. Of the total amount of electricity we supplied to final consumers as of December 31, 2006, 61.1% was to industrial consumers, 17.1% was to residential consumers, 9.9% was to commercial consumers and 11.9% was to rural and other consumers.

Other Businesses

While our main business consists of the generation, transmission and distribution of electric power, we also engage in the following businesses: (i) distributing natural gas in Minas Gerais through our equity investee Gasmig; (ii) telecommunications through our consolidated subsidiary Empresa de Infovias S.A., a company created for the purpose of providing a fiber-optics and coaxial cable network installed along our transmission and distribution lines through which telecommunication services can be provided; and (iii) national and international consulting business through our subsidiary Efficientia S.A.

Revenue Sources

The following table shows the revenues attributable to each of our principal revenue sources, for the periods indicated:

	Year ended December 31,		
	2006	2005	2004
Electricity sales to final consumers	9,319	8,708	8,541
Regulatory extraordinary rate adjustment	1	8	89
Deferred rate adjustment		110	640
Electricity sales to the interconnected power system	884	237	36
Use of basic transmission and distribution networks	1,780	1,523	245
Natural gas sales			420
Services rendered	31	26	21
Telecommunication and other	168	142	95
Total	12,183	10,754	10,087

Generation

Generation

The following table sets forth certain operating information concerning our electric power generation plants as of December 31, 2006:

Facility	Installed Capacity (MW)	Assured Energy(1) (average MW)	Year Commenced Operations	Installed Capacity % of Total	Date Concession Expires
Major Hydroelectric Plants					
São Simão	1,710	1,281.00	1978	26.0	January 2015
Emborcação	1,192	497.00	1982	18.3	July 2025
Nova Ponte	510	276.00	1994	7.8	July 2025
Jaguara	424	336.00	1971	6.5	August 2013
Miranda	408	202.00	1998	6.3	December 2016
Três Marias	396	239.00	1962	6.1	July 2015
Volta Grande	380	229.00	1974	5.8	February 2017
Irapé	360	206.30	2006	5.5	February 2035
Aimorés	161.7 (7)	84.28 (7)	2005	2.6	December 2035
Salto Grande	102	75.00	1956	1.6	July 2015
Funil	88 (5)	43.61 (5)	2002	1.4	December 2035
Queimado	86.6 (6)	47.85 (6)	2004	1.3	January 2033
Sá Carvalho	78	58.00	2000	(2) 1.2	December 2024
Rosal	55	30.00	2004	(2) 0.8	May 2032
Itutinga	52	28.00	1955	0.8	July 2015
Capim Branco I	50.5 (8)	32.63 (8)	2006	0.8	August/2036
Camargos	46	21.00	1960	0.7	July 2015
Porto Estrela	37 (3)	18.60 (3)	2001	0.6	July 2032
Igarapava	30.4	25.21 (4)	1999	0.4	December 2028
Pai Joaquim (11)	23	13.91	2004	0.4	April 2032
Piau	18	8.00	1955	(2) 0.3	July 2015
Gafanhoto	14	6.68	1946	0.2	July 2015
Smaller Hydroelectric Plants	116	68.42		1.8	
Thermoelectric Plants					
Igarapé	131	103.00 (9)	1978	2.0	August 2024
Ipatinga	40		2000	(2) 0.6	December 2014
Barreiro	12.90	11.45	2004	0.2	April 2023
Formoso	0.4	0.22	1992	0.0	Indefinite
Wind Farm	1	0.30	1994	0.0	Indefinite
Total	6,523.5 (10)	3,942,5 (10)		100.0 %	

(1) Assured Energy is the plant s long-term average output, as established by EPE in accordance with studies conducted by the ANEEL and ONS. Calculation of Assured Energy considers such factors as reservoir capacity and connection to other power plants. Contracts with final consumers and other concessionaires do not provide for amounts in excess of a plant s Assured Energy.

(2) Indicates our acquisition date.

(3) Represents our interest in the Porto Estrela plant (33.3%).

(4) Represents our interest in the Igarapava plant (14.5%). The amount of 5.49 average MW of assured energy, representing the agreement with a consortium formed by Cemig Generation and Transmission and Companhia Vale do Rio Doce, Companhia Siderúrigica Nacional, Votorantim Metais e Zinco S.A and Anglogold Ashanti Brasil Ltda., is included.

(5) Represents our interest in the Funil plant (49.0%).

(6) Represents our interest in the Queimado plant (82.50%).

(7) Represents our interest in the Aimorés Plant (49%).

(8) Represents our interest in the Capim Branco I plant (21.05%)

(9) Represents the available energy established by the EPE.

(10) This amount does not include the Light acquisition.

(11) On December 19, 2005, ANEEL approved the transfer of the authorization to produce and sell the energy of the Pai Joaquim small power plant from Central Hidrelétrica Pai Joaquim S.A to CEMIG PCH S.A.

The following tables set forth certain additional operating information pertaining to our electricity generation operations as of the dates indicated:

	Circuit Length of Generation Lines in Miles (from power plants to generation substations) As of December 31,					
Voltage of Connection Lines	**2006**		**2005**		**2004**	
500 kV	4		4		4	
345 to 230 kV	10	(1)	8		7	
161 to 138 kV	69	(2)	43		42	
69 to 13.8 kV	102		102		102	(3)
Total	185	(4)	157		155	

	Step-Down Transformation Capacity(5) of Generation Substations As of December 31,					
	2006		**2005**		**2004**	
Number of step-down substations	56	(4)	54	(3)	52	(3)
MVA	7,078	(4)	6,604		6,433	

(1) We increased the circuit length of our 345 kV connection line in 2006, because the Irapé Facility began operations.

(2) We increased the circuit length of our 138 kV connection lines in 2006, because the Capim Branco I Facility began operations.

(3) We increased the circuit length of our 69 kV connection lines in 2004, because we bought the Rosal Facility and the Queimado Facility began operations.

(4) This amount does not include the Light acquisition.

(5) Step-down transformation capacity refers to the ability of a transformer to receive energy at a certain voltage and release it at a reduced voltage for further distribution.

Generation Assets

We have formed in Minas Gerais and other states of Brazil, the following subsidiaries to operate certain of our generation facilities and to hold the related concessions:

Usina Térmica Ipatinga S.A. We operate the Ipatinga thermoelectric plant through our subsidiary Usina Térmica Ipatinga S.A. This plant is an SPP installed and operated within the premises of Usinas Siderúrgicas de Minas Gerais S.A. USIMINAS, or Usiminas, a large Brazilian steel manufacturer. The plant supplies power to a large steel mill owned by Usiminas located in eastern Minas Gerais. We acquired the Ipatinga plant in 2000 for R$90 million from Usiminas as payment for outstanding power supply debts. We have signed a power purchase agreement with Usiminas for power produced at Ipatinga. The plant currently has an installed capacity of 40 MW, generated by two units that began operating in 1984 and that use blast furnace gas as fuel.

Sá Carvalho S.A. We operate the Sá Carvalho hydroelectric power plant, located on the Piracicaba River in the municipality of Antônio Dias in the State of Minas Gerais, through our subsidiary Sá Carvalho S.A., which we acquired in 2000 for R$87 million from Acesita S.A., or Acesita, a steel company. This acquisition was funded by an issuance of debentures by a special trust, UHESC S.A., which we are obligated to repay. On June 5, 2003, we renegotiated the interest rate applicable to 46.67% of the aggregate principal amount of these debentures for the following two year period and the remaining 53.33% was redeemed for R$64 million.

Rosal Energia S.A. In November 2004 we bought the *Rosal* hydroelectric plant, which has installed capacity of 55 MW, from Caiuá Serviços de Eletricidade S.A., or Caiuá, for a payment of R$134 million. The Rosal plant, the sole asset of Rosal Energia S.A., is located on the Itabapoana River, which runs along the border between the states of Espírito Santo (Municipality of Guaçuí) and Rio de Janeiro (Municipality of Bom Jesus de Itabapoana). It operates in integrated connection with the *Alegre* and *Mimoso do Sul* electricity systems, which are owned by the electricity utility of the State of Espírito Santo, Escelsa (Espírito Santo Centrais Elétricas S.A.). The plant s first and second rotors started operating in December 1999 and January 2000, respectively. It has a concession contract for 35 years, maturing in 2032. ANEEL approved the transfer of control on December 20, 2004.

Cemig Capim Branco Energia S.A. We incorporated Cemig Capim Branco Energia S.A. to develop the Capim Branco Power Facility in partnership with Companhia Vale do Rio Doce CVRD, or CVRD, a mining company, Comercial e Agrícola Paineiras, an agricultural company, and Companhia Mineira de Metais, or CMM a metallurgic company. On April 11, 2006, ANEEL published its Resolution 314, allowing for the transfer of the electricity generation concession of CMM to Votorantim Metais Zinco S.A. VMZ.

The project consists of the Capim Branco I and Capim Branco II hydroelectric power plants, with installed capacity of 240 MW and 210 MW, respectively. See Capim Branco Power Facility , under Expansion of Generation Capacity below. We have entered into a purchase contract with Cemig Capim Branco Energia S.A. under which Cemig Distribution will purchase the energy produced by Capim Branco I and Capim Branco II for 20 years from the start date of each plant s commercial operations, which in the case of Capim Branco I was February 21, 2006, and in the case of Capim Branco II was March 9, 2007. This contract was submitted to ANEEL in 2003 and was approved in December 2004. See Item 8. Financial Information Legal Proceedings Legal Proceedings Related to Environmental Matters.

Horizontes Energia S.A. We formed Horizontes Energia S.A., or Horizontes Energia, to generate and trade electricity as an IPP through the commercial operation of the following of our smaller hydroelectric plants: the Machado Mineiro Power Plant (located on the Pardo River in the municipality of Ninheira in the State of Minas Gerais with an installed capacity of 1.72 MW); the Salto do Paraopeba Power Plant (located on the Paraopeba River in the town of Jeceaba in the State of Minas Gerais with an installed capacity of 2.37 MW); the Salto Voltão Power Plant (located on the Chapecozinho River in the town of Xanxerê in the State of Santa Catarina with an installed capacity of 8.2 MW); and the Salto do Passo Velho Power Plant (located on the Chapecozinho River in the town of Xanxerê in the State of Santa Catarina with an installed capacity of 1.8 MW), as well as other generating projects to be acquired or built with our participation. The concession relating to the Machado Mineiro Power Plant expires on July 7, 2025 and the concessions relating to the other plants expire on October 4, 2030. All the electricity generated by Horizontes Energia S.A. is allocated for sale in the ACL, and part of this electricity has been sold up to the year 2010.

Usina Termelétrica Barreiro S.A. We formed Usina Termelétrica Barreiro S.A. to participate, in partnership with Vallourec & Mannesmann V&M do Brasil S.A., or Vallourec & Mannesmann, a metallurgic company, in the construction and operation of the 12.9 MW Barreiro thermoelectric power plant, located on Vallourec & Mannesmann s premises in the Barreiro section of the city of Belo Horizonte in Minas Gerais.Construction started in July 2002 and commercial generation began in February 2004. As of December 31, 2006, we had invested R$5.9 million in this project. Usina Termelétrica Barreiro S.A. holds the assets of the Barreiro thermoelectric power plant and trades its production of energy.

CEMIG PCH S.A. We formed CEMIG PCH S.A. to generate and trade electric energy as an IPP. Its main activity is the production and sale of electricity energy through the Pai Joaquim small hydroeletric power plant, as an IPP. This plant, located on Araguari River, has an installed capacity of 23 MW and begin its commercial operation on March 31, 2004. CEMIG PCH S.A. holds the assets of the Pai Joaquim small hydroeletric power plant, which amounted to R$54.4 million as of December 31, 2006, and trades the energy produced by this plant.

Cemig Generation and Transmission also operates the following power plants:

Queimado Hydroelectric Power Plant. Our partner in this project is Companhia Energética de Brasília, or CEB, a state-controlled electricity company. CEB has a 17.5% interest and we have the remaining 82.5%. The plant, with an installed capacity of 105 MW, is located on the Preto River, and encompasses areas in the states of Minas Gerais and Goiás and in Brazil s Federal District. The power plant began its commercial generation on April 9, 2004, with the operation of its first unit. The commercial operation of the second and third units began on June 16, 2004, and July 8, 2004, respectively. As of December 31, 2006, we had invested R$122.9 million in the project. The concession relating to this plant expires on January 02, 2033.

Aimorés Hydroelectric Power Plant. The Aimorés hydroelectric power plant located on the Doce River will have an installed capacity of 330 MW. We have a 49% interest in this enterprise and our partner, CVRD, has a 51% interest. Partial commercial generation began on July 30, 2005, and the plant began operating at full capacity in November 2005, when we obtained the operational license from the Brazilian Institute of the Environment and Natural Renewable Resources, or IBAMA. As of December 31, 2006, we had invested R$395.7 million in this project. We are a defendant in a class action lawsuit concerning the Aimorés hydroelectric power plant. See Item 8. Financial Information Legal Proceedings Legal Proceedings Related to Environmental Matters.

Irapé Hydroelectric Power Plant. The Irapé hydroelectric power plant, which has installed capacity of 360 MW, is located on the Jequitinhonha River, in northern Minas Gerais. Construction began in April 2002 and its three units began to generate electricity commercially on July 20, 2006, August 5 and October 3, 2006, respectively. At December 31, 2006, we had invested R$1,072.4 million in this project, including R$90 million from debentures that were acquired by the State Government, using dividends that would otherwise have been payable to the State Government under an agreement between the State Government and our company. The concession relating to this plant expires on February 28, 2035. For information regarding a legal proceeding we have been involved with related to the Irapé hydroelectric power plant, see Item 8. Financial Information Legal Proceedings Legal Proceedings Related to Environmental Matters.

Capim Branco Power Facility. This project consists of the Capim Branco I and Capim Branco II hydroelectric power plants, with installed capacity of 240 MW and 210 MW, respectively. These power plants are located on the Araguari River in western Minas

Gerais. Construction of Capim Branco I began in September 2003 and Capim Branco II in March 2004. The commercial generation at Capim Branco I began on February 21, 2006, and at Capim Branco II on March 9, 2007. As of December 31, 2006, we had invested R$46.5 million in this project. The concessions relating to these plants expire on August 29, 2036. We are a defendant in two lawsuits concerning the environmental licensing of the Capim Branco I and Capim Branco II hydroelectric power plants. See Item 8. Financial Information Legal Proceedings Legal Proceedings Related to Environmental Matters.

Expansion of Generation Capacity

We are involved in the construction of three hydroelectric plants, Baguari, Cachoeirão and Pipoca, that will increase the installed generation capacity of our hydroelectric facilities by 70.63 MW during the next three years. The following is a brief description of these projects, the completion of which are subject to various contingencies, certain of which are beyond our control.

Baguari Hydroelectric Power Plant. A consortium formed by Cemig Generation and Transmission, Furnas Centrais Elétricas S.A., or Furnas, an electricity concessionaire of generation and transmission controlled by the Federal Government, and Baguari I Geração de Energia Elétrica S.A, a special purpose company (SPC) that belongs to Neoenergia S.A., a private integrated electricity sector holding company, has the concession to build and operate the Baguari hydroelectric power plant and sell its energy. The power plant will have an installed capacity of 140 MW and will be located on the Doce River, in the State of Minas Gerais. Cemig Generation and Transmission has a 34% interest in this consortium. The energy generated will be commercialized in the ACR. On December 15, 2006 the State of Minas Gerais Environmental Policy Council (COPAM), issued the power plant installation license. Construction began on May 9, 2007. Commercial generation at Baguari is expected to begin in September 2009. The concession relating to this plant expires on August 15, 2041.

Pipoca Small Hydroelectric Power Plant. Cemig Generation and Transmission has also negotiated a stake in the construction and operation of the *Pipoca Small Hydroelectric Power Plant*, in partnership with HP2 do Brasil S.A., founded by Hydro Partners, a US investment company, to implement and operate the project. We will have a 49% interest in this SPC. The plant, with installed capacity of 20 MW, will be located on the Manhuaçu River, in the eastern part of the State of Minas Gerais. Construction is expected to begin in the second half of 2007, and commercial generation at the end of 2008. The concession relating to this plant expires on September 10, 2031.

Cachoeirão Small Hydroelectric Power Plant. Cemig Generation and Transmission has negotiated an ownership interest in the construction and operation of Cachoeirão Small Hydroelectric Power Plant. Our partner in this project is Santa Maria Energética S.A. (Santa Maria Energética), which formed with us SPC Hidrelétrica Cachoeirão S.A., to build and operate the Cachoeirão power plant. This plant, with an installed capacity of 27 MW, will be located on the Manhuaçu River, in the eastern part of Minas Gerais. Cemig Generation and Transmission has a 49% ownership interest in the SPC and Santa Maria Energética has a 51% ownership interest. Santa Maria Energética is a special purpose company owned by a group based in the state of Espírito Santo which engages in cattle raising, meat packing and energy distribution. Santa Maria Energética, which holds the authorization for commercial operation of the Cachoeirão small hydro power plant, applied to ANEEL at the end of January 2007 for permission to transfer this authorization to Hidrelétrica Cachoeirão S.A. Construction began in March 2007 and commercial generation is expected to begin in October 2008. The concession relating to this plant expires on July 27, 2030.

Co-generation Joint Ventures with Consumers

We intend to enter into joint ventures with industrial consumers to develop co-generation facilities. These facilities would be built on consumers premises and would generate electricity using fuel supplied by the consumers industrial processes. Each co-generation project would be funded in part through an agreement with the particular consumer to purchase the electricity generated in that consumer s facility. We would assume the responsibility for operating and maintaining the co-generation facility.

Wind Farm

Our wind farm, Morro do Camelinho, began operating in 1994. It is located in Gouveia, a municipality in northern Minas Gerais. This project is the first wind farm in Brazil to be connected to the national electricity transmission grid and it is connected to CEMIG s distribution system. It has a total generation capacity of 1 MW, powered by four turbines with a capacity of 250 kW each. Morro do Camelinho was built through a technical and scientific cooperation arrangement with the government of Germany. The cost of the project was US$1.5 million, with 51% of the cost provided by us and the remaining 49% provided by the government of Germany.

Transmission

Overview

Our transmission business consists of the bulk transfer of electricity from the power plants where it is generated to the distribution system, which carries the electricity to final consumers, and others consumer agents connected directly in the basic transmission grid. Our transmission system is comprised of transmission lines and step-down substations with voltages ranging from 230 kV to 500 kV.

In 1998, ANEEL created the ONS, a non-profit legal entity under private law, authorized to carry out the activities of coordination and control of the operation of generation and transmission of electricity in Brazil s national electricity grid in relation to Free Consumers, energy utilities engaged in power generation, transmission and distribution, and other private participants such as importers and exporters. The ONS s primary role is to coordinate and control the generation and transmission operations in the interconnected power system, subject to ANEEL s regulation and supervision. Until the enactment of Law No. 10,848, the ONS was a self-regulated entity and its management was not subject to interference from the Federal Government. Law No. 10,848 granted the Brazilian government the power to nominate the main directors of the ONS. One of the main objectives of the ONS is to guarantee that all parties in the industry have access to the transmission network in a non-discriminatory manner. Under ANEEL regulations, holders of concessions to operate facilities belonging to the national transmission grid, linking the electricity systems at voltages higher than 230 kV in Brazil, must transfer coordination of the operation of their transmission facilities to the ONS. We complied with this requirement by entering into a transmission service agreement on December 10, 1999. Pursuant to this agreement, the ONS may represent us in contracts with generation companies, distribution companies and Free Consumers for use of the basic transmission network. The users of the basic transmission network pay us a portion of the revenues we are permitted to receive (as determined by ANEEL) pursuant to our concession agreements. During the year ended December 31, 2006, we recorded revenue totaling R$417 million as a result of this arrangement. In turn, because we are also a distribution company and because we purchase electricity from Itaipu and others, our use of the basic transmission network requires us to pay scheduled rates to the ONS and owners of different parts of the basic transmission network. During the year ended December 31, 2006, we recorded expenses totaling R$687 million relating to payments made to the ONS and owners of different portions of the basic transmission network. See Item 5. Operating and Financial Review and Prospects and The Brazilian Power Industry in Annex A.

We transmit both the energy that we generate and the energy that we purchase from Itaipu, the interconnected power system and other sources. On December 31, 2006, we also had 12 industrial consumers whom we supplied directly with high voltage (equal to or greater than 230 kV per industrial consumer) energy through their connections to our transmission lines. Eight of these industrial consumers are our clients and accounted for approximately 17.7% of the total volume of electricity we sold in the year ended December 31, 2006. We also transmit energy to distribution systems through the South/Southeast linked system of the grid.

The following tables set forth certain operating information pertaining to our transmission capacity for the dates indicated:

	Circuit Length of Transmission Lines in Miles (from generation substations to distribution substations) As of December 31,		
Voltage of Transmission Lines	**2006**	**2005**	**2004**
500 kV	1,352	1,345	1,344
345 kV	1,202	1,228	1,206
230 kV	467	467	467
Total	3,021	3,040	3,017

	Step-Down Transformation Capacity(1) of Transmission Substations As of December 31,			
	2006	**2005**	**2004**	
Number of step-down substations	33	32	32	
MVA	15,393	15,393	15,393	(2)

(1) Step-down transformation capacity refers to the ability of a transformer to receive energy at a certain voltage and release it at a reduced voltage for further distribution.

(2) Increment due to Itajubá 3 and Vespasiano 2.

Expansion of Transmission Capacity

We believe that our transmission system will need to be reinforced and expanded through the construction of new substations and transmission lines within the next five years. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

In accordance with the new regulatory framework in the Brazilian electricity sector, concessions for the expansion of the electricity transmission infrastructure in Brazil are awarded by means of public biddings or are authorized by ANEEL. The following

is a brief description of our current transmission projects, the completion of which are subject to various contingencies, certain of which are beyond our control:

Montes Claros - Irapé. In September 2003, a consortium formed by Companhia Técnica de Engenharia Elétrica ALUSA, or ALUSA, Furnas, Orteng Equipamentos e Sistemas Ltda., or Orteng and CEMIG, won the concession auctioned by ANEEL to the Montes Claros Irapé transmission line. As required in the bidding process, the partners formed the Companhia Transleste de Transmissão, which is responsible for building and operating the transmission line. We have a 24.5% interest in this Company. This 345 kV transmission line connects a substation located in Montes Claros, a city in northern Minas Gerais, and the substation of the Irapé Hydroelectric Power Plant, with a length of approximately 86 miles. Construction of the project began in January 2005 and transmission line operations began on December 18, 2005. The concession expires on February 18, 2034. As of December 31, 2006, we had invested R$12.3 million in this project.

Furnas - Pimenta. In September 2004, a consortium formed by Furnas and CEMIG, with interests of 49%, and 51%, respectively, won the concession auctioned by ANEEL to the Furnas Pimenta transmission line. As required in the bidding process, the partners formed the Companhia de Transmissão Centroeste de Minas, which will be responsible for building and operating the transmission line. This 345 kV transmission line, with a length of approximately 47 miles, will connect the substation of the Furnas Hydroelectric Power Plant and a substation located in Pimenta, a city in the Center West region of Minas Gerais. We began the project in March 2005 and the transmission line operation is expected to begin in January 2009. As of December 31, 2006, we had invested R$6.7 million in this project.

Itutinga Juiz de Fora. In September 2004, a consortium formed by Alusa, Furnas, Orteng and CEMIG, with interests of 41%, 25%, 10%, and 24% respectively, won the concession auctioned by ANEEL to the Itutinga Juiz de Fora transmission line. As required in the bidding process, the partners formed the Companhia Transudeste de Transmissão, which will be responsible for building and operating this transmission line. This 345 kV transmission line, with a length of approximately 89 miles, will connect the substation of the Itutinga Hydroelectric Power Plant and a substation located in Juiz de Fora, a city in the southeastern Minas Gerais. We began the project in March 2005 and commercial operations began on February 23, 2007. As of December 31, 2006, we had invested R$7.3 million in this project .

Irapé - Araçuaí. In November 2004, a consortium formed by Alusa, Furnas, Orteng and CEMIG with interests of 41%, 24.5%, 10% and 24.5% respectively, won the concession auctioned by ANEEL to the Irapé Araçuaí transmission line. As required in the bidding process, the partners formed the Companhia Transirapé de Transmissão, which will be responsible for building and operating this transmission line. This 230 kV transmission line, with a length of approximately 38 miles, will connect the substation of the Irapé Hydroelectric Power Plant and a substation to be built in Araçuaí, a city located in the northeastern Minas Gerais. We began the project in March 2005 and commercial operations began on May 23, 2007. As of December 31, 2006, we had invested R$5.5 million in this project.

Charrúa Nueva Temuco. In April 2005 a consortium formed by Alusa and CEMIG, with interests of 51% and 49%, respectively, won the concession auctioned by Centro de Despacho Económico de Carga del Sistema Interconectado Central (CDEC SIC) of Chile to build, operate and maintain the Charrúa Nueva Temuco 220 kV transmission line for 20 years. This was an important event in CEMIG s history, as it was our first asset outside of Brazil. We and Alusa formed Transchile Charrúa Transmisión S.A., a special purpose company incorporated in Chile and responsible for building and operating the transmission line. With a length of approximately 116 miles, the transmission line will connect the substations of Charrúa and Nueva Temuco in central Chile. We began the project in June 2005 and construction began in April 2007. Commercial operations are expected to begin in July 2008. As of December 31, 2006, we had invested R$13.4 million in this project.

Distribution and Purchase of Electric Power

Overview

Our distribution operations consist of the transfer of electricity from distribution substations to final consumers. Our distribution network is comprised of a widespread network of overhead and underground lines and substations with voltages lower than 230 kV. We supply electricity to smaller industrial consumers at the higher end of the voltage range and residential and commercial consumers at the lower end of the range.

From January 1, 2001 through December 31, 2006, we invested approximately R$1,328 million in the construction and acquisition of property, plant and equipment used to expand our distribution system.

The following tables provide certain operating information pertaining to our distribution system, as of the dates presented:

Voltage of Distribution Lines	Circuit Length of Distribution Lines in Miles (from distribution substations to final consumers) As of December 31, 2006	2005	2004
161 kV	34.2	34.2	34.2
138 kV	6,736.9	6,537.4	6,526.9
69 kV	2,804.2	2,784.4	2,823.5
34.5 kV + Others	600.2	610.8	610.8
Total	10,175.5	9,966.8	9,995.4

Type of Distribution Lines	Circuit Length of Distribution Lines in Miles (from distribution substations to final consumers) As of December 31, 2006	2005	2004
Overhead urban distribution lines	52,642.9	52,086.9	51,461.2
Underground urban distribution lines	471.6	471.6	439.9
Overhead rural distribution lines	191,809.9	183,188.9	176,412.8
Total	244,924.4	235,747.4	228,313.9

	Step-Down Transformation Capacity(1) of Distribution Substations As of December 31, 2006	2005	2004
Number of substations	355	354	350
MVA	8,162	8,070	8,050

(1) Step-down transformation capacity refers to the ability of a transformer to receive energy at a certain voltage and release it at a reduced voltage for further distribution.

Physical data for the Control and Management Investment Program, or PROOBRA, were calculated by projection from the existing network. In 2003, we began to calculate this as the sum of the linear extension of the medium-voltage network and the low-voltage network available in the GEMINI system, double counting (in relation to the previous criterion) where joint medium and low voltage networks are in existence. The GEMINI system is the manager of CEMIG s distribution network. With the inclusion and startup of the Operation, Projects, Client Registry and Planning modules, all the distributor s assets are now being managed by the GEMINI system and are now the source of information for ANEEL in assembling the data on assets for the rate reviews.

As a result, the statistics on extent of networks, number of transformers, public illumination and quantity of transmission posts are now supplied by the GEMINI system on a geo-referenced basis. We believe this has resulted in more precise data, reduction of errors in valuing fixed assets, and increased reliability.

Expansion of Distribution Capacity

Our distribution expansion plan for the next five years is based on projections of market growth. We anticipate that this growth will be fueled by new consumer connections, increased electricity usage among our existing consumers and additional electricity distribution needs from new IPP projects. According to applicable law, IPPs have the right to use our distribution network upon payment of certain fees. During the next five years, we anticipate connecting approximately 745,000 new urban consumers and 225,000 rural consumers. In order to accommodate this growth, we expect that we will need to add 851,000 medium-voltage poles, 2,053 miles of transmission lines and 11 step-down substations (456 MVA) to our distribution network, increasing the network s installed capacity by 2,360 MVA, including reinforcement. Over the next five years, we expect to invest approximately R$4.28 billion to expand our distribution system. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

We have adopted a rural electricity development program, with the participation of the Federal Government and the State Government, called *Luz Para Todos*. Our plan is to use the *Luz Para Todos* program to meet our target for supply of electricity to 100% of rural consumers in Minas Gerais. To meet this objective, we will need funding in the amount of approximately R$1,641 million. The *Luz Para Todos* program includes the

Luz no Saber sub-program, which uses solar energy to light schools, community centers and rural homes in remote locations not yet reached by the distribution network. Additionally, the *Luz no Saber* sub-program connected 479 state and municipal schools in 2004 and 646 in 2005, thereby completing the connection of electricity services to all the schools in the State of Minas Gerais.

The *Projeto Noroeste.* In 2003 and 2004, planning was made for the electricity system to receive injection of 150 MVA in the Northeastern region of Minas Gerais state, starting in 2004. This increases the current availability to 300 MVA, aiming to supply

energy up to 2008 to replace the diesel fuel traditionally used by rural producers, with the objective of contributing to local growth in a sustainable manner. The cost of the project is R$153 million.

The *Cresce Minas* program. This project will benefit approximately 340 municipalities (41% of the total) of Minas Gerais, a population of approximately 4.1 million and around 1.1 million consumers throughout the state. The amount of capital expenditure coming from CEMIG s own funds for 2006, exclusively to strengthen the medium-voltage distribution system, was R$13.2 million, of a total of R$270.8 million, which will be completed with turnkey projects in 2007, 2008 and 2009. In order to strengthen the sub-transmission system, the amount of R$4.3 million was invested in 2006. In the next three years, we expect to invest R$476 million and R$8 million, respectively, in our sub-transmission and transmission systems.

Purchase of Electric Power

During the year ended December 31, 2006, we purchased 12,109 GWh of electricity from Itaipu, which represented approximately 32.1% of the electricity we sold to end users. In addition to the electricity purchased from Itaipu, we have two other basic types of supply arrangements: (i) purchases through public auctions, which accounted for approximately 64.9% of the electricity we purchased for resale during the year ended December 31, 2006, and (ii) long-term agreements existing prior to the New Industry Model Law, with represented approximately 8.1% of the electricity we purchased in 2006.

Itaipu. Itaipu is one of the largest operating hydroelectric plants in the world, with an installed capacity of 12,600 MW. Centrais Elétricas Brasileiras S.A., or Eletrobrás, a holding company controlled by the Federal Government, owns a 50% interest in Itaipu, while the remaining 50% is owned by the government of Paraguay. Brazil, pursuant to its 1973 treaty with Paraguay, has the option to purchase all of the electricity generated by Itaipu that is not consumed by Paraguay. In practice, Brazil generally purchases more than 95% of the electricity generated by Itaipu.

We are one of the 19 electric power distribution companies operating in the South, Southeast and Center West regions of Brazil that are jointly required to purchase all of Brazil s portion of the electricity generated by Itaipu. The Federal Government allocates Brazil s portion of Itaipu s power among these electric companies in amounts proportionate to their respective historical market share of total electricity sales. We are currently required to purchase approximately 17% of the total amount of electricity purchased by Brazil from Itaipu at rates fixed to defray Itaipu s operating expenses and payments of principal and interest on Itaipu s dollar-denominated borrowings and the cost in *reais* of transmitting such power to the interconnected power system. These rates have been above the national average for bulk supply of power and are calculated in U.S. dollars. Therefore, fluctuations in the U.S. dollar/*real* exchange rate affect the cost, in real terms, of electricity we are required to purchase from Itaipu. Historically, we have been able to recover the cost of such electricity by charging supply rates to consumers. According to our concession agreement, increases in the supply rate may be transferred to the final consumer upon approval by ANEEL.

Beginning in January 2008, the amount of electricity purchased from Itaipu by each of the electric power distribution companies in South, Southeast and Center West regions of Brazil will be reviewed and reallocated based on the actual consumption of each of these companies in 2004. This change will result in either an increase or decrease in the energy required to be purchased from Itaipu by each of these electric power distribution companies. In CEMIG s case, there will be a reduction of approximately 326 average MW of the total amount of energy we purchase from Itaipu. Companies for which the required Itaipu purchases decrease due the reallocation will be allowed to receive energy to make up for the difference through the Mechanism of Compensation of Surplus and Deficits, or MCSD, which is currently applied to CCEARs (Regulated Environment Energy Sale Contracts). Such companies will also be able to buy this energy in the A-1 Auction that is expected to take place in 2007, in the event that the exchanges in the MCSD alone are not enough to supply their energy requirements. We cannot yet predict the impact of such changes on the rates charged to the final consumer.

Auction Contracts. We purchased electricity in public auctions at the CCEE. These contracts were formalized between CEMIG and the several sellers in accordance with the terms and conditions established in the invitation to bid. The following table sets forth the amounts of electricity contracted, average tariff and prices related to the CCEAR contracts arising from the electricity acquired by CEMIG in the auctions:

Avarage Tariff	Electricity Contracted (MW average per year)	Term of the Contract
57.51	530.17	2005 to 2012
67.33	919.14	2006 to 2013

Bilateral Agreements We entered into bilateral agreements with various suppliers prior to the enactment of the New Industry Model Law. Such agreements are valid under their original terms but cannot be renewed. During the year ended December 31, 2006, we purchased 1,190 GWh, which represented 4.1% of the total electricity purchased by us during the year.

Energy Losses

In 2004, the rules under the New Industry Model for the electricity sector resulted in a change in our method of calculating losses resulting from the energy that passes through our system. Under the New Industry Model for the electricity sector, as an incentive for competition, there is now free access to the transmission and distribution networks, enabling certain consumers to buy their electricity freely from other suppliers. Consumers who opt for this free-negotiation mode of supply now have two contracts: one with the owner of the distribution or transmission network for the use of the networks, and the other with the selling agent or generator for the electricity. Also, under the new regulations, (i) our transmission assets with voltage of greater than or equal to 230 kV became part of the national basic grid which is operated by the ONS, referred to as the Basic Grid; and (ii) energy losses occurring in this Basic Grid are divided equally so that 50% is allocated among generation agents in proportion to each of their levels of energy generation and the other 50% is allocated among consumption agents (distributors and Free Consumers) in proportion to each of their energy loads. As a result, the losses in the Basic Grid attributed to a given agent now have no direct relationship with its Basic Grid assets, nor can the agents have control over them. Therefore, these losses take on the status of an electricity transmission service charge for the agents of the sector, and become part of the cost structure covered by the distributors retail rate, substantially reducing the risk of financial losses.

In 2005, CEMIG was de-verticalized, or unbundled , and its activities of (a) generation and transmission and (b) distribution began to be managed in two separate companies, thus complying with the legal requirements instituted by the new regulatory framework for the Brazilian electricity sector. Due to this unbundling, and in accordance with a commercial strategy of CEMIG, in 2005 a significant portion of consumers migrated from being captive market customers of Cemig Distribution to being free market customers of Cemig Generation and Transmission. This event resulted in a non-recurring change in sales revenue for Cemig Distribution in January 2005. Since the calculation of non-technical losses takes into account the amounts billed in the calendar year, this change in revenue affected the amount of the non-technical losses calculated in 2005.

2005 was the first year in which we had 12 months of sales revenue as an unbundled company, free from non-recurring effects. The calculation of losses in 2006 will serve as a reference point for losses in future years since it (i) is free of non-recurring effects and (ii) is calculated using the new method of calculation of losses put in place in 2004 to improve the calculation and representation of losses in the new regulatory environment.

CEMIG s total energy losses in 2006 were 5,437 GWh, compared to 4,096 GWh in 2005. Of this total in 2006, 388 GWh related to losses in the whole national grid system attributed to CEMIG by the National System Operator (ONS). The remaining 5,049 GWh were losses in CEMIG s own local distribution system and represent 11.8% of the total energy (2,788 GWh) that passed through that local system. Losses in the national grid system are allocated to the operators in proportion to each operator s own total load. Thus, the migration of captive clients to the free market, which reduced the total load of CEMIG Distribution, reduced the amount of national grid system losses attributed to CEMIG, contributing to the reduction in our total energy loss.

The differences in total losses from 2005 to 2006 is mainly due to the following:

- A low comparison base in 2005 due to a non-recurring event: the mass migration of captive clients to the free contracting environment in December 2004, resulting in a change in sales revenue in January 2005 which reduced the non-technical losses in that month, affecting total losses that year for Cemig Distribution.

- The maximization of generation in the Southeastern region of the country, including the generation capacity connected to the CEMIG network, for orders from the ONS, to provide optimum operation of the national grid system to deal with a shortage of electricity in the Southern region caused by the drought in that region from May to September, 2006.

- A significant expansion of the distribution network to meet the electrification programs.

- An increased load on CEMIG s distribution network.

We divide our energy losses into two basic categories: technical losses and non-technical losses. Technical losses account for approximately 76% of our energy losses in the distribution grid. These losses are the inevitable result of the step-down transformation process and the transportation of electric energy through the 3,019 miles of transmission lines and 255,095 miles of distribution lines that we operate.

We attempt to minimize technical losses by performing rigorous and regular evaluations of the quality of our electricity supply. We routinely upgrade and expand our transmission and distribution systems in order to maintain quality and reliability standards, and consequently, reduce technical losses. In addition, we operate our transmission and distribution systems at certain specified voltage levels in order to minimize losses.

Other measures to combat technical losses that can be highlighted include:

- Planning of upgrades and improvements to the system based on the expected reduction of loss levels and the expected costs of investments;

- Planning of expansions and reductions of losses in components of the system based on a ten-year horizon, taking into account the levels of electricity losses expected for transmission lines, for regional systems and for the CEMIG system as a whole;

- Evaluating the expansion of the reactive compensation capacity of the high voltage electricity system; and

- Replacement of old cables with thicker cables, and substitution of the lower voltage levels (34.5 kV to 69 kV) with high voltage levels (138 kV).

Non-technical losses account for the remaining 24% of our energy losses in the distribution grid and result from fraud, illegal connections, metering errors and meter defects. These non-technical losses accounted for 2.78% of the electricity that passed through our distribution grid during 2006. In order to minimize non-technical losses, we regularly take preventive actions, including:

- inspection of consumers meters and connections;

- modernization of metering systems;

- training of meter-reading personnel;

- standardization of meter installation and inspection procedures;

- installation of meters with quality control warranties;

- consumer database updating; and

- development of a theft-protected distribution network.

Additionally, we have developed an integrated system designed to help detect and measure controllable losses in all parts of our distribution system.

At the end of 2006, the indicators that measure the quality of supply by Cemig Distribution (DEC Consumer Outage Duration in hours per year, and FEC Number of Outages Per Year) were 13.02 and 6.42, respectively, compared to 12.21 and 6.77 in 2005.

Consumers and Billing

Consumer Base

Our distribution business consumers, all of whom are located within our concession area in Minas Gerais, are divided into five principal categories: industrial (including mining, manufacturing and processing activities); residential; commercial (including service-oriented businesses, universities and hospitals); rural; and other (including governmental and public entities). During the year ended December 31, 2006, we sold 38,891 GWh of energy.

For 2006, as compared to 2005, the volume of electric power sold by us to industrial and commercial consumers increased by 1.2% and 2.6% respectively and the volume of electric power sold by us to rural consumers decreased by 0.2%. The other consumer category grew 3.6% (this excludes wholesale supply). The residential consumption increased 0.9% from 2005 to 2006. The following table provides information regarding the number of our consumers as of December 31, 2006 and consumption by consumer category for the years ended December 31, 2006, 2005 and 2004.

Consumer Category	Number of consumers at December 31, 2006		Consumption (GWh) Years ended December 31, 2006		2005		2004	
Industrial	70,809	(2)	23,759	(1)	23,472	(1)	22,969	(1)
Residential	5,064,556		6,647		6,590		6,526	
Commercial	549,378		3,851		3,754		3,537	
Rural	495,067		1,938		1,941		1,846	
Own consumption	796	(3)	30		29		55	
Other	59.583	(4)	2,666		2,573		2,498	
Total	6,240,189		38,891		38,359		37,431	

(1) The industrial consumer category includes consumption by *Sá Carvalho S.A.*, *Usina Térmica Ipatinga S.A.*, *Horizontes Energia S.A.*, *Cemig PCH S.A* and *Usina Termelétrica Barreiro S.A*

(2) Includes subsidiaries and affiliated companies.

(3) Does not include consumption through supply to other concessionaires.

(4) Refers to the number of our plants, facilities and offices that use our energy, each of which is considered a consumer pursuant to ANEEL regulations.

In 2006, we added and billed 230,202 new final consumers, representing growth of 3.8% compared to 2005, through the expansion of our transmission and distribution systems.

The largest portion of the energy we sell is purchased by large industrial consumers. At December 31, 2006, 12 of our industrial consumers had high voltage electrical energy supplied through direct connections to our transmission lines. These consumers constituted 17.7% of our total volume of electrical power sales during 2006, and approximately 6.6% of our revenues. In the same period, our ten largest industrial consumers accounted for nearly 19.9% of energy consumed. None of our ten largest consumers is owned by the State Government or by the Federal Government.

As of December 31, 2006, we had entered into power purchase agreements with 2,773 of our industrial consumers, of which 525 consumers had demand above 500 kW. Our power purchase agreement with industrial consumers has a term of three or five years and contains a minimum demand clause that requires the consumer to pay for the contracted demand, which represents the system capacity reserved for that consumer, as well as the consumer s actual consumption. We believe that this billing method provides us with a relatively stable source of revenue.

The following table shows our industrial energy sales volumes by type of industrial consumer as of December 31, 2006:

Industrial Consumers	Energy Sales Volume in GWh		Consumption as a Percentage of Total Industrial Energy Sales Volume
Steel industry	6,880	(1)	28.96
Ferroalloy industry	4,432		18.65
Chemical industry	2,608	(2)	10.98
Non-ferrous metal industry	1,584		6.66
Mining industry	1,422		5.99
Food processing	1,450	(3)	6.10
Cement industry	920		3.87
Others	4,463	(4)	18.79
Total	23,759		100.00

(1) Includes consumption by *Sá Carvalho S.A., Usina Termelétrica Barreiro S.A. and Usina Térmica Ipatinga S.A.*

(2) Includes *Horizontes Energia S.A.*

(3) Includes consumption by *Cemig PCH S.A.*

(4) Includes *Cemig PCH S.A.* and *Horizontes S.A.*

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The following table sets forth the names and related industries of our ten largest consumers in 2006:

Ten Largest Consumers (listed in order of total GWh of electricity purchased from us in 2006)	**Industry**
Companhia Siderúrgica Paulista - COSIPA	Steel
Usinas Siderúrgicas de Minas Gerais S.A. USIMINAS	Steel
Ligas de Alumínio S.A.	Ferroalloys
Italmagnésio Nordeste S.A.	Ferroalloys
Companhia Brasileira de Carbureto de Cálcio - CBCC	Ferroalloys
White Martins Gases Industriais S.A.	Chemical
Votorantim Metais e Zinco S.A	Non-ferrrous
Saint Gobain Materiais Cerâmicos Ltda	Chemical
Companhia Ferro Ligas Minas Gerais	Ferroalloys
Belgo Siderurgia S.A	Steel

As a result of our strategy to maintain and capture a larger market share in the free market, we have entered into contracts with large Free Consumers within and outside of Minas Gerais leading to an electricity sale volume in 2006 of 18,100 GWh. As a result of the unbundling, most of our contracts with large consumers within our concession area were assigned to Cemig Generation and Transmission in 2006. Most of our large clients, that represent almost 50% of the MWh volume of our energy sold, have already bought electricity from Cemig Generation and Transmission for the next several years. Consumers that opt to become Free Consumers are primarily industrial consumers whose demand generally exceeds 3 MW. Consumers that consume between 500 kW and 3 MW may opt to purchase energy from other sources, if such source is a renewable energy source, such as small hydroelectric facilities or biomass. A total of 690 of our clients which currently purchase electricity at regulated rates (captive consumers) representing annual sales revenue of R$633 million (or 8.0% of our annual sales revenue), may elect to become Free Consumers or opt to purchase energy from alternative sources.

Billing

Our monthly billing and payment procedures for electricity supply vary by consumer category. Our large consumers with direct connections to our transmission network are billed on the same day their meters are read. Payment is required within five days after delivery of the bill. Other consumers receiving high and medium voltage electricity (approximately 8,000 consumers supplied at a voltage level equal to or greater than 2.3 kV or connected by underground distribution lines, with the exception of public sector entities) are billed within one (70%) or two (30%) days of their meter reading and payment is required within five days after delivery of the bill. Our remaining consumers are billed within seven days of their meter reading and payment is required within 10 days after delivery of the bill or 15 days after delivery of the bill in the case of public sector entities. Bills are prepared from meter readings or on the basis of estimated consumption.

Seasonality

Our sales are affected by market seasonality. Usually, an increase in consumption by industrial and commercial consumers occurs in the third quarter due to increases in industrial and commercial activities. In addition, there is generally an increase in usage across all consumer categories during the summer due to the increase in temperatures. Certain figures representing quarterly consumption by final consumers from 2004 through 2006, in GWh, are set forth below:

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2004(1) (2)	9,067	9,353	9,496	9,617
2005(1) (2)	8,622	9,730	9,867	10,140
2006 (1) (2)	9,485	9,619	9,901	9,886

(1) Includes consumption by *Sá Carvalho S.A., Usina Térmica Ipatinga S.A., Usina Térmica Barreiro S.A., Cemig PCH S.A.* and *Horizontes Energia S.A.*

(2) Does not include supply to other concessionaires.

Consumption by residential consumers remains sluggish and has not returned to pre-rationing levels.

Competition

Contracts with Free Consumers

The management of our portfolio through a major commercial effort in relation to our client base resulted in our successfully obtaining signatures to 152 contracts with Free Consumers by December 31, 2006. Eleven of these contracts are with companies located outside of our distribution company s concession area and which consume 1,849 GWh of energy per year. These contracts with Free Consumers have an average term of three to ten years, and represent a volume of approximately 17,000 GWh/year.

Of our previous captive consumers, only nine did not sign contracts with us and instead opted to become Free Consumers. These nine formerly captive consumers represented an annual volume of 772 GWh, equivalent to 4.3% of the total volume of electricity sold during 2006. Another twelve consumers, representing approximately 1,261 GWh, elected to opt out of the ACR and choose their own generation subsidiary as a supplier.

In addition to our sales in the ACL auctions, we have been successful in entering into agreements in the ACR that represent a volume of 8,120 GWh/year. These contracts have a term of eight years, beginning in 2006. Also, in April 2005, we obtained new contracts in the ACR that represent a volume of 920 GWh/year. The contracts have a term of eight years, beginning on January 1, 2008. In addition, in June 2006 we sold through energy contracts the energy produced by our independent power producers, in the ACL, with 30-year terms beginning on January 1, 2009, that represent a volume of 3,110 GWh/year.

Through this strategy we have been successful in the sale of the greater part of our existing generation capacity through contracts which will mostly be renewed beginning in 2010. At that time, demand of electricity in Brazil is expected to exceed supply, which should result in better price conditions than in the current market where supply exceeds demand.

Concessions

Each concession that we currently hold is subject to a competitive bidding process upon its expiration. However, in accordance with the Concessions Law, existing concessions may be renewed without a bidding process by the Federal Government for an additional period of up to 20 years upon application by the concessionaire, provided the concessionaire has met minimum performance standards and the proposal is otherwise acceptable to the Federal Government. On September 22, 2004, we applied to ANEEL for a 20-year renewal of the concessions of the Emborcação and Nova Ponte Hydroelectric Plants. On June 14, 2007, the Federal Government published Ministerial Order 124, extending the concessions of these power plants for a period of 20 years, beginning on July 24, 2005.

In addition, it is possible that a number of our large industrial clients may become SPPs pursuant to the Concessions Law in order to obtain the right to generate electricity for their own use. The granting of certain concessions to our large industrial clients could adversely affect our results of operations.

Raw Materials

Our principal raw materials expense is the purchase of fuel oil, which is consumed by our three thermoelectric plants in the electricity generation process. Fuel oil consumption for the year ended December 31, 2006 represented an expense of R$37 million. See Item 5. Operating and Financial Review and Prospects and The Brazilian Power Industry Regulatory Charges in Annex A. We believe that supplies of fuel oil are readily available.

Other Businesses

Natural Gas Distribution

Gasmig was established in Minas Gerais, Brazil in 1986 for the purpose of developing and implementing the distribution of natural gas in Minas Gerais. We own approximately 55% of Gasmig and Petrobras, through its subsidiary Gaspetro Petrobras Gas S.A., owns 40% of Gasmig. The remaining shares are owned by Minas Gerais Participações S.A., or MGI, the investing body of the State Government, and by the city of Belo Horizonte.

In January 1993, the State Government granted Gasmig an exclusive 30-year concession for distribution of natural gas covering the entire State of Minas Gerais and consumers located within it. Gasmig s marketing efforts focus on its ability to provide a more economically efficient and environmentally friendly alternative to oil, liquefied petroleum gas (LPG) and wood. In 2006, Gasmig supplied approximately 2.06 million cubic meters of gas per day to 261 consumers: 162 industrial and commercial clients, 84 vehicle natural gas (VNG) retail distribution stations, two thermal power plants and six distributors of compressed natural gas (GNC). Gasmig supplied 0.55 million cubic meters of gas per day to thermal power plants and 1.58 million cubic meters of gas per day to retail consumers. In addition to serving the conventional market and the thermal power plants, Gasmig also supplied eight clients with re-gasified liquefied natural gas (LNG). In 2006 Gasmig distributed approximately 4.8% of all natural gas distributed in Brazil.

On August 25, 2004, CEMIG, Gasmig, Gaspetro and Petrobras entered into an Association Agreement, pursuant to which CEMIG agreed to sell a 40% equity interest in Gasmig to Gaspetro, a subsidiary of Petrobras. Under the terms of the Association Agreement, Petrobras agreed to make investments to expand the capacity of the current pipelines connected to the Gasmig distribution network as well in the construction of new pipelines, and CEMIG and Gaspetro agreed to fund Gasmig s capital expenditure plan to expand its distribution network.

The transaction was implemented on December 15, 2004 when Petrobras, through its subsidiaries Gaspetro and TSS, concluded its acquisition of a 40% equity interest in Gasmig. On July 26, 2006, TSS was merged into Gasmig. As a condition to such investment, Petrobras and CEMIG entered into a Shareholders Agreement in which CEMIG agreed with Petrobras and its subsidiaries to share in the management of Gasmig. See Item 10. Additional Information Material Contracts Gasmig Shareholders Agreement and Association Agreement . On December 15, 2004, Gasmig executed an additional supply contract with Petrobras which guarantees a gradual increase in supply of up to 5.1 million m³/day of natural gas, in addition to the 3.5 million m³/day that was previously contracted for. This additional supply agreement is for the supply of natural gas to the regions of the Steel Valley (*Vale do Aço*) and the South of Minas Gerais, and also for expansion of service to the regions of Greater Belo Horizonte, the *Zona da Mata* (in the Southeast of Minas Gerais) and the *Campos das Vertentes* (historic region), in the industrial, commercial, automotive and residential markets. The additional supply agreement has a term of 20 years, and is scheduled to begin the commercial supply in 2007, under this agreement the price will be established based on the international oil price in the New York marketplace.

We expect that the association with Petrobras will expand Gasmig s distribution capacity, as our ability to offer natural gas to our consumers will increase significantly with the implementation of Petrobras s investments in pipelines. We expect that Gasmig s capital expenditures for 2007 will be mostly used for the expansion of our distribution network in highly industrialized areas of Minas Gerais. Gasmig has already begun the necessary expansions to serve the regions of the Steel Valley and the Southern region of the State of Minas Gerais.

Gasmig is not a consolidated investment in our financial statements in accordance with Emerging Issues Task Force (EITF) Issue No. 96-16, Investor s Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights. We consolidated Gasmig s revenues and expenses for the period from January 1, 2004 to December 15, 2004, the date of our sale of a 40.00% equity interest in Gasmig to Petrobras.

Other than with respect to the liquefied natural gas (LNG) supplied to Gasmig by a joint venture between Petrobras and White Martins Gases Industriais Ltda. (White Martins), Gasmig purchases all its natural gas needs from Petrobras, and such gas is mainly provided by Petrobras own natural gas deposits. Our relationship with Petrobras is governed by two long term agreements, expiring in 2021 and 2027. The price Gasmig charges its clients is based on the price charged by Petrobras plus a margin. Therefore, all the costs related to the purchase of natural gas are passed to the clients through the tariff.

Minas Gerais accounts for approximately 12% of the total energy consumption in Brazil. Many energy-intensive industries such as the cement, steel, ferroalloys and metallurgy have significant operations in the state. We estimate that the total demand for natural gas in Minas Gerais will amount to nearly 7 million cubic meters of gas per day by 2009, which exceeds the projected available supply. Gasmig s key strategy is to expand its distribution network in order to serve the portion of the demand yet not reached. Gasmig is engaged in the development of new projects to extend its natural gas distribution systems to reach consumers in other areas of Minas Gerais, mainly in heavily industrialized areas. In 2006, Gasmig began supplying natural gas to three industrial companies and two vehicle natural gas (VNG) retail distribution stations in the region of the Vale do Aço (Steel Valley), thus concluding the first phase of service to that region of the State of Minas Gerais. The average volume of natural gas to be distributed in this first stage is approximately 200,000 cubic meters/day. Gasmig brought forward its start date, in August, 2006, for service to the Southern region of the State of Minas Gerais, through re-gasification of the liquefied natural gas (LNG) contracted with Gaslocal, a company formed between association of Petrobras and White Martins.

For 2006, Gasmig had gross revenues of approximately R$540 million and net income after taxes of approximately R$74 million.

In 2006, Gasmig invested approximately R$36 million in the expansion of its gas pipeline network to serve more clients in the State of Minas Gerais. The funds to finance the expansion came primarily from its own cash flow and dividend reinvestment. Currently, the natural gas pipeline which brings natural gas from the Campos oil basin (State of Rio de Janeiro, Brazil) operates at full capacity and further investment by the Federal Government will be necessary to expand the capacity or construct a new pipeline to supply the growing natural gas demand in the State of Minas Gerais.

Telecommunications, Internet and Cable Television

On January 13, 1999, we incorporated Empresa de Infovias S.A. in Minas Gerais, Brazil, as a joint venture with AES Força Empreendimentos Ltda., an affiliate of AES Corporation Group. Currently, we own 100.00% of the common shares of Empresa de Infovias S.A. Empresa de Infovias S.A. has an optical fiber-based long-distance communications backbone installed along our power grid using optical ground wire cables. This communications backbone is connected to an access network that is based on hybrid fiber-coaxial cable technology and is deployed along our power grid. Pursuant to Brazilian telecommunications law, we also make our network infrastructure available to other telecommunications providers interested in leasing it.

Empresa de Infovias S.A. started its business operations in January 2001. The main telecommunication services provided by Empresa de Infovias S.A. through its network are signal transportation and access, both for point-to-point and point-to-multipoint applications, delivered mainly to telecommunications operators and Internet service providers on a clear channel basis. Empresa de Infovias S.A. is also extending its broadband Internet services, currently available in the cities of Belo Horizonte, Poços de Caldas, Barbacena, Contagem, Sete Lagoas, Ipatinga and Uberaba, to other cities in Minas Gerais.

Empresa de Infovias S.A. provides the network for cable television service in 12 cities in Minas Gerais pursuant to a 15-year service agreement with WAY TV Belo Horizonte S.A. (WAY TV) and Brasil Telecomunicações S.A., each a holder of concessions to provide cable television and Internet service in certain cities in Minas Gerais, under which Empresa de Infovias S.A. allows these companies to use its network infrastructure. In return, WAY TV and Brasil Telecomunicações are obligated to deliver to Empresa de Infovias S.A. a percentage of the revenues derived from their cable television and Internet subscribers. At December 31, 2006, these two companies had approximately 72 thousand cable television subscribers and 57.5 thousand Internet service subscribers.

Empresa de Infovias S.A. holds a 69.25% equity interest in WAY TV, including 49.9% of its common shares. The control of WAY TV is exercised by Empresa de Infovias S.A. and CLIC Clube de Investimentos dos Empregados da Cemig, or CLIC, which owns 1.1% of WAY TV s common shares, through a shareholders agreement. Under this agreement, CLIC has agreed to vote in accordance with Empresa de Infovias S.A. s interests at the WAY TV shareholders meetings and board of directors. To date, Empresa de Infovias S.A. has invested approximately R$61.9 million in WAY TV. 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.

At the auction, held on the São Paulo Stock Exchange on July 27, 2006, TNL PCS Participações S.A, a company of the OI Group, previously named TELEMAR, the purchaser of WAY TV (the Purchaser), paid a total price of R$132 million, 65% above the minimum price. The share sale contract was signed on August 1, 2006, and the amount of the sale price is held in escrow by Banco do Brasil S.A., in accordance with that contract, until consent for disposal of the control of WAY TV has been given by the *Agência Nacional de Telecomunicações* (ANATEL), at which point the shares will be transferred to the Purchaser and the funds will be released to Empresa de Infovias S.A. and the other sellers. The amount paid for Empresa de Infovias S.A. s interest in the stock of WAY TV was R$91 million.

In a special meeting held on March 19, 2007, ANATEL declined to approve the sale of our ownership and control of WAY TV to the Purchaser. WAY TV filed an administrative appeal before ANATEL on April 13, 2007 for the reversal of its decision not to approve the sale of our ownership and control of WAY TV, which is still pending. ANATEL s decision does not result in the cancellation of the share sale contract, which remains in effect until a final decision is rendered by ANATEL. It is not possible at the present time to estimate the outcome of the appeal.

Empresa de Infovias S.A. also provides intracompany data transmission services to us pursuant to a five-year agreement signed in 2001. The agreement expired in 2006, but the parties are in the process of finalizing a renewal contract. We use this service for internal communications as well as for certain communications with our consumers.

During 2006, Empresa de Infovias S.A. had consolidated gross revenues of R$125 million, of which R$47 million related to the provision of telecommunication services and R$78 million related to the provision of cable television and Internet services.

Empresa de Infovias S.A. s capital expenditures for the past five years were R$352 million. Empresa de Infovias S.A. s capital expenditures for 2007 will be mostly used for expansion of its telecommunications network.

Consulting and Other Services

We provide consulting services to governments and public utility companies in the electricity industry in order to derive additional revenues from the technology and expertise we have developed through our operations. During the past ten years, we have provided such services to government agencies and utilities in ten countries, including Canada, Paraguay, Honduras and El Salvador and to the government of Panama.

On January 9, 2002 we created Efficientia S.A., referred to as Efficientia, in Minas Gerais, to provide project efficiency optimization solutions and operational and management services to energy supply facilities. We have a 100% interest in Efficientia, which began operating in 2003. Efficientia has increased its market share and revenues in the Brazilian market for specialized consultancy services every year since it began operations. Such services include consultancy in the areas of efficiency, energy solutions, reduction of non-technical losses in other electricity distribution concession holders and the provision of preventive maintenance services

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In 2006, Efficientia posted profit of R$414 thousand, after distribution of dividends of R$238 thousand in the form of interest on equity. Efficientia s gross revenues in 2006 were R$4.3 million, 11.71% more than in 2005. This increase in gross revenue was achieved with operational costs of R$3.5 million, 2.94% more than in 2005. In this period Efficientia crossed Brazilian frontiers into the international market for energy efficiency, providing specialized consultancy and training.

Environmental Matters

Overview

Our generation, transmission and distribution activities are subject to comprehensive federal and state legislation relating to the preservation of the environment. See The Brazilian Power Industry Environmental Regulations in Annex A. The primary environmental authorities in the State of Minas Gerais are *Fundação Estadual do Meio Ambiente* (State of Minas Gerais Environmental Foundation), or FEAM, Instituto Mineiro de Gestão das Águas (State of Minas Gerais Water Management Institute), or IGAM, *Secretaria de Meio Ambiente e Desenvolvimento Sustentável* (State Secretariat for the Environmental and Sustainable Development), or SEMAD, and *Conselho Estadual de Política Ambiental* (State of Minas Gerais Environmental Policy Council), or COPAM. At the Federal level, the main authorities are *Conselho Nacional de Meio Ambiente* (National Environment Council), or CONAMA, *Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis* (the Brazilian Institute of the Environment and Natural Renewable Resources), or IBAMA, and *Agência Nacional de Águas* (National Water Agency), or ANA.

We believe that we are in compliance in all material respects with the relevant laws and regulations. In 2006 we maintained NBR ISO 14001/2004 environmental certification on the Itutinga and Nova Ponte hydroelectric plants and on the Cemig Environmental Management System (EMS), for a total of 180 municipalities, and for our materials storage and logistics warehouses, and the Camargos hydroelectric power plant.

In addition we obtained the following certification on CEMIG s generating facilities in 2006:

- the Três Marias, Volta Grande and Jaguará hydroelectric power plants (1,200 MW);
- the Igarapé thermal power plant (131 MW),
- the Volta Grande environmental station, and the Galheiros Environmental Reserve; and
- management of the industrial safety, property management and operational contingency services.

This increased our total generation capacity certified under the environmental management system from 562 MW to 1,939 MW.

In 2006, for the seventh consecutive year CEMIG was selected to be a component of Dow Jones Sustainability Index (DJSI World Index). CEMIG was also selected for the second consecutive year to be a component of the new BOVESPA Sustainability Index (*Indice de Sustentabilbidade Empresarial*).

In accordance with our environmental policy, we have established various programs for prevention and control of damage aiming at limiting our risks related to environmental issues.

In 2006 we invested approximately R$38 million in environmental compliance projects for plant and equipment , and in the implementation of new projects, and also spent R$19.5 million on operational and maintenance expenses for our current activities, such as final disposal of waste, putting environmental management systems in place, audits, planting of riverside forests, fish cultivation, putting in place tree pruning and oil policies, environmental education programs, maintenance of conservation units, training and other activities. We also invested R$597 thousand in environmental research and development projects developed with universities and research institutes.

Licensing

Applicable law in Brazil requires that licenses be obtained in connection with the construction, installation, expansion and operation of any facility that utilizes environmental resources, causes environmental degradation, pollutes or has the potential to cause environmental degradation or pollution or harm archaeological wealth. Generally, state governments manage the environmental licensing process for facilities that are to be built within their territories. However, the Federal Government manages the environmental licensing process for facilities that are expected to

have an environmental impact on more than one state and/or are located between two or more states.

COPAM Regulatory Ordinances No. 17, dated December 17, 1996, and No. 23, dated October 21, 1997, provide that operational licenses shall be renewed from time to time for periods of four to eight years depending on the size and pollution potential of the facility. Aimed at surveying and rescuing archaeological wealth that has not been previously considered, the provisions of

Ordinance No. 28, dated January 31, 2003, of *Instituto do Patrimônio Histôrico e Artístico Nacional* (National Historical and Artistic Heritage Institute), or IPHAN, set forth that the renewal of operational licenses for hydroelectric power plants shall be conditioned on a favorable opinion of IPHAN concerning archaeological studies on the depletion area of the reservoir. These studies are to be sponsored by the plant operator.

Gasmig s distribution of natural gas through pipelines in Minas Gerais is also subject to environmental control. We believe that all licenses for the regular operation of Gasmig s activities have been obtained.

The environmental licenses for the operation of the Natural Gas Distribution Network were duly issued by the State Environmental Foundation (FEAM).

Corrective Environmental Operation Licensing

Pursuant to Resolution No. 6, dated September 16, 1987, of the *Conselho Nacional de Meio Ambiente* (the Brazilian Environmental Council), or CONAMA, environmental impact assessment studies must be undertaken, and a corresponding environmental impact assessment report must be prepared, for all major electric generation facilities built in Brazil after February 1, 1986. While studies are not required for facilities built prior to February 1, 1986, such facilities must obtain corrective environmental operation licenses, which may be acquired by filing a form containing certain information regarding the facility in question. Obtaining of the corrective licenses for the projects which started operation before February 1986 requires presentation to the competent environmental body of an environmental report containing the characteristics of the project, the environmental impacts of the construction and operation, and also the mitigating and compensatory measures adopted or in the process of being adopted by the organization carrying out the project.

Federal Law No. 9,605, dated February 12, 1998, sets forth penalties for facilities that operate without environmental licenses. In 1998, the Federal Government issued Provisional Measure No. 1,710 (currently Provisional Measure No. 2,163/41), which establishes the potential for project operators to enter into agreements with relevant environmental regulators for the purpose of coming into compliance with Federal Law No. 9,605/98. Accordingly, we have been negotiating with the *Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis* (the Brazilian Institute of the Environment and Natural Renewable Resources), or IBAMA, and FEAM to obtain the corrective environmental operation licensing for all our plants that began operating prior to February 1986. Generation facilities located within the State of Minas Gerais fall within the jurisdiction of FEAM for purposes of corrective licensing. We have agreed with FEAM to bring our facilities located in Minas Gerais into compliance on a gradual basis. We do not currently anticipate any costs and commitments in connection with any recommendations that may be made by IBAMA and FEAM.

Currently, those CEMIG generation and transmission facilities that started operation before the Brazilian environmental legislation was passed, and which have not obtained corrective licencing, have filed applications with the appropriate environmental bodies.

We currently have operating licenses for the following facilities: (i) hydroelectric plants: São Simão, Aimorés, Capim Branco I, Capim Branco II, Igarapava, Irapé, Itutinga, Miranda, Nova Ponte, Porto Estrela, Rosal, Funil and Queimado, (ii) small hydroelectric plants: Pai Joaquim, Rio de Pedras, Santa Luzia, Salto dos Moraes, Poquim and Piçarrão, (iii) thermoelectric plants: Barreiro and Formoso, and (iv) the wind farm: Morro do Camelinho.

The environmental licenses, either issued by state or federal bodies, are subject to several conditions imposed in light of the foreseen environmental impacts. In extreme circumstances, the failure to comply with such conditions may result in the revocation of the license. We believe we are in compliance with the requirements mentioned in our licenses. Environmental licenses are obtained upon conditional requirements which have to be met during the period of their validity. Non-compliance with these conditional requirements can result in application of administrative penalties, including fines and repeal of the environmental license. CEMIG has been complying with the demands of the environmental conditions of the licenses, and periodically sends reports to the environmental regulatory authorities.

Compensation measures

According to Federal Law No. 9,985, dated July 18, 2000, and corresponding Decree No. 4,340, dated August 22, 2002, the companies whose activities are deemed to cause high environmental impacts are required to invest in protected areas in order to offset those impacts. These companies are required to invest at least 0.5% of total amounts invested in implementation of its corresponding project in activities and areas defined by environmental agents.

During the licensing procedure, in light of the environmental impacts identified by the environmental assessment studies presented by the operator, environmental bodies may determine the amount to be invested and which protected areas shall be benefited.

The criteria for environmental and social compensation have not been clearly defined, and there is a possibility that requests from environmental agencies, the Public Attorneys Office, NGOs or affected populations may be added to those traditionally proposed. Due to these uncertainties, licensing (including corrective licensing), timing and budgets of new projects, and even their feasibility, may be affected. Discussions are currently in progress with official environmental bodies (at both the federal and state level) for the purpose of establishing criteria to govern environmental compensations.

A work group created by the Brazilian Federal Government approved Resolution No. 371, dated April 5, 2006, by the National Environmental Council which set forth criteria for charging environmental compensation. In the approved resolution, the maximum percentage to be applied to the total value of a project for calculation of the compensation is not stated, however a range between 0.5% and 5% of the value of the project is currently being debated. The percentage is expected to be established in subsequent legislation. The resolution does not state whether the payment of environmental compensation will cover projects put in place before the legislation, which would include the majority of CEMIG s facilities. As a result, any decision to backdate compensation may result in additional costs for us.

In the state of Minas Gerais, where CEMIG has most its facilities and enterprises, the Chairman of the state s Environmental Policy Council (COPAM) issued Regulatory Ordinance No. 94 in April 2006, applying an environmental compensation charge, at rates between 0.5% and 1.1% of the total amounts invested in the implementation of the projects that cause environmental impacts. This regulatory ordinance also indicated that the compensation charge applies to projects implemented before the issuance of the new legislation. Since this legislation is still recent, there has not been time to assess what effects it will have on CEMIG, but depending on the manner in which it is applied, it could result in additional costs for CEMIG.

Fishways

The dams at each of our hydroelectric generation facilities can put fish that inhabit the adjoining reservoirs in danger. In order to reduce the impact of these facilities on nearby fish populations, the State Government enacted State Law No. 12,488, dated April 9, 1997, which imposes measures assuring that migratory fish that pass through dams will be redirected to fishways, through which they can pass safely. As of December 31, 2005, we had fishway projects installed at our Aimorés, Funil, Igarapava, Igarapé, Pandeiros and Salto de Moraes facilities. In April 2002 we sent COPAM a study relating to our dams. In July 2002 we received a response from SEMAD that requires us to provide additional studies relating to the feasibility of installing fishways in our dams located in Minas Gerais. We executed an agreement with a non-governmental organization, named SMC (*Sociedade Mineira de Cultura*) and the university PUC Minas (Pontificia Universidade Católica de Minas Gerais) in order to proceed with the studies for SEMAD in connection with the Gafanhoto, Cajuru, Miranda and Nova Ponte hydroelectric plants. The studies that are in progress are not yet conclusive as to the need for the provision of fishways. In addition, studies will be necessary in others facilities including Pandeiros, Salto Paraopeba, Luiz Dias, Sá Carvalho, Sumidouro, and Bom Jesus do Galho. In addition, there has been no decision by the environmental authorities regarding the building of fishway projects at CEMIG s hydroelectric generation facilities. However, there is a possibility that future decisions by the environmental authorities, or changes in the environmental legislation, or even new information obtained from the studies which are in progress, may lead to a need for the construction of fishways at our hydroelectric generation facilities.

Fish Management

In view of its policy for environmental conservation and sustainable development, CEMIG carries out numerous procedures to mitigate accidents involving fish in its hydroelectric power plants, such as use of sonar and counting to detect shoals; monitoring of oxygen in solution; and use of teams of professional divers to assess shoals during activities with greater environmental risk, such as startup and shutdown of rotors.

In spite of these efforts two incidents occurred, one in 2006 and one in 2007, at the Três Marias hydroelectric power plant, resulting in the death of approximately 17 tons of fish in 2007 due to lack of oxygenation, according to IEF and environmental police estimates (8.2 tons per CEMIG s estimate). The volume of dead fish was not estimated or measured in 2006. As a result the IEF applied two fines to CEMIG, totaling approximately R$5.6 million. Although CEMIG is disputing the fines and the amount is not a material liability for CEMIG, CEMIG is implementing an environmental project in the affected region as a way of responding to the event and reaffirming its commitment to economic and social development of the regions where it operates and where its projects are located.

Urban occupation of rights of way and reservoir banks

Our piped natural gas distribution networks are underground, crossing through inhabited areas, and using public rights of way in common with underground piping utilities operated by other public concession holders and public agencies. This increases the potential for risk of undue work without prior communication and consultation of our gas distribution network registers, and there is a possibility of this causing accidents, with potentially significant personal, property and environmental damage. However, all our gas networks are explicitly, and intensively, marked and signaled. Gasmig, through its Dig Safely (*Escave com Segurança*) program, has been building partnerships with the community, mainly with public authorities and holders of concessions, in addition to the companies which carry out digging in public rights of way, to ensure that before digging close to the natural gas network, they telephone Gasmig s 24-hour helpline and request support for safe execution of their work.

Transmission lines: Several of the safety bands under our transmission lines have been occupied by unauthorized facilities (buildings, etc.) and dwellings. These occupations generate risks of electric shock and accidents involving people living at the location, and constitute an obstacle to maintenance of our electricity system. It is thus necessary to solve this situation over the coming years, either removing some of the occupants, or introducing improvements to make it possible to live with these invasions. Faced with the risks associated with this situation, we planned two lines of action for the coming years. The first is preparation of a document entitled Diagnosis of areas invaded and under risk of invasion, for strengthening of inspection activities, including installation of improvements in locations classified as having high invasion risk . The company is identifying the areas with potential for invasion, making possible decisions on measures and procedures in relation to control, monitoring and inspection of the transmission line paths where there is a high risk of invasion. The second line of action involves the evacuation of areas already invaded. The withdrawal of people from these areas involves payment of indemnities, regularization of electricity connections and the opening of bands for the construction of squares and streets.

Invasion of reservoir areas owned by CEMIG

CEMIG s power plants have security services to protect their properties, using both fixed and mobile units, as well as an electronic surveillance system (SVE). The banks of the reservoirs of CEMIG s hydroelectric power plants have signs indicating ownership and advising of the existence of security systems. Trespassers are deterred by the mobile inspection unit s periodic patrol of the reservoir banks. When trespassers are apprehended, police reports are filed, which are then sent to the Company s legal department for review. Due to the very large area and number of CEMIG s reservoirs, the Company is continually subject to new invasions. However, we are dedicated to preventing these invasions and any resulting environmental damage to the Permanent Preservation Areas (APPs) around the reservoirs.

In April 2006 CEMIG s headquarters was invaded by social protesters, who were participating in a meeting being held in connection with the 47th Meeting of the Governors of the Inter-American Development Bank (IADB). Minor damage was done to the Company s property and facilities. After this incident, CEMIG took measures to increase the protection of its premises, including placement of screens on the entries to the building and strengthening of the security arrangements.

Environmental regulations

Environmental issues can significantly impact the operations of our company. For example, large hydroelectric power plants can require flooding of considerable areas and as a result relocation of a considerable population. The Brazilian Constitution gives the Federal Government, states and municipalities powers to enact laws designed to protect the environment and issue enabling regulations under these laws. While the Federal Government has the power to promulgate general environmental regulation, state governments have the power to enact more stringent environmental regulation.

The Brazilian National Environment System (SISNAMA *Sistema Nacional do Meio Ambiente*) was created for the purpose of protecting the Brazilian environment. It consists of: an administrative body, the Governing Council (*Conselho Governamental*); a consultative and decision-making body, the National Environment Council, or CONAMA) (*Conselho Nacional de Meio Ambiente*); a central body, the Environment Ministry, or MMA (*Ministério do Meio Ambiente*); an executive body, the Brazilian Environment and Renewable Natural Resources Institute, or IBAMA (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*); and various local and sectorial bodies. The agencies that merit special attention are CONAMA and IBAMA. CONAMA carries out or approves studies and assists and advises the Government Council on the official orders for government policy on environmental and natural resources, and on decisions, within its attributed scope, on regulations and other legislative rules applicable to the Brazilian environment. IBAMA enforces the national environment policy and inspects, preserves and supports the use of natural resources.

Law No. 6,938/81, of August 31, 1981, is known as the Environmental Policy Law, and regulates civil liability for damage to the environment. In legal terms, this responsibility has an objective nature, and is not only strict but also expands the list of liable parties adopting the principle of joint and several responsibilities. Irrespective of the nature of the offending act, demonstration of a

cause-and-effect relationship between the damage caused and an action or omission is enough to create a legal obligation, on the party responsible for the contamination, to redress the environmental damage. Also, compliance with environmental licenses does not eliminate environmental liability.

Activities which cause damage to the environment may also lead to administrative and criminal fines, under Law No. 9,605, of February 12, 1998 (the Environmental Crimes Law). The effects of the aforementioned law apply to any person, individual or legal entity, who by any means contributes to damage caused to the environment to the extent of his/her fault, in the amount of the damage caused. This law provides that a legal entity may be held liable for conduct deemed harmful to the environment, provided that the infraction was committed in its interest or benefit, upon the decision of its legal or contractual representatives or of its plenary board. Management and members of the board who are aware of any criminal conduct of another and are thus able to prevent it but do not do so, are, by their omission, also considered participants in the crime.

The Federal Decree No. 3,179, issued in September 1999, established administrative fines applicable to conduct or activities damaging to the environment and to the regulations governed by the Environmental Crimes Law. This Decree sets forth penalties, such as fines of up to R$50 million, and authorizes facilities to be closed down.

In relation to water resources, Law No. 9,433 of January 8, 1997 created the National Water Resources Policy, which was organized in accordance with the various river basins of Brazil. This policy is implemented by the governmental and non-governmental agencies, and classifies water as a public asset. Thus, no individual or company may appropriate the use of water, and any use of water does not result in absolute exclusion of all potential users.

Also, public authorities must supply a justification for the concession of rights to use water.

The right to use federal water is given by the National Waters Agency, or ANA (*Agência Nacional de Águas*), created by Law No. 9,984 of July 17, 2000, and regulated by Decree No. 3,692 of December 19, 2000, in collaboration with ANEEL. As well as granting these rights, ANA also regulates and supervises the use of federal water resources and implements the collection of charges for the use of water, at a ratio of 0.75% of the value of the energy generated. Permission for use of non-federal water resources must be obtained from the respective state-level environmental/water resource agency.

The National Water Resources Policy also created the need for the grant of permission for the use of water in the production of electricity. At the phase of planning of the plant, application must be made by ANEEL to the water resources authorities for reservation of water availability, which will be transformed into permission to use water resources and granted together with the grant of concession for commercial operation of hydroelectric energy. The plants which already are in operation, and have the concession grant, automatically also have the grant of the water resources right. However, when application is made for renewal of the concession for commercial use of hydroelectric energy, grant of the right to use the water resources must also be applied for.

For the construction of the hydroelectric power plant, Brazilian electricity companies have to comply with several environmental protection measures. First, an environmental impact study must be prepared by external experts, who should make recommendations on how to minimize the impact of the plant on the environment. The study, in conjunction with a environmental impact assessment report on the project prepared by the company, is then submitted to the state or federal-level governmental authorities for analysis and approval. The project undergoes a process of licensing in three stages, which includes a Prior License which indicates the viability of the project, an Installation License for the beginning of construction, and an Operation License for startup of the plant. Environmental licenses also have to be obtained for expansion of the plant or installation of new equipment. It should be mentioned that on basis of the environmental impact studies conclusions, the issued license is subject to several conditions or requirements that must be observed; otherwise the licenses may be revoked.

Installations that are considered to represent a considerable environmental impact are obliged by law to allocate a minimum of 0.5% of their total investment costs to the creation of environmental preservation areas.

Under the Brazilian Forest Code (*Código Florestal Brasileiro* - Law No. 4,771 of September 15, 1965), the land area surrounding water reservoirs, whether it is natural or artificial, is considered to be a permanent preservation area, which represents restriction on use. The amendments to the Brazilian Forest Code introduced by Provisional Measure 2,166-67 of August 24, 2001 provide that the operator of a reservoir is obliged to acquire such surrounding areas with respect to any new projects. The Forest Policy of the State of Minas Gerais (Law No. 14,309 of June 19, 2002) and Decree No. 43,710 of January 8, 2004 does not oblige the operator to acquire the land area surrounding the reservoir, but it does demand indemnity for the restriction on use, in forms provided for by law. These rules will result in additional costs in connection with the installation of new hydroelectric power plants.

State Law 15,972 of January 12, 2006, governing environmental inspection, changed the structure of the environmental agencies of Minas Gerais and made several provisions increasing the amounts of fines to be paid in the State and broadening the inspection mechanisms, which now include the Minas Gerais Environmental Police. Some of its articles have not yet been regulated.

We believe the promulgation and regulation of this law will strengthen the environmental inspection in the State of Minas Gerais, where the majority of the company s facilities are located.

Any corporate entity involved in activities which cause pollutant effects, or the potential for pollutant effects, or which involve products which are considered dangerous to the environment, is obliged to register with IBAMA. This registry involves quarterly payments of an environmental control and inspection charge TCFA, which for CEMIG s activities is equal to an amount of approximately R$10 thousand per year.

Carbon Market

The Kyoto Protocol became effective on February 16, 2005. According to the Kyoto Protocol, the reduction of greenhouse gas emissions through projects designed under the Clean Development Mechanism, or CDM, may be converted into Carbon Credits , which may be negotiated worldwide. Legislation that would govern the carbon market in Brazil and tax incentives in connection therewith is currently before Congress in Brazil. Brazil has great potential to generate Carbon Credits arising from clean energy projects that comply with the CDM.

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CEMIG has implemented a strategy to study CDM project development opportunities in the carbon market. In order to undertake CDM projects, we are training our professionals, including through courses administered by USAID and the World Bank. CEMIG has sponsored a course promoted by USAID and the World Bank at the State of Minas Gerais Industry Federation to discuss CDM projects in the State of Minas Gerais. In 2005 we created a multidisciplinary task force to mobilize our wholly-owned subsidiaries and affiliated companies to identify projects that would allow us to obtain certificates of reduction of greenhouse gases.

Operational Technologies

We continue to invest in automated monitoring and control equipment in connection with our strategy of increasing efficiency and further modernizing and automating our generation, distribution and transmission systems.

Load Dispatch Center

Cemig s System Operation Center (COS), located at our head office in Belo Horizonte, is the nerve center of our operations. It coordinates the operations of our entire electricity and energy system, in real time, providing operational integration of the generation and transmission of our energy. It also provides the link with other generation, transmission and distribution companies. The supervision and control executed by the COS now extends to 43 extra high and high voltage substations and 27 major generating power plants.

Through its activities the COS permanently guarantees the security, continuity and quality of our supply of electricity. The activities of the COS are supported by up-to-date telecommunications, automation and information technology resources, and executed by highly qualified personnel. The COS has a Quality Management System, with ISO 9001:2000 certification.

Regional Distribution Operation Centers

Our distribution network is managed through seven *Centros de Operações Regionais de Distribuição* (Regional Distribution Operation Centers), or CODs. The CODs monitor and coordinate our distribution network operations in real time. The CODs are responsible for the supervision and control of 355 distribution substations, 235,799 miles of medium voltage distribution lines, 10,113 miles of sub-transmission lines and 6.2 million consumers in our concession area, comprising 774 municipalities of Minas Gerais.

The seven CODs dispatch an average of 24,000 services a day. All of the CODs are certified according to the Quality Standard ISO 9001: 2000. There are various systems in use to automate and support the CODs processes including trouble call, field crew management, distribution substation supervision and control, restoration of power, emergency switching, network disconnection and inspection. Technologies like geographic information system and radio/satellite data communication help to reduce the consumer restoration time and to provide better consumer attendance.

Geospatial Information & Technology

We are intensively using the geospatial and technical document management technology to support and improve engineering processes. Geo-referenced information of the electrical network, satellite and aerial photographs of the concession area, diagrams and technical document images are stored in geospatial databases and can be easily retrieved by computers connected to our Corporate Network, helping technicians to plan, design,construct, operate and maintain the generation, transmission and distribution network. We are using mobile technology in service dispatch for distribution network maintenance and medium and high-voltage network data acquisition.

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Internal Telecommunications Network

Our telecommunications network is one of the largest in Brazil. It includes a high performance microwave links with 198 communication stations, an optical system with 2,500 km of optical fibers and a mobile communication system with 480 trunking radios.

Corporate Data Network

Our corporate network integrates enterprise servers (one 649 MIPS Mainframe processing the billing system and eight Risc machines for the ERP and the new commercial systems), more than 7,000 Intel microcomputers, 359 servers and 1,002 units of connectivity equipment, serving 165 sites in 100 cities of Minas Gerais. The centralized infrastructure uses modern servers and devices with service level agreements for hardware maintenance and software support. The process of reception of meter reading data, digital calculation of electricity bills, and issuance of electricity bills to consumers in CEMIG s secondary network is ISO-9001:2000 certified since 2005.

IT Governance Program

We started an IT Governance Program in 2005. The IT Governance program is based on two main principles: (i) aligning IT strategy with the overall strategy of the business; and (ii) helping the Company to manage the risks associated with implementing new technologies.

Numerous actions were taken in 2006. The most important of these actions was the implementation of ITIL® best practices. The following ITIL® processes and functions were prioritized for implementation: Incident Management, Configuration Management, Change Management, Problem Management, Release Management, Capacity Management, Service Level Management, and Service Desk. The implementation of each of these processes will help CEMIG to ensure that it is in compliance with the controls and procedures requirements of the Sarbanes-Oxley Act.

Call Centers

We have two call centers, both in Belo Horizonte. Clients can use a toll-free number to get information on their accounts and report service problems. Both call centers are integrated with the technologies available in the CODs, allowing us to give clients up-to-date information on service issues. The call centers have modern facilities, with a staff of over 1,100, and are able to receive about 65,000 calls per day. Clients can also contact us by e-mail, by fax or via our website. As an indication of the service quality provided, our call centers have had ISO 9001 Quality Certification since 2001.

Commercial Management System

To update the technology of our Consumer Information System (SICO), which has been on a mainframe platform since the 1970s, Cemig Distribution is investing R$178 million in a new Commercial Management System (SGC), based on the CCS (Customer Care & Service), CRM (Customer Relationship Management) and BW (Business Warehouse) systems. This new system will serve not only low-voltage clients, but medium- and high-voltage clients as well.

Maintenance and Repair Systems

The 10,123 miles of high voltage transmission lines in Cemig Distribution s network, operating at 34.5 kV to 161 kV, are supported on 53,495 poles, mainly metal. Cemig Generation and Transmission s network has 3,019 miles of high voltage transmission lines supported on 11,400 structures. The majority of the service interruptions to our distribution and transmission lines are due to lightening, fire, vandalism, wind, and corrosion. Cemig Distribution s and Cemig Generation and Transmission s entire high voltage transmission line systems are inspected from the air once a year, using a helicopter equipped with a gimbal-gyro-stabilized camera, followed by simultaneous visual and thermographic (infra-red) inspection. Land-based inspections are also carried out at intervals of between one and three years, depending on the characteristics and age of the transmission line, number of outages, type of structure, and the line s importance to the electricity system as a whole.

To support emergencies involving fallen towers, we have used modern modular aluminum structures. Most of our intervention on transmission lines is done using live line methods. Being the first company in Brazil to use bare hand live line techniques in the maintenance of transmission lines and substations, we have accumulated, through the last almost thirty years, significant experience in this area. We have trained our staff in this area and have special vehicles and other necessary tools to support live and dead line maintenance.

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To guarantee availability of power to its consumers with no impact on the environment, CEMIG, in partnership with Asea and Brown Boveri (ABB) and Du Pont, has developed a retrofit project of a transformer, with the intention of maximizing the installed capacity in CEMIG s substations, at a lower cost. In a project that is unprecedented worldwide, a transformer 100% filled with vegetal insulating oil was developed.

Vegetal oil creates a revolution in insulating fluids for transformers, because it has excellent features for electrical insulation with high thermal stability and an ignition point far above mineral oils. It is not toxic, and provides safe loading, increased transformer lifetime, more safety in use, and reduction of the risk of fire in electrical substations. It is 97% biodegradable in 21 days and does not have components that can adversely affect the environment.

Due to the special design features, combined with the vegetal oil and insulating materials technology, CEMIG s transformer, which was initially designed for 25 MVA, at 138 kV, now can be overloaded until 43 MVA, during four consecutive hours, without loss of lifetime. These new values correspond to power reserve of 70%, increasing the reliability of the power supply to consumers connected to the substation in which it is installed. These special features also provide higher lifetime expectancy for the transformer.

We also have crews strategically located throughout the State of Minas Gerais in order to promptly attend to our transmission and distribution system needs.

Information Security Management

As part of the Corporate Information Security Projects Plan for 2006, two projects to meet the security requirements of the Sarbanes-Oxley Act were prioritized and developed: *Critical Analysis and Validation of Information System Access Rights* and the *Security Operation Center*. The total investment was R$1.75 million. Six new rules were included in the Information Security Policy.

A training program in Information Security Concepts for all company employees was implemented, using e-learning technology. In 2006, 8,338 employees (78% of the company s total workforce) completed the course. In October 2006, a seminar on *Information Security and Civil Liability* directed to managers and senior staff was presented by two well-known Brazilian lawyers specialized in Digital Rights.

Management Tools

Enterprise Resource Planning

Our current Enterprise Resource Planning (SAP R/3), or ERP, was updated in 2005 and has functionalities covering accounting, cost and funds control, budgeting, investment management, treasury, cash flow management, quality control, project management, inventory management, maintenance, asset control, human resources management (including payroll, time management and personnel development), travel management, financial consolidation, sales management, business information warehouse, corporate finance management, real estate, sales and distribution and a workflow functionality covering the finance and supply chains. The ERP also includes data warehouse functionality, balanced scorecard and long-term cash flow monitoring.

Quality Management Systems

In 1991, CEMIG instituted a quality control program referred to as the Total Quality Program. In 1999, as part of this program, we adopted the International Standardization Organization Project ISO, through which different parts of our operations and management have been certified according to International Standards known as ISO 9001, ISO 14001. In addition, we also certify parts of our environmental process operations according to internal criteria.

In addition to the continued implementation of the Quality and Environment Management systems in our activities and processes, we also have in progress the implementation of a Health and Safety Management System, providing control in accordance with the standards for this type of system.

Besides the International Standardization Organization Project, we have elaborated CEMIG s Management System Manual and Procedures that integrates the Quality, Environment and Health and Safety Management Systems. This is an internal document based on our experience acquired in the last few years.

CEMIG has been increasing its certification program, which ensures functionality in our activities and greater efficiency in the results. We have received ISO 9001/2000 certification for, among others, the following aspects of our business: consumer service offices, call centers, laboratories, maintenance of remote protection system equipment, data reception and billing, the São Simão, Emborcação, Miranda, Nova

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Ponte, Jaguara, Três Marias, Volta Grande, Itutinga, Camargos hydroelectric power plants and Igarapé Thermoelectric Power Plant (which represented 80% of our installed capacity at December 31, 2006) and our subsidiary Efficientia,

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the first and only Brazilian ESCO certified. Products and services certified include: new consumer connections; billing; collection; product sales and services; network expansion and improvement; network operation; public lighting maintenance and restoration; overhead lines and network maintenance and inspection; electric system planning; and substation and equipment maintenance and inspection.

Other processes have received NBR ISO 9001:2000 certification, including: processing, control and accounting of CEMIG s payroll; planning, management and predictive engineering of the generation system; and monitoring of the safety of dams and built structures of generation, operated and maintained by CEMIG.

Currently more than 60% of the employees of CEMIG carry out their activities in a systematized form, in processes certified in conformity with international standards.

In 2006, we maintained ISO 9001, OHSAS 18001 and Cemig EMS (Environmental Management System) certification for the Commercial Relationship and Services Management unit at Montes Claros and the Camargos hydroelectric power plant.

In February 2000, the Nova Ponte hydroelectric power plant received ISO 14001 certification, and in 2005 it was certificated under the Integrated Management System (ISO 9001, ISO 14001 and OHSAS 18001). The certification includes Galheiro s nature reserve and the 156 square mile reservoir. Itutinga hydroelectric power plant was certificated under Integrated Management System in 2005. In 2006, the São Simão, Jaguara, Três Marias, Volta Grande hydroelectric power plant and Igarapé thermoelectric power plant were also certificated under OHSAS 18001.

Risk Management

With the assistance of a leading consulting firm chosen through a formal selection process, we began establishment of a Corporate Risk Management System in 2003, and consolidated it during the period of 2004 through 2006 in connection with our unbundling process. As holder of a concession in the Brazilian electricity sector, we operate in environments where factors such as corporate restructurings, regulations issued by energy sector government agencies, technological development, globalizations and changes in the consumer market generate uncertainties and threats.

The implementation of a coherent risk vision and strategy at the corporate level is a new management trend, encouraged not only by the requirements of the Sarbanes-Oxley Act and the methods recommended by the Committee of Sponsoring Organizations (COSO II), but also by the perception that management of risk is an essential part of a sustainable development philosophy which aims to create value for shareholders.

Our Corporate Risk Management System aims to achieve the following: operate as an auxiliary in achievement of the objectives set by the strategic plan; create awareness among shareholders of the possible events that could constitute a risk of loss of value; structure the company to be able to take proactive stances in relation to its risk environment; provide the company s executives with a methodology and tools for effective management of risk; and provide other areas of strategic management with input concepts and procedures, and factors that strengthen the company s organizational control infrastructure.

CEMIG is working to provide the major ERM objective of an open environment conducive to effective communications about risks and risk management up, down and across the enterprise, so that a truly holistic, integrated, proactive, forward-looking and process-oriented approach is taken to assess all key business risks and opportunities, not only those of a financial nature. During 2005 and 2006, CEMIG s Corporate Risk Management System was revised and updated for a second time in order to adapt to the regulatory changes implemented by the New Industry Model Law. We also initiated the activities of the Corporate Risk Management Committee CGRC, which will approve the final version of the Corporate Risks Management Policy and published and implemented a Corporate Risk Management Procedures Manual.

CEMIG s Electricity Risks Management Committee, or CGRE, created in 2003, continues to propose policies and procedures for approval by the executive officers, according to corporate risk policy, to minimize risks in the contracting (purchase and sale) of energy. The committee has members from numerous areas of the Company, including generation, distribution, sales, legal and financial. The CGRE gives support to the decisions of the executive officers in relation to the Company s energy commercialization to Free Consumers and participation in the CCEE auctions. Based on risk analyses, the CGRE proposes the maximum volumes that could be sold and the amounts purchased by distributors in the auctions.

Management of Financial Risks

CEMIG s risk management also has the benefit of a Financial Risk Management Committee, which was created (i) to monitor the financial risks related to volatility and trends of the inflation indices, exchange rates and interest rates that affect our

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financial transactions, and which could negatively affect the Company s liquidity and profitability, and (ii) to implement guidelines for proactive operation in relation to the environment of financial risks when implementing action plans.

Property, Plant and Equipment

Our principal properties consist of the power generation plants and transmission and distribution facilities described in this Item 4. Our net book value of total property, plant and equipment, including our investment in certain consortia that operate electricity generation projects, was R$13,665 million at December 31, 2006 (including ongoing construction projects). Generation facilities represented 44.9% of this net book value, transmission and distribution facilities represented 51.5% and other miscellaneous property and equipment, including telecommunication facilities, represented 3.6%. The average annual depreciation rate applied to these facilities was 2.4% for hydroelectric generation facilities, 3.0% for transmission facilities, 5.1% for distribution facilities, 9.2% for administration facilities, and 7.9% for telecommunication facilities. Apart from our distribution network, no single one of our properties produced more than 10% of our total revenues in 2006. Our facilities are generally adequate for our present needs and suitable for their intended purposes. We have rights of way for our distribution lines, which are our assets and do not revert to the landowner upon expiration of our concessions.

Item 4A. Unresolved Staff Comments

Not Applicable

Item 5. Operating and Financial Review and Prospects

You should read the information contained in this section together with our financial statements contained elsewhere in this annual report. The following discussion is based on our financial statements, which have been prepared in accordance with U.S. GAAP and presented in reais.

General

We are a state-controlled energy company engaged, through our subsidiaries, primarily in the generation, transmission and distribution of electricity in Minas Gerais. According to ANEEL, at December 31, 2006, we were the fifth largest electric power generation concessionaire in Brazil as measured by total installed capacity, and for the year ended December 31, 2006, we were the largest electric power distribution concessionaire in Brazil, as measured by GWh of energy sold to final consumers. We supplied approximately 96.1% of the electricity consumed in Minas Gerais during the year ended December 31, 2006. See Item 4. Information on the Company Consumers and Billing. At December 31, 2006, we generated electricity at 51 hydroelectric plants, four thermoelectric plants and one wind farm and had a total installed generation capacity of 6,523 MW, of which the hydroelectric plants accounted for 6,338 MW. See Item 4. Information on the Company Generation and Purchase of Electric Power. The State Government as our controlling shareholder establishes our operating and long-term strategy.

The following are our principal subsidiaries as of December 31, 2006:

- Cemig Geração e Transmissão S.A. (100% interest). Cemig Generation and Transmission, which as of January 1, 2005 is engaged in the generation and transmission of energy.

- Cemig Distribuição S.A. (100% interest): Cemig Distribution, which as of January 1, 2005 is engaged in the distribution of energy.

- Sá Carvalho S.A. (100% interest). Sá Carvalho is engaged in the production and sale of electric energy and holds the concession to operate the Sá Carvalho hydroelectric power plant.

- Rosal S.A. (100% interest). Rosal is engaged in the production and sale of electric energy and holds the concession to operate Rosal hydroelectric power plant.

- Usina Térmica Ipatinga S.A. (100% interest). Usina Térmica Ipatinga is an SPP engaged in the production and sale of electric energy at the Ipatinga thermoelectric and steam power plant.

- Empresa de Infovias S.A. (100.0% interest). In April 2006, our ownership of Empresa de Infovias S.A. became 100.00%. The principal activities of Empresa de Infovias S.A. are rendering telecommunications services and developing activities related thereto, through multiservice networks using optical fiber cable, coaxial cable and other electronic equipment. Empresa de Infovias S.A. currently owns 69.25% of the capital stock of WAY TV Belo Horizonte S.A., a cable TV and internet services provider in certain cities of the State of Minas Gerais. On August

1, 2006, Empresa de Infovias S.A signed a share sale contract to sell its interest in WAY TV, and the amount of the sale price is held in escrow by Banco do Brasil S.A., in accordance with that contract, until consent for disposal of the control of WAY TV has been given by the Brazilian telecommunications regulator, ANATEL, at which point the shares will be transferred to the purchaser and the funds will be released to Empresa de Infovias S.A. and the other sellers. For additional information on the sale of WAY TV, see Item 4. Information on the Company Other Businesses Telecommunications, Internet and Cable Television.

- Efficientia S.A. (100% interest). Efficientia is engaged in rendering efficiency, optimization and energy solutions services, as well as providing operating and maintenance services, to energy supply facilities. Efficientia initiated operations in the first quarter of 2003.

- Horizontes Energia S.A. (100% interest). Horizontes Energia is engaged in the production and sale of electric energy, as an independent power producer, at the Machado Mineiro and Salto do Paraopeba hydroelectric power plants, located in the State of Minas Gerais, and the Salto Voltão and Salto do Passo Velho hydroelectric power plants, located in the State of Santa Catarina. Horizontes Energia initiated operations in the first quarter of 2003.

- Usina Termelétrica Barreiro S.A. (100% interest). Usina Termelétrica Barreiro is an IPP engaged in the production and sale of electric energy of the Barreiro thermoelectric power plant.

- CEMIG PCH S.A. (100% interest). Cemig PCH is an IPP engaged in the production and sale of electric energy of the Pai Joaquim small power plant.

- Cemig Capim Branco Energia S.A. (100% interest). Cemig Capim Branco Energia is engaged in the production and sale of electric energy of Capim Branco Power Facility.

We also have a 100% interest in CEMIG Trading S.A. which was organized to conduct specific projects in the electric energy sector and has not yet commenced operations. Our consolidated financial statements as of and for the years ended December 31, 2006 and 2005 include the financial results of CEMIG and all of our subsidiaries (operational and pre-operational) described above. Central Termelétrica de Cogeração S.A. and Central Hidrelétrica Pai Joaquim S.A. were not consolidated in 2004 because they were jointly controlled and became wholly owned in 2005. Additionally, Gasmig was not consolidated for the years ended December 31, 2006 and 2005. In 2004, we entered into a Shareholders Agreement with Petrobras and Gaspetro in connection with the sale of 40% of our equity interest in Gasmig. Gasmig s revenues and expenses were included in our consolidated Statement of Income up to December 15, 2004. Gasmig s assets and liabilities are not included in our consolidated financial statements as of December 31, 2004, December 31, 2005 and December 31, 2006. See Notes 2 and 9 to our consolidated financial statements. As of December 31, 2006, we had the following unconsolidated investments:

- Rio Minas Energia Participações S.A. (RME) (25.0% interest). RME is the controlling shareholder of the Light group, with a 54.17% interest in its total registered capital (79.39% as of December 31, 2006). The main holdings of the Light group are as follows: Light Energia, which is engaged in the generation of electricity, Light SESA, which is engaged in the distribution of electricity, and Light Esco Ltda., which is engaged in energy trading.

- Empresa Paraense de Transmissão de Energia S.A. (ETEP) (jointly controlled, 17.51% interest). ETEP is the holder of a public service electricity transmission concession for the transmission line originating at the Tucuruí Substation and ending at the Vila do Conde Substation in the State of Pará. We acquired our interest in ETEP in August 2006.

- Empresa Norte de Transmissão de Energia S.A. (ENTE) (jointly controlled, 18.35% interest). ENTE is the holder of a public service electricity transmission concession for two 500-kV transmission lines, the first from the Tucuruí Substation to the Marabá Substation in the State of Pará, and the second from the Marabá Station to the Açailândia Substation in the State of Maranhão. We acquired our interest in ENTE in August 2006.

- Empresa Regional de Transmissão de Energia S.A. (ERTE) (jointly controlled, 18.35% interest). ERTE is the holder of a public service electricity transmission concession for the 230-kV transmission line from the Vila do Conde Substation to the Santa Maria Substation in the State of Pará. We acquired our interest in ERTE in August 2006.

- Empresa Amazonense de Transmissão de Energia S.A. (EATE) (jointly controlled, 14.94% interest). EATE is the holder of the public service electricity transmission concession for the 500-kV transmission lines between the

sectionalizing substations of Tucuruí, Marabá, Imperatriz, Presidente Dutra and Açailândia. We acquired our interest in EATE in August 2006.

- Empresa Catarinense de Transmissão de Energia S.A. (ECTE) (jointly controlled, 7.50% interest). ECTE is the holder of the public service electricity transmission service concession for the 525-kV transmission line from the Campos Novos Substation to the Blumenau Substation in the State of Santa Catarina. We acquired our interest in ECTE in August 2006.

- Companhia de Gás de Minas Gerais GASMIG (55.19% interest). Gasmig is engaged in the acquisition, transportation and distribution of natural gas. In December 2004, CEMIG sold 40% of its interest in Gasmig. See Note 9 to our consolidated financial statements.

- Companhia de Transmissão Centroeste de Minas (51% interest). Companhia de Transmissão Centroeste de Minas is engaged in building, implementing, operating and maintaining the 345 kV transmission line from the substation of the Furnas Hydroelectric Power Plant and a substation located in Pimenta.

- Companhia Transleste de Transmissão (25.0% interest). Companhia Transleste de Transmissão will be responsible for building and operating the 345 kV transmission line connecting a substation located in Montes Claros and the substation of the Irapé Hydroelectric Power Plant.

- Companhia Transudeste de Transmissão (24.0% interest). Companhia Transudeste de Transmissão will be responsible for building, implementing, operating and maintaining the 345 kV transmission line from Itutinga to Juiz de Fora.

- Companhia Transirapé de Transmissão (24.5% interest). Companhia Transirapé de Transmissão will be responsible for constructing, implanting, operating and maintaining the 230 kV transmission line LT Irapé Araçuaí.

- Transchile Charrúa Transmisión S.A. (49% interest). Transchile Charrúa Transmisión will be responsible for constructing, installing, operating and maintaining the 220 kV transmission line LT Charrúa Nueva Temuco in Chile.

- Consórcio AHE Baguari (34% interest). Consórcio AHE Baguari was formed to build, operate and maintain the Baguari Hydroelectric Plant, in the Rio Doce River basin, in the State of Minas Gerais, in the municipalities of Fernandes Tourinho, Governador Valadares, Periquito, Alpercata and Sobrália.

- Hidrelétrica Cachoeirão S.A. (49% interest). Hidrelétrica Cachoeirão S.A. s purpose is the construction of the Cachoeirão Small Hydro Plant and the generation and sale of electricity. The plant is on the Manhuaçu River, in the municipality of Pocrane, in the State of Minas Gerais.

Critical Accounting Estimates

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. We evaluate our estimates on an ongoing basis and base them on a combination of historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ materially from those estimates. Our critical accounting policies that affect our more significant judgments used in the preparation of our consolidated financial statements are set forth below.

Regulatory assets

Due to changes in the electric utilities sector in Brazil in 2001 and 2002 and related acts by regulatory bodies of the Federal Government, we have concluded that because the rate-setting structure in Brazil was designed to recover certain allowable costs, we are subject to the provisions of Statement of Financial Accounting Standards No. 71 Accounting for the Effects of Certain Types of Regulation, or SFAS No. 71.

SFAS No. 71 requires rate-regulated public utilities such as CEMIG to record certain costs and credits allowed in the rate-setting process in different periods than for non-regulated entities. These costs and credits are deferred as regulatory assets and are recognized in the consolidated statement of operations at the time they are reflected in rates. Accordingly, we capitalize allowable incurred costs as deferred regulatory assets when there is a probable expectation that future revenue equal to the costs incurred will be

billed and collected as a direct result of the inclusion of the costs in an increased rate set by the regulator. The deferred regulatory asset is realized when we collect the related costs through billings to consumers. ANEEL performs a rate review on an annual basis. If ANEEL excludes all or part of a cost from recovery, that portion of the deferred regulatory asset is impaired and is accordingly reduced to the extent of the excluded cost. We evaluate and revise the accounting for our regulatory assets on an ongoing basis as new regulatory orders are properly issued and account for our activities under SFAS No. 71. As we recognize regulatory assets in accordance with rulings of the regulatory authorities of the Federal.

Government, future regulatory rulings may impact the carrying value and accounting treatment of our regulatory assets.

During 2001, the electricity markets in significant portions of Brazil experienced rationing, or reduced availability of electricity to consumers, due to low rainfall, reduced reservoir levels and Brazil s significant dependence on electricity generated from hydrological resources. These factors resulted in lower sales. In December 2001, electricity concessionaires in Brazil, including us, reached an industry-wide agreement with the Federal Government that provided resolution to rationing related issues as well as certain electricity rate-related issues. This agreement, known as the General Agreement of the Electricity Sector, generally allows for increased rates to be charged to electric power consumers until the amounts lost by the power generation and distribution concessionaires as a result of the rationing are recovered. The rate increases set forth in the General Agreement of the Electricity Sector intended to reimburse rationing-related losses are expected to remain in effect from January 2002 for an average of 74 months. However, no assurance can be given that the full amount of the rationing-related losses we incurred will be recovered over this period.

In addition, we are subject to the provisions of Emerging Issues Task Force Issue No. 92-07 Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs, or EITF 92-07, which establishes a 24-month limit for collection of regulatory assets related to billing losses. Accordingly, we were required to estimate this asset recovery based on assumptions of future billings.

We perform periodic evaluations of the recoverability of our deferred regulatory assets in order to determine whether impairment provisions are necessary based on applicable ANEEL regulations. We record loss provisions as necessary. These provisions are based on projections prepared by us, which projections may change in response to regulatory changes and other developments. See Notes 2(p) and 4 to our consolidated financial statements. If ANEEL disallows a material amount of capitalized costs to be included in future rates, the write-off of the regulatory assets may have a material adverse impact on our operating results.

Valuation of assets

We have long-lived assets, including power generation plants. Many of these assets are the result of recent capital investments and have not yet reached a mature life cycle in construction. We assess the carrying amount and potential impairment of these long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider in determining whether an impairment review is necessary include a significant underperformance of the assets relative to projected future operating results and significant negative industry or economic trends. We determine when an impairment review is necessary through a comparison between the expected undiscounted future cash flows and the carrying amount of the asset. If the carrying amount of the asset is the larger of the two amounts, an impairment loss is recognized by the amount that the carrying amount of the asset exceeds the fair value of the asset. The fair value is determined by quoted market prices, appraisals or the use of valuation techniques such as expected discounted future cash flows. We must make assumptions regarding these estimated future cash flows and other factors to determine the fair value of the respective assets. In determining estimated future cash flows, we consider historical experience as well as future expectations and estimated future cash flows are based on expected future rates and expected future consumer demand. A significant reduction in actual cash flows and estimated cash flows may have a material adverse impact on our operating results and financial condition.

Accrual for contingencies

We are party to certain legal proceedings in Brazil arising in the normal course of business regarding tax, labor, civil and other issues.

We account for contingencies in accordance with SFAS No. 5 Accounting for Contingencies. Such accruals are estimated based on historical experience, the nature of the claims, as well as the current status of the claims. Accounting for contingencies requires significant judgment by management concerning the estimated probabilities and ranges of exposure to potential liability. Management s assessment of our exposure to contingencies could change as new developments occur or more information becomes available. The outcome of the contingencies could vary significantly and could materially impact our consolidated results of operations, cash flows and financial position. Management has applied its best judgment in applying SFAS No. 5 to these matters.

Employee post-retirement benefits

We sponsor a defined-benefit pension plan and defined-contribution pension plan covering substantially all of our employees. We have also established post-retirement health and dental care plans and pay life insurance premiums. We account for these benefits in accordance with SFAS No. 87 Employers Accounting for Pensions and SFAS No. 106 Employers Accounting for Post-retirement Benefits other than Pensions. We have applied SFAS 132(R) Employers Disclosures about Pensions and Other Post-retirement Benefits to disclose information about pension plans and other post-retirement benefit plans and we also have implemented SFAS No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans as of December 31, 2006.

The determination of the amount of our obligations for pension and other post-retirement benefits depends on certain actuarial assumptions. These assumptions are described in note 15 to our consolidated financial statements and include, among others, the expected long-term rate of return on plan assets and increases in salaries and healthcare costs. In accordance with U.S. GAAP, actual results that differ from our assumptions are accumulated and amortized over future periods and generally affect our recognized expenses and recorded obligations in such future periods. While we believe that our assumptions are appropriate, significant differences in actual results or significant changes in our assumptions may materially affect our pension and other post-retirement obligations.

Deferred taxes

We account for income taxes in accordance with SFAS No. 109 Accounting for Income Taxes, which requires an asset and liability approach to recording current and deferred taxes. Accordingly, the effects of differences between the tax basis of assets and liabilities and the amounts recognized in our consolidated financial statements have been treated as temporary differences for the purpose of recording deferred income tax.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to establish a valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results.

Depreciation

Depreciation is computed using the straight-line method, at annual rates based on the estimated useful lives of the assets, in accordance with ANEEL regulations and industry practice in Brazil. To the extent that the actual lives differ from these estimates, there would be an impact on the amount of depreciation accrued in our consolidated financial statements. A significant decrease in the estimated useful life of a material amount of property, plant and equipment, or in the assets of the electricity generation project consortium in which we are a partner, could have a material adverse impact on our operating results in the period in which the estimate is revised and in subsequent periods.

Allowance for doubtful accounts

We record an allowance for doubtful accounts in an amount that we estimate to be sufficient to cover presently foreseeable losses.

We continuously monitor collections and payments from consumers and review and refine our estimation process. A future change in our estimates could result in an increase in the allowance for doubtful accounts which could have a material adverse impact on our operating results and financial condition.

Recently Issued U.S. GAAP Pronouncements

FIN 48 - Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes , that prescribes a recognition threshold and measurement attribute for the financial statement of a tax position taken or expected. This interpretation will result in increased relevance and comparability in financial reporting of income taxes because all tax positions accounted for in accordance with FASB Statement 109, Accounting for Income Taxes, will be evaluated for recognition, derecognition, and measurement using consistent criteria. This interpretation is effective for fiscal years beginning after December 15, 2006. Earlier application of the provisions of this interpretation is encouraged if the enterprise has not yet issued financial statements, including interim financial statements, in the period this interpretation is adopted. CEMIG is evaluating the potential impacts of this interpretation on its consolidated financial statements.

SFAS.157 - Fair Value Measurements

In September 2006, the FASB issued SFAS 157, Fair Value Measurements , that establishes a framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements and will change some current practices because of the need for increased consistency and comparability in fair value measurements and for expanded disclosures about fair value measurements. This statement applies to derivatives and other financial instruments measured at fair value under Statement 133 at initial recognition and in all subsequent periods and should provide users of financial statements with information that is useful in making investment, credit, and similar decisions. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. CEMIG is evaluating the potential impacts of this interpretation on its consolidated financial statements.

SFAS 159 - The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 . This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. No entity is permitted to apply this statement retrospectively to fiscal years preceding the effective date unless the entity chooses early adoption. The choice to adopt early should be made after issuance of this statement but within 120 days of the beginning of the fiscal year of adoption, provided the entity has not yet issued financial statements, including required notes to those financial statements, for any

interim period of the fiscal year of adoption. CEMIG is evaluating the potential impacts of this interpretation on its consolidated financial statements.

Staff Accounting Bulletin No. 108 - Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (Topic 1N) Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides guidance on how to evaluate prior period financial statement misstatements for purposes of assessing their materiality in the current period. There are two widely recognized methods for quantifying the effects of financial statement misstatements: the rollover or income statement method and the iron curtain or balance sheet method. Historically, we used the rollover method. Under this method we quantified our financial statement misstatements based on the amount of errors originating in the current-year income statement, and as a result did not consider the effects of prior-year misstatements to be material to our financial statements. SAB 108 now requires that we must consider both the rollover and iron curtain methods (dual method) when quantifying misstatements in the financial statements.

The iron curtain method quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement s origination. Upon adoption, SAB 108 permits adjustments for the cumulative effect of errors that were previously considered immaterial under the rollover method that are now considered material under the dual method.

The SAB 108 adjustment affects the carrying amount of assets and liabilities as of the beginning of the current fiscal year, with an offsetting adjustment to the opening balance of retained earnings in the year of adoption. The adoption of SAB 108 resulted in a cumulative effect adjustment of R$133 million, net of taxes, to the opening balance of unapropriated retained earnings. See Note 2 to our consolidated financial statements.

The cumulative effect adjustment was required to correct an error relating to the accounting for certain administrative costs which were improperly capitalized as property, plant and equipment in periods prior to 2005. This adjustment was not deemed to be material, both quantitatively and qualitatively, prior to the adoption of SAB 108, using the rollover method.

Analysis of Electricity Sales and Cost of Electricity Purchased

Electricity rates in Brazil are set by ANEEL, which has the authority to readjust and review rates in accordance with the applicable provisions of the concession contracts. See Annex A The Brazilian Power Industry Rates for the Use of the Distribution and Transmission Systems .

We charge captive consumers for their actual electricity consumption during each 30-day billing period at specified rates. Certain large industrial consumers are charged according to the electricity capacity contractually made available to them by us, with adjustments to those rates according to consumption during peak demand time as well as capacity requirements that exceed the contracted amount.

In general, rates on electricity that we purchase are determined by reference to the capacity contracted for as well as the volumes actually used. In the case of Itaipu, we are committed to purchase 17.3% of the amount of its capacity that Brazil is required to purchase at a fixed price denominated in dollars paid three times a month at exchange rates determined at the time of each payment.

The following table sets forth the average rate (in *reais* per MWh) and volume (by GWh) components of electricity sales and purchases for the periods indicated. The term average rate refers to revenues for the relevant class of consumers divided by the MWh used by such class and does not necessarily reflect actual rates and usage by a specific class of end-users during any particular period.

	Year ended December 31,		
	2006	2005	2004
Electricity Sales:			
Average rate to final consumers (R$/MWh)			
Industrial rate	123.62	121.42	154.51
Residential rate	488.04	463.04	405.00
Commercial rate	429.50	401.17	355.10
Rural rate	260.58	243.69	213.98
Public services rate and others	288.82	270.01	236.99
Total sales to final consumers (GWh)			
Industrial consumers	23,759	23,472	22,969
Residential consumers	6,647	6,589	6,526
Commercial consumers	3,851	3,754	3,537
Rural consumers	1,938	1,941	1,846
Public services and other consumers	2,666	2,574	2,498
Average rate (R$/MWh)	236.61	223.72	225.68
Total revenues (millions of R$)	9,319	8,708	8,541
Sales to distributors:			
Volume (GWh)	10,914	1,255	364
Average rate (R$/MWh)	63.86	90.84	68.68
Total revenues (millions of R$)(1)	697	114	24
Electricity Purchases from Itaipu:			
Volume (GWh)	12,109	12,144	11,936
Average cost (R$/MWh)	67.88	67.93	93.50
Total cost (millions of R$)	822	825	1,116

(1) Does not include R$187 million, R$123 million and R$12 million relating to energy transactions on the CCEE during 2006, 2005 and 2004, respectively.

Rates

Our results of operations in the past have been significantly affected by fluctuations in the levels of rates that we are permitted to charge for the generation and distribution of electricity. The rate-setting process in Brazil has historically been influenced by government attempts to control inflation. With the restructuring of the electric power sector in Brazil that commenced in 1995 and under the terms of the renewal of the concession agreement that we signed with ANEEL in 1997, the process by which rates are set has changed to a significant degree. Electricity that we distribute to captive consumers (those consumers that have demand lower than 3 MW and connected at voltage levels lower than 69 kV, including residential, commercial and some industrial consumers) is provided at rates that are adjusted and revised by ANEEL in accordance with the provisions of our concession contract. We have entered into electricity supply contracts at freely negotiated rates with our Free Consumers (those consumers that have a demand of 3 MW or more of electricity at voltage levels of 69 kV or more that have chosen to become Free Consumers) that elected not to be subject to ANEEL s rate-setting structure. Under Law No. 10,848, distribution companies are no longer allowed to enter in new contracts for sale of electricity to Free Consumers at non-regulated prices. See The Brazilian Power Industry Rates for the Use of the Distribution and Transmission Systems in Annex A.

ANEEL has approved extraordinary rate increases designed to compensate generation and distribution companies for losses incurred as a result of the Electricity Rationing Plan. See Power Rationing and Government Measures to Compensate Electric Utilities.

ANEEL, through Resolution No. 71, dated as of April 4, 2005, established our first periodic rate revision, allowing for recovery of operating costs and an appropriate return on investments.

The average rate adjustment applied to our rates on April 8, 2003 as part of our periodic rate review was 31.53%. However, according to Resolution No. 71, such rate adjustment was entitled to be 44.41%. ANEEL has indicated that the rate adjustments expected for the years from 2004 to 2007 will be adjusted in order to recover the differences between the 44.41% rate adjustment we were entitled to and the 31.53% rate adjustment that was authorized. From more information see Item 8. Financial Information Legal Proceedings Regulatory Matters.

The difference between the revenue under the 31.53% rate adjustment and the revenue that would have been earned based on the 44.41% rate adjustment was recorded by CEMIG as a deferred regulatory asset of R$919 million as of December 31, 2006,

including monetary variation and accrued interest at a rate of 11.26%, to be recovered through the annual readjustments until 2007. See Note 4 to our consolidated financial statements.

ANEEL issued Resolution No. 446 on April 3, 2007, which established our average annual rate adjustment of 9.43%. The components of this increase were as follows: (i) 3.42% due to the Rate Adjustment Index (*Índice de Reajuste Tarifário*), or IRT; (ii) 0.48% due to intra-annual variation of fixed costs, or CVA; (iii) 3.26% due to increases in the *Programa de Formação do Patrimônio do Servidor* (a fund for the benefit of public employees), or PASEP, and the *Contribuição para Seguridade Social* (a federal social security contribution), or COFINS, taxes; (iv) 1.47% due to revenue which we did not earn in 2004 as a result of the re-issuing of Resolution No. 83 on May 24, 2004, which reduced our rates; and (v) 0.80% due to other financial adjustments. The last three average annual readjustments with their respective components were as follows:

	2007	2006	2005	2004
Average annual rate adjustment	9.43 %	16.19 %	23.88 %	19.13 %
Components				
Rate adjustment index	3.42 %	5.31 %	6.68 %	7.59 %
Deferred regulatory asset	0 %	5.82 %	5.72 %	2.53 %
Intra-annual variation of fixed costs (CVA)	0.48 %	1.24 %	7.35 %	8.88 %
Increases in the Programa de Formação do Patrimônio do Servidor (a found for the benefit of public employees), or PASEP, and the Contribuição para Seguridade Social (a federal social security contribution), or COFINS, taxes	3.26 %	1.81 %	2.49 %	
Revenue we did not achieve in 2004 as a result of the re-issuing of Resolution No. 83 on may 24, 2004, which reduced our rates	1.47 %	1.45 %	1.60 %	
Other financial adjustments	0.80 %	0.56 %	0.05 %	0.14 %

Power Rationing and Government Measures to Compensate Electric Utilities

Low amounts of rainfall in 2000 and early 2001, vigorous growth in demand for energy and Brazil s significant dependence on electricity generated from hydrological resources resulted in abnormally low water levels in many reservoirs that are used to power Brazil s major hydroelectric generation facilities. In May 2001, the Federal Government announced several measures in response to these conditions. First, the President of Brazil passed Provisional Measure No. 2,147 on May 15, 2001 (as updated by Provisional Measure No. 2,152-2 on June 1, 2001), creating the *Câmara de Gestão da Crise de Energia Elétrica*, or Energy Crisis Committee. The Energy Crisis Committee resolved on May 16, 2001 to require certain electricity distributors, including us, to suspend distribution of electricity to new consumers (except residential and rural consumers) and for certain non-essential purposes such as nighttime sporting events and advertising use, and to reduce distribution for the illumination of public areas by 35%. Second, the President passed Decree No. 3,818, on May 15, 2001, requiring the Federal Government to reduce its electricity consumption by 35% beginning July 1, 2001. Third, on May 18, 2001, the Federal Government announced additional power rationing measures to be imposed on industrial, commercial and residential consumers in the most industrialized and heavily populated areas of Brazil beginning on June 1, 2001. These measures required most residential consumers to reduce their electricity consumption by 20% of the average consumption in May, June and July 2000. Industrial and commercial consumers also had to reduce their consumption by 15% to 25% of the average consumption during the same period. Further measures provided that bonuses would be paid to residential consumers whose energy consumption was lower than the requisite target and that power cuts and surcharges would be imposed on consumers whose energy consumption exceeded the requisite target. ANEEL established specific accounts and controls to record the effect of the rationing measures relating to the bonus, surcharge and other related costs. The power rationing measures ultimately ceased on February 28, 2002.

On October 17, 2001, the Federal Government, through Provisional Measure No. 4, approved by Law No. 10,310 of November 22, 2001, stated that electric utilities, including us, would be reimbursed for expenses associated with payment of bonuses to consumers and other related costs that exceeded the aforementioned surcharges. In 2002, we received approximately R$132 million as reimbursement for a portion of the expenses we incurred in connection with payment of bonuses to consumers. In addition, we are currently negotiating with ANEEL our reimbursement of approximately R$23 million relating to surcharges that were not paid by certain consumers because their surcharges are under dispute. There is no assurance that ANEEL will reimburse us, and therefore the total estimated exposure to the Company for this matter is fully reserved. In accordance with ANEEL Resolution No. 600, dated October 31, 2002, we have been reimbursed for operating costs of approximately R$28 million that relate to the adoption of the

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Electricity Rationing Plan and that exceed amounts received from surcharges on consumer rates. Reimbursement of these operating costs was made through rate increases in force since April 8, 2003, April 8, 2004 and April 8, 2005.

On December 12, 2001, through Provisional Measure No. 14, approved on April 26, 2002 by Law No. 10,438, the Federal Government authorized the creation of the General Agreement of the Electricity Sector. The General Agreement of the Electricity Sector provides that electric power distribution and generation companies in Brazil, such as us, will be compensated for revenue losses caused by the reduction in amounts of energy sold and the purchase of energy on the CCEE, as applicable, due to the Federal Government-mandated rationing measures. Compensation is made by means of an extraordinary increase in the energy rate applicable to future power sales and companies are entitled to use this increased rate for an average period of 74 months, beginning January 2002. See Note 4 to our consolidated financial statements.

Impact of Our Account Receivable from the State Government

As described further in Additional Information Material Contracts , we have an account receivable from the State Government, referred to as the CRC Account, that totaled R$1,540 million as of January 27, 2006, the date of transfer of the CRC credits into a Receivables Investment Fund FIDC. Our liquidity and net income are affected by payments made by the State Government in connection with the CRC Account. The agreement between CEMIG and the State Government that governs the CRC Account receivable is referred to as the CRC Account Agreement. The CRC Account Agreement has been amended four times, as described below.

On January 24, 2001, the First Amendment to the CRC Account Agreement replaced the monetary adjustment index of UFIR with the IGP-DI, retroactive to November 2000, since the UFIR was eliminated in October 2000.

The State Government did not make any payments to us under the CRC Account Agreement in 2001 or 2002 and therefore, in October 2002, the Second and Third Amendments to the CRC Agreement were signed, which separated the debt into two amounts and established new payment terms. In 2003 and 2004, we offset a portion of these overdue amounts from 2001 and 2002 against payments of interest on capital that we are required to make to the State Government as our shareholder. We had recorded a provision for losses as of December 31, 2004 for the total amount of the Second Amendment, since the State Government had not made payments on this balance since January 2003 and the Second Amendment did not provide for any guarantees. The Third Amendment stipulated that the guarantee relating to the dividends payable to the State Government would remain in force even after the original term of the Third Amendment. Our long-term estimates of future net income indicated that the dividends payable to the State Government would be sufficient to recover the amounts due under the Third Amendment and, consequently, no provision for losses was recorded.

Given the prior default by the State Government in the payment of amounts due under the CRC Account Agreement since 2001, and in order to ensure the full payment to us of the installments due by the State Government under the CRC Account balance, the Fourth Amendment to the CRC Account Agreement was signed on January 23, 2006. Under the Fourth Amendment, the State Government irrevocably agreed to pay the outstanding CRC Account balance, corresponding to R$2,942 million at December 31, 2004, plus interest, by authorizing CEMIG to retain 65% of the ordinary dividends and interest on capital due to the State Government. The outstanding balance is subject to monetary correction for inflation by the variation in the IGP-DI inflation index and will bear interest at 8.18% per year, compounded semi-annually.

Under the Fourth Amendment, the State is required to make 61 semi-annual payments due on June 30 and December 31 of each year. The Fourth Amendment applies retroactively to December 31, 2004, with the first payment date being June 30, 2005 and the final payment being due on June 30, 2035. The semi-annual payments will be adjusted for inflation by the IGP-DI inflation index. The 65% of dividends and interest on capital retained by CEMIG are to be applied in the following order: (i) the settlement of any past due installments, (ii) the settlement of the installment relating to the half-year in which dividend or interest on capital takes place, (iii) pre-payment of up to two installments and (iv) amortization of the outstanding balance due under the CRC Account.

A fifth amendment to the CRC Account is currently being considered, to adjust the outstanding balance of the CRC Agreement in accordance with a provision in the Fourth Amendment in which the parties recognized that there was a disagreement regarding the outstanding balance of the CRC Agreement at December 31, 2004. The State of Minas Gerais and CEMIG have reached an agreement that the correct value of the outstanding balance of the CRC Account as of December 31, 2004 is R$2,839 million. CEMIG and the State of Minas Gerais are ready to sign the Fifth Amendment to the CRC Agreement, but must wait for approval by the Cemig CRC Account Securitization Fund (*Cemig Fundo de Investimento em Direitos Creditorios Conta CRC*), or FIDC, to which the CRC Account receivables were transferred in January 2006.

If the retention of ordinary dividends and interest on capital is not sufficient to cover the applicable installment, beginning on January 1, 2008, CEMIG is entitled to retain up to 65% of any extraordinary dividends or interest on equity due to the State Government for the payment of that installment. Furthermore, if the sum of 65% of the ordinary dividends and interest and capital and

extraordinary dividends on interest and capital is not sufficient to cover an installment due, CEMIG is entitled to retain 100% of such dividends and interest on capital, beginning in the six-month period immediately following that of the past due date of the past due installment. In addition, if there is a reduction in the ownership of CEMIG by the State Government, the retention percentage will be automatically adjusted upward such that the amount of the dividend retained will remain the same as the amount equal to 65% of dividends based on the current ownership of CEMIG by the State Government.

In January 2006, we created the Cemig CRC Account Securitization Fund (*Cemig Fundo de Investimento em Direitos Creditorios Conta CRC*), or the FIDC. We assigned all our receivables under the CRC Account Agreement to the FIDC. The present value of the CRC Account receivables transferred to the FIDC was R$1,659 million, as of January 27, 2006 and the capital structure of the FIDC is composed of R$900 million of senior quotas held by third parties and approximately R$759 million of subordinated quotas held by us. The FIDC is fully consolidated by us and the senior quotas are recorded as long-term financing.

The Company has recorded a reversal provision for losses on the CRC Account receivable under the Fourth Amendment of the CRC Account Agreement in the amount of R$99 million and R$223 million in 2006 and 2005, respectively. Our estimate of future net income to calculate such provision did not take into account the new asset acquisitions foreseen in our long-term strategic plan.

For additional information regarding the FIDC, see Additional Information Material Contracts .

Exchange Rates

Substantially all of our revenues and operating expenses are denominated in *reais*. Although our electricity purchases from Itaipu are denominated in U.S. dollars, the related foreign exchange risk is no longer reflected in our operating revenues and operating expenses due to rate legislation changes in 2001 which allow electricity utilities such as us to record exchange rate losses related to Itaipu purchases as deferred regulatory assets. However, we have foreign currency-denominated debt. As a result, in reporting periods when the *real* declines against the dollar or other foreign currencies in which our debt is denominated, our operating results and financial position are adversely affected. Foreign exchange gain or loss and monetary variation gain or loss may impact our results of operations in periods in which there are wide swings in the value of the *real* relative to the dollar or high inflation. We have a number of financial and other contracts under which we owe, or are entitled to, amounts in respect of monetary variation as measured by an index of price inflation in Brazil. In 2006, we used financial instruments such as interest rate swaps in order to reduce the risk from exchange rate fluctuations. As of December 31, 2006, we had entered into swap agreements in the notional amount of US109.1 million and, with respect to the Japanese yen, in the amount of ¥3,879 million (equivalent to US$32.5 million), in order to change the original interest rate of certain financing from an interest rate calculated based on the U.S. dollar and Japanese yen variations to an interest rate calculated based on the *Certificado de Depósito Interbancário* CDI (Interbank Certificates of Deposit) rate, or CDI. See Notes 2(d), 13, 20, 22 and 23 to our consolidated financial statements.

Unbundling

In 2004, we undertook a reorganization of our corporate structure to comply with Law 10,848/04, which establishes that a distribution company may not exercise other activities such as the generation and transmission of electric energy. Two wholly-owned subsidiaries were created, Cemig Generation and Transmission and Cemig Distribution, which carry out the activities of electricity generation and transmission and electricity distribution, respectively. This process was finalized by ANEEL with respect to our distribution and transmission concessions through amendments to the existing concession contracts, and will be finalized with respect to the generation concession upon ANEEL s convocation to sign amendments to the existing generation contracts.

Following the unbundling of CEMIG s operations, ANEEL determined that CEMIG, Cemig Distribution and Cemig Generation and Transmission must prepare a formal cooperation agreement and submit it for approval by ANEEL. This agreement is to govern common use of human or physical resources when they are shared by the concession holders and the division and reimbursement of costs incurred by each company.

Financial Reporting and Tax Considerations

The unbundling has not resulted in material differences in the presentation of our reporting for financial purposes in accordance with U.S. GAAP or Brazilian GAAP since the financial results of the new generation, transmission and distribution subsidiaries are consolidated with ours. Our marginal tax rate, on a consolidated basis, has not changed materially as a result of the unbundling. However, our operating results were adversely affected as a consequence of the application of certain Brazilian revenue taxes. The revenue taxes which caused the adverse effect on operating results include the *Contribuição para Seguridade Social* (a federal social security contribution), or COFINS, and the *Programa de Formação do Patrimônio do Servidor* (a fund for the benefit of public employees), or PASEP, and were assessed against our consolidated revenues at a combined rate of approximately 4.65% from December 2002 to January 2004 and 3.65% from January through

November 2002. Since February 2004, the combined tax rate for these contributions is 9.25% of a tax base equal to the gross revenue less certain deductions. Due to the unbundling, the revenue taxes

were assessed at the subsidiary level with respect to revenues of the generation subsidiary and, separately, revenues of the distribution subsidiary.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Net operating revenues

Net operating revenues increased 15.0% from R$7,513 million in 2005 to R$8,640 million in 2006.

	2006 (in millions)	% of net operating revenues	2005 (in millions)	% of net operating revenues	2006 versus 2005 - %
Electricity sales to final consumers	R$ 9,319	107.9	R$ 8,708	115.8	7.0
Regulatory extraordinary rate adjustment	1		8	0.1	(87.5)
Deferred rate adjustment			110	1.5	(100.0)
Electricity sales to the interconnected power system	884	10.2	237	3.2	273.0
Use of basic transmission and distribution networks	1,780	20.6	1,523	20.3	16.9
Other operating revenues	199	2.3	168	2.2	18.5
Tax on revenues	(3,543)	(41.0)	(3,241)	(43.1)	9.3
Total net operating revenues	R$ 8,640	100	R$ 7,513	100.0	15.0

Revenues from electricity sales to final consumers increased 7.0% from R$8,708 million in 2005 to R$9,319 million in 2006 due to rate adjustments of 20.7% in April 2005 (full effect in 2006) and 7.1% in April 2006 and a 1.4% increase in the volume of our electricity sales to final consumers in 2006. The TUSD charges related to the use of the local distribution network of the Free Consumers, which began to be charged separately in 2004 and recorded under the item Use of basic transmission and distribution networks , were R$1,261 million in 2006 compared to R$1,058 million in 2005. This increase was due to a shift in certain industrial consumers to the category of Free Consumers in 2006. Electricity sales to final customers and the TUSD revenues together increased 8.3% in 2006 compared to 2005.

We recorded revenue relating to the regulatory extraordinary rate adjustment in accordance with the terms of the General Agreement of the Electricity Sector, which provides for reimbursement of revenue losses incurred during the period of the Electricity Rationing Plan and related spot market transactions through special rate increases to be billed to final consumers, and in accordance with EITF Issue No. 92-07, Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs, which establishes a 24-month limit for the recovery of revenue losses incurred during the Electricity Rationing Plan. See Note 4 to our consolidated financial statements.

Revenues related to the deferred rate adjustment were R$110 million in 2005. ANEEL Resolution No. 71, dated April 4, 2005, disclosed the results of CEMIG s periodic rate review. According to this resolution, the rate adjustment to be applied to CEMIG s rates beginning on April 8, 2003 was 44.4%, instead of the 31.5% previously applied. The difference is being included by ANEEL in our rate adjustments. The deferred rate adjustment recorded in 2005 represents the difference between the tariff adjustment that CEMIG is entitled to and the rate previously applied. See Note 4 to our consolidated financial statements.

Electricity sales to the interconnected power system were R$884 million in 2006, a 273.0% increase compared to R$237 million in 2005. This increase was primarily due to the sale of energy by Cemig Generation and Transmission to other distributors in 2006 as a result of the energy auction. In 2005, a substantial portion of the sale of energy by Cemig Generation and Transmission was to Cemig Distribution and was thus eliminated as inter-company transactions in the consolidated financial statements of CEMIG.

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Income from the use of the basic transmission network increased R$257 million, or 16.9%, from R$1,523 million in 2005 to R$1,780 million in 2006. This increase was primarily due to the higher TUSD revenues of Cemig Distribution, which totaled R$1,261 million in 2006 compared to R$1,058 million in 2005, resulting from the charges paid by Free Consumers for the power sold by Cemig Generation and Transmission. In addition, there was an increase in revenues related to use of the facilities that are part of CEMIG s basic transmission network by electric power generators and distributors that comprise the national grid, in the amount of R$417 million in 2006 compared to R$403 million in 2005.

Other operating revenues increased 18.5%, from R$168 million in 2005 to R$199 million in 2006. The variation in our other operating revenues in 2006 is primarily due to an increase in telecommunications and cable TV services revenues which was R$121 million in 2006 compared to R$92 million in 2005.

Taxes on revenues increased 9.3% to R$3,543 million in 2006, compared to R$3,241 million in 2005, as a result of the increase in our electricity sales to final consumers (including TUSD revenue) in 2006 as compared to 2005. Taxes on revenues consist of: (i) VAT, assessed at an average rate of 21% on electricity sales to final consumers, and VAT billed to consumers related to the deferred regulatory assets; (ii) COFINS, assessed at a rate of 7.6%; and (iii) PASEP, assessed at a rate of 1.65%. Through the end of 2005, the *Encargo de Capacidade Emergencial* (Emergency Capacity Charge), a charge established in 2002 that was prorated among final consumers of electric energy and relates to the *Comercializadora Brasileira de Energia Elétrica* CBEE, or CBEE, a Federal Government agency set up to supply energy to utilities in the event of future shortages, was also assessed. Due to the high reservoir levels of Brazilian hydroelectric plants in 2006, such charge was eliminated beginning in 2006. See Notes 14 and 18 to our consolidated financial statements.

Operating costs and expenses

Operating costs and expenses increased 27.1% to R$7,867 million in 2006 from R$6,189 million in 2005. This increase was principally due to increases in our electricity purchased for resale, personnel expenses and our provision for loss on deferred regulatory assets and an expense recorded in 2006 related to a regulatory liability special obligations.

	2006 (in millions)	**% of net operating revenues**	**2005 (in millions)**	**% of net operating revenues**	**2006 versus 2005 - %**
Electricity purchased for resale	R$ (1,907)	(22.1)	R$ (1,455)	(19.4)	31.1
Use of basic transmission and distribution networks	(687)	(8.0)	(709)	(9.4)	(3.1)
Depreciation and amortization	(810)	(9.4)	(669)	(8.9)	21.1
Personnel	(1,046)	(12.1)	(779)	(10.4)	34.3
Regulatory charges	(1,031)	(11.9)	(983)	(13.1)	4.9
Regulatory liability special liabilities	(1,057)	(12.2)			
Third-party services	(475)	(5.5)	(420)	(5.6)	13.1
Employee post-retirement benefits	(245)	(2.8)	(257)	(3.4)	(4.7)
Materials and supplies	(116)	(1.3)	(95)	(1.3)	22.1
Provision for loss on deferred regulatory assets	(49)	(0.6)	(183)	(2.4)	(73.2)
Employees profit sharing	(210)	(2.4)	(260)	(3.5)	(19.2)
Other	(234)	(2.7)	(379)	(5.0)	(38.3)
Total operating costs and expenses	R$ (7,867)	(91.0)	R$ (6,189)	(82.4)	27.1

Electricity purchased for resale consists primarily of purchases from Itaipu through *Eletrobrás*. We are required under applicable regulations to purchase 17.0% of Itaipu s capacity at U.S. dollar-denominated prices. We also purchase electricity from the

CCEE, Furnas and through competitive biddings. Electricity purchased for resale increased 31.1% to R$1,907 million in 2006 from R$1,455 million in 2005. The amounts of electricity purchased for resale reported in the income statement refer to the amounts that were in fact included in the calculation of the tariff to be applied, in accordance with SFAS 71 Accounting for the Effects of Certain Types of Regulation . See Note 19 to our consolidated financial statements.

Charges for use of the basic transmission network mainly correspond to the cost of transporting electricity in the Brazilian basic transmission network which is prorated among the Brazilian distribution companies. Charges for use of the basic transmission network are fixed costs, which decreased 3.1% from R$709 million in 2005 to R$687 million in 2006. The amount reported in the income statement refers to the amounts that were in fact included in the calculation of the tariff to be applied, in accordance with SFAS 71 Accounting for the Effects of Certain Types of Regulation .

Depreciation and amortization expense increased 21.1% from R$669 million in 2005 to R$810 million in 2006. This increase was primarily due to depreciable assets in service in 2006 in the amount of R$23,699 million, compared to R$18,875 million in 2005.

Personnel expense increased 34.3% from R$779 million in 2005 to R$1,046 million in 2006. This variation was due to the following factors: (i) a 7.6% salary increase granted to CEMIG s employees in November 2005 (full effect in 2006) and a 4.0% salary increase granted in November 2006; (ii) a R$178 million expense recorded in 2006 for an upfront payment to employees in exchange for their relinquishment of future benefits for time of service; (iii) an increase of 3.8% in the number of employees of CEMIG and its subsidiaries Cemig Generation and Transmission and Cemig Distribution, and (iv) an increase in fixed personnel costs from R$92 million in 2005 to R$158 million in 2006 due to work on the Luz Para Todos program.

Regulatory charges increased 4.9% from R$983 million in 2005 to R$1,031 million in 2006, primarily due to the increase of R$90 million in the fuel usage quota. The fuel usage quota represents contributions made by the electricity company concessionaires to subsidize the cost of fuel used in the thermoelectric energy generating process in the Brazilian energy system. The amounts reported in the income statement related to regulatory charges refer to the amounts that were in fact included in the calculation of the tariff to be applied, in accordance with SFAS 71 Accounting for the Effects of Certain Types of Regulation .

We recorded an expense in 2006, in the amount of R$1,057 million, related to special obligations, which are resources obtained by us from consumer contributions, federal budget allocations, as well as federal, state and municipal funds, and special credits relating to investments made in projects linked to the concession. The resources represent either infrastructure assets or cash to fund the acquisition and/or construction of such assets usually to obtain connection to our distribution network or to extend the existing network. For regulatory purposes, the depreciation of these assets was included in the tariff rate setting process and the corresponding liability was recorded for the amount of the total contributions. Under U.S. GAAP, the contributions were considered reimbursements of construction costs and credited against the cost of the related fixed assets. On October 31, 2006, ANEEL issued a new regulation which changed the treatment of special obligations with respect to the tariff setting process. The regulation establishes, among other items, that beginning on the date of the next respective tariff revision, the special obligations will be amortized as a reduction of net allowable costs over future periods, thereby reducing tariffs. Consequently, in accordance with SFAS No. 71 Accounting for the Effects of Certain Types of Regulation , the special obligations became a regulatory liability as a result to this new regulation. Therefore, we recorded an expense in the 2006 statement of operations, with an offset to deferred regulatory liabilities. See more information on Note 4, item f to our consolidated financial statements.

Third-party services expense increased 13.1% from R$420 million in 2005 to R$475 million in 2006. The increase was due to higher costs in 2006 related to meter reading, delivery of bills to consumers, maintenance and conservation of vehicles and contracted labor.

Employee post-retirement benefits expenses decreased 4.7% from R$257 million in 2005 to R$245 million in 2006 due to the reduction in payments for our Defined Contribution Plan from R$68 million in 2005 to R$53 million in 2006. See Note 15 to our consolidated financial statements.

We recorded a provision for losses on deferred regulatory assets of R$49 million in 2006 compared to R$183 million in 2005. The provision recorded is related to the amounts that CEMIG receives from other distribution companies in connection with energy transactions on the CCEE/MAE during the Electricity Rationing Plan. These distribution companies have a limited time, as stipulated by ANEEL, to transfer the amounts owed to us. See Note 4 to our consolidated financial statements.

Employees profit sharing decreased 19.2% from R$260 million in 2005 to R$210 million in 2006. This decrease is a result of a lower payment amount established under the collective labor agreements entered into by CEMIG and the labor unions in November 2006.

Other expenses decreased 38.3% from R$379 million in 2005 to R$234 million in 2006. The decrease in other expenses was primarily due to the reversal of provisions of R$97 million in 2006 compared to provisions recorded in 2005 of R$31 million, related to labor claims and civil

lawsuits. See Note 19 to our consolidated financial statements.

Operating income

As a result of the foregoing, we had operating income of R$773 million in 2006, compared to operating income of R$1,324 million in 2005.

Financial income, net

Financial income net, includes (i) financial income, which is mainly comprised of interest and a monetary restatement of our account receivable from the State Government, investment income earned, late charges on overdue electricity bills, foreign exchange gains, monetary restatement on deferred regulatory assets and (ii) financial expenses, which are mainly comprised of interest expense on loans and financing, the *Contribuição Provisória sobre a Movimentação ou Transmissão de Valores e de Créditos e Direitos de Natureza Financeira* (a financial transaction tax), or CPMF, foreign exchange losses, monetary restatement losses, monetary restatement of deferred regulatory liabilities and other expenses. We had net financial income of R$335 million in 2006 compared to net financial income of R$754 million in 2005, principally due to a R$99 million reversal provision for losses on accrued interest on our account receivable from the State Government in 2006 compared to a reversal provision of R$223 million in 2005 due to the execution of the Fourth Amendment to the CRC Account Agreement mentioned in Note 3 to our consolidated financial statements. Additionally, there was an increase of 61.3% in the charges on loans and financings from R$328 million in 2005 to R$529 million in 2006, due mainly to the increase in our debt in 2006 compared to 2005.

Non-Operating income

We had non-operating income of R$91 million in 2006 compared to non-operating income of R$29 million in 2005. The non-operating income recorded in 2006 is related to our equity investment in RME and other jointly controlled companies. See Note 9 to our consolidated financial statements.

Income taxes

Income taxes were an expense of R$497 million on pre-tax income of R$1,199 million in 2006, compared to an expense of R$300 million on pre-tax income of R$2,107 million in 2005. The main difference between income tax calculated at the statutory rate and the income tax expense recorded is the tax benefit mainly due to interest and monetary variation on our provision for losses on our account receivable from the State Government. See Note 5 to our consolidated financial statements.

Net income

As a result of the foregoing, we had a net income of R$702 million in 2006 compared to net income of R$1,809 million in 2005.

Other comprehensive income (loss)

Other comprehensive income was R$140 million in 2006 compared to other comprehensive income of R$25 million in 2005. This variation was due to a reduction in the additional minimum liability related to post-retirement benefits in 2006, as a result of a higher increase in plan assets compared to the increase in the projected benefit obligation.

Comprehensive income

As a result of the factors stated above, comprehensive income was R$842 million in 2006 compared to R$1,834 million in 2005.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Net operating revenues

Net operating revenues increased 0.5% from R$7,479 million in 2004 to R$7,513 million in 2005.

	2005 (in millions)	% of net operating revenues	2004 (in millions)	% of net operating revenues	2005 versus 2004 - %
Electricity sales to final consumers	R$ 8,708	115.8	R$ 8,541	114.2	2.0
Regulatory extraordinary rate adjustment	8	0.1	89	1.2	(91.0)
Deferred rate adjustment	110	1.5	640	8.5	(82.8)
Electricity sales to the interconnected power system	237	3.2	36	0.5	558.3
Use of basic transmission and distribution networks	1,523	20.3	245	3.3	521.6
Other operating revenues	168	2.2	536	7.2	(68.7)
Tax on revenues	(3,241)	(43.1)	(2,608)	(34.9)	24.3
Total net operating revenues	R$ 7,513	100.0	R$ 7,479	100.0	0.5

Although there were rate adjustments of 14.0% in April 2004 (full effect in 2005) and 20.7% in April 2005 and a 2.6% increase in the volume of our electricity sales to final consumers in 2005, revenues from electricity sales to final consumers increased only 2.0%. A significant number of industrial consumers were moved to the category of Free Consumers beginning in January 2005. As a result, the TUSD charges related to the use of the local distribution network of the Free Consumers began to be charged separately and recorded under the item Use of basic transmission and distribution networks in the amount of R$1,058 million in 2005. In 2004, TUSD was included in the total revenues from electricity sales to final customers. Based on the total of the TUSD revenues and the revenues from the electricity sales to final customers, total revenues increased 16.0% in 2005 compared to 2004.

We recorded revenue relating to the regulatory extraordinary rate adjustment in accordance with the terms of the General Agreement of the Electricity Sector, which provides for reimbursement of revenue losses incurred during the period of the Electricity Rationing Plan and related spot market transactions through special rate increases to be billed to final consumers, and in accordance with EITF Issue No. 92-07, Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs, which establishes a 24-month limit for the recovery of revenue losses incurred during the Electricity Rationing Plan. See Note 4 to our consolidated financial statements.

Revenues related to the deferred rate adjustment were R$110 million and R$640 million in 2005 and 2004, respectively. ANEEL Resolution No. 71, dated April 4, 2005, disclosed the results of CEMIG s periodic rate review. According to this resolution, the rate adjustment to be applied to CEMIG s rates beginning on April 8, 2003 was 44.4%, instead of the 31.5% previously applied. The difference will be included by ANEEL in future rate adjustments. The amounts recorded represent the difference between the tariff adjustment that CEMIG is entitled to and the rate previously applied. The higher amount recorded in 2004 represents the difference that occurred in the period between April 2003 to December 2004. See Note 4 to our consolidated financial statements.

Electricity sales to the interconnected power system were R$237 million in 2005, a 558.3% increase compared to R$36 million in 2004. This increase resulted primarily from the sale of power surplus by Cemig Distribution on the spot market in 2005.

Income from the use of the basic transmission network increased R$1,278 million, or 521.6%, from R$245 million in 2004 to R$1,523 million in 2005. This increase was primarily due to the TUSD revenues of Cemig Distribution, which totaled R$1,058 million in 2005, resulting from the charges paid by Free Consumers for the power sold by Cemig Generation and Transmission. As noted above, the TUSD had been included in the power supply tariff of Final Consumers until 2004. The balance of this item also includes income from the use of the facilities that are part of CEMIG s basic transmission network by electric power generators and distributors that comprise the national grid, in the amount of R$403 million in 2005 compared to R$243 million in 2004.

Other operating revenues decreased 68.7%, from R$536 million in 2004 to R$168 million in 2005. The variation in our other operating revenues in 2005 is due in part to our consolidation of Gasmig s revenues for the period from January 1, 2004 to December 15, 2004, the date of our sale

of a 40.00% equity interest in Gasmig to Petrobras. In 2005, we reported our investment in Gasmig under the equity method. The Gasmig revenues consolidated in 2004 were R$420 million. See Notes 9 and 18 to our consolidated financial statements.

Taxes on revenues increased 24.3% to R$3,241 million in 2005, compared to R$2,608 million in 2004, as a result of the increase in our electricity sales to final consumers (including TUSD revenue) in 2005 as compared to 2004. Taxes on revenues consist of: (i) VAT, assessed at an average rate of 21% on electricity sales to final consumers, and VAT billed to consumers related to the deferred regulatory assets; (ii) COFINS, assessed at a rate of 7.6%; (iii) PASEP, assessed at a rate of 1.65%; and (iv) the *Encargo de Capacidade Emergencial* (Emergency Capacity Charge), a charge established in 2002 that is prorated among final consumers of electric energy and relates to the *Comercializadora Brasileira de Energia Elétrica* CBEE, or CBEE, a Federal Government agency set up to supply energy to utilities in the event of future shortages. See Note 18 to our consolidated financial statements.

Operating costs and expenses

Operating costs and expenses increased 13.2% to R$6,189 million in 2005 from R$5,466 million in 2004. This increase was principally due to an increase in regulatory charges in 2005, increased use of the basic transmission network and a provision for a loss on deferred regulatory assets.

	2005 (in millions)	% of net operating revenues	2004 (in millions)	% of net operating revenues	2005 versus 2004 - %
Electricity purchased for resale	R$ (1,455)	(19.4)	R$ (1,370)	(18.3)	6.2
Natural gas purchased for resale			(268)	(3.6)	
Use of basic transmission and distribution networks	(709)	(9.4)	(538)	(7.2)	31.8
Depreciation and amortization	(669)	(8.9)	(677)	(9.0)	(1.3)
Personnel	(779)	(10.4)	(788)	(10.5)	(1.1)
Regulatory charges	(983)	(13.1)	(861)	(11.5)	14.2
Third-party services	(420)	(5.6)	(329)	(4.5)	27.7
Employee post-retirement benefits	(257)	(3.4)	(153)	(2.0)	68.0
Materials and supplies	(95)	(1.3)	(83)	(1.2)	14.4
Provision for loss on deferred regulatory assets	(183)	(2.4)	(9)	(0.1)	1,933.3
Employees profit sharing	(260)	(3.5)	(110)	(1.5)	136.4
Other	(379)	(5.0)	(280)	(3.7)	35.4
Total operating costs and expenses	R$ (6,189)	(82.4)	R$ (5,466)	(73.1)	13.2

Electricity purchased for resale consists primarily of purchases from Itaipu through *Eletrobrás*. We are required under applicable regulations to purchase 17.0% of Itaipu s capacity at U.S. dollar-denominated prices. We also purchase electricity from the CCEE, Furnas and through competitive biddings. Electricity purchased for resale increased 6.2% to R$1,455 million in 2005 from R$1,370 million in 2004. The amounts of electricity purchased for resale reported in the income statement refer to the amounts that were in fact included in the calculation of the tariff to be applied, in accordance with SFAS 71 Accounting for the Effects of Certain Types of Regulation . See Note 19 to our consolidated financial statements.

Natural gas purchased for resale was R$268 million in 2004. We consolidated Gasmig s revenues for the period from January 1, 2004 to December 15, 2004, the date of our sale of a 40.00% equity interest in Gasmig to Petrobras. In 2005, we accounted for our investment in Gasmig using the equity method and therefore we did not consolidate its revenues and expenses in 2005.

Charges for use of the basic transmission network mainly correspond to the cost of transporting electricity in the Brazilian basic transmission network which is prorated among the Brazilian distribution companies. Charges for use of the basic transmission network are fixed costs that represented a 31.8% increase from R$538 million in 2004 to R$709 million in 2005. The amount reported in the income statement refers to the amounts that were in fact included in the calculation of the tariff to be applied, in accordance with SFAS 71 Accounting for the Effects of

Certain Types of Regulation .

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Depreciation and amortization expense did not vary significantly, decreasing 1.2% from R$677 million in 2004 to R$669 million in 2005. This reduction is due to the certain items that became fully depreciated in 2004. See Note 10 to our consolidated financial statements.

Personnel expense decreased from R$788 million in 2004 to R$779 million in 2005. Although there was a 7.00% salary increase granted to CEMIG s employees in November 2004 (full effect in 2005), and a 7.6% salary increase granted in November 2005, we recorded a R$27 million provision in 2004 in connection with the implementation of our voluntary termination program and no such provision was recorded in 2005.

Regulatory charges increased 14.2% from R$861 million in 2004 to R$983 million in 2005, primarily due to the increase of R$124 million in the fuel usage quota. The fuel usage quota represents contributions made by the electricity company concessionaires to subsidize the cost of fuel used in the thermoelectric energy generating process in the Brazilian energy system. The amounts reported in the income statement related to regulatory charges refer to the amounts that were in fact included in the calculation of the tariff to be applied, in accordance with SFAS 71 Accounting for the Effects of Certain Types of Regulation .

Third-party services expense increased 27.7% from R$329 million in 2004 to R$420 million in 2005. The increase was due to higher costs in 2005 related to meter reading, delivery of bills to consumers, collection services and maintenance of distribution and transmission lines and buildings.

Employee post-retirement benefits increased 68.0% from R$153 million in 2004 to R$257 million in 2005, due to a higher projected net periodic cost in 2005 as a result of a higher expected interest expense compared to the expected return on plan assets. See Note 15 to our consolidated financial statements.

We recorded a provision for losses of R$183 million in 2005 compared to a provision for losses on deferred regulatory assets of R$9 million in 2004. The provision recorded in 2005 is related to the amounts that CEMIG receives from other distribution companies in connection with energy transactions on the CCEE/MAE during the Electricity Rationing Plan. These distribution companies have a limited time, as stipulated by ANEEL, to transfer the amounts owed to us. The provision recorded in 2005 is based on a study we prepared to determine whether the time stipulated for the distribution companies to carry out the transfer would be enough time for the recovery of the amounts due. See Note 4 to our consolidated financial statements.

Employees profit sharing increased 136.4% from R$110 million in 2004 to R$260 million in 2005. This variation due to the collective labor agreements entered into by CEMIG and the labor unions in November 2005.

Other expenses increased 35.4% from R$280 million in 2004 to R$379 million in 2005. The main variation in other expenses between 2004 and 2005 was an increase of R$31 million in provision for contingencies from R$34 million in 2004 to R$65 million in 2005. See Note 19 to our consolidated financial statements.

Operating income

As a result of the foregoing, we had operating income of R$1,324 million in 2005, compared to operating income of R$2,013 million in 2004.

Financial income, net

Financial income, net, includes (i) financial income, which is mainly comprised of interest and a monetary restatement of our account receivable from the State Government, investment income earned, late charges on overdue electricity bills, foreign exchange gains, monetary restatement on deferred regulatory assets and (ii) financial expenses, which are mainly comprised of interest expense on loans and financing, the *Contribuição Provisória sobre a Movimentação ou Transmissão de Valores e de Créditos e Direitos de Natureza Financeira* (a financial transaction tax), or CPMF, foreign exchange losses, monetary restatement losses, monetary restatement of deferred regulatory liabilities and other expenses. We had net financial income of R$754 million in 2005 compared to net financial income of R$350 million in 2004, principally due to a R$223 million reversal provision for losses on accrued interest on our account receivable from the State Government in 2005 compared to a provision of R$326 million in 2004 which was recorded on accrued interest on this receivable due to the execution of the Fourth Amendment to the CRC Account Agreement mentioned in Note 3 to our consolidated financial statements.

Non-Operating income

We had non-operating income of R$29 million in 2005 compared to a non-operating income of R$105 million in 2004. The non-operating income recorded in 2005 is related to Equity on investment on Gasmig. In 2004, CEMIG sold part of its shares in Gasmig, corresponding to 40% of the registered capital for R$154 million, resulting in a income of R$102 million.

Income taxes

Income taxes were an expense of R$300 million on pre-tax income of R$2,107 million in 2005, compared to an expense of R$731 million on pre-tax income of R$2,468 million in 2004. The main difference between income tax calculated at the statutory rate and the income tax expense recorded is the tax benefit of R$216 million and R$173 million in 2005 and 2004, respectively, with respect to interest on capital. See Note 5 to our consolidated financial statements.

Minority interests

The minority interest represented income of R$2 million in 2005, and was related to Empresa de Infovias S.A.

Net income

As a result of the foregoing, we had a net income of R$1,809 million in 2005 compared to net income of R$1,739 million in 2004.

Other comprehensive income (loss)

Other comprehensive income was R$25 million in 2005 compared to other comprehensive loss of R$474 million in 2004 In the prior year, CEMIG made a change in some actuarial assumptions related to annual discount rate and the mortality rate. The effect of these changes was a significant increase in our retirement benefit obligation, which was recorded as an other comprehensive loss in 2004.

Comprehensive income

As a result of the factors stated above, comprehensive income was R$1,834 million in 2005 compared to R$1,265 million in 2004.

Liquidity and Capital Resources

Our business is capital intensive. Historically, we have required capital to finance the construction of new generation facilities and the expansion and modernization of existing generation, transmission and distribution facilities. Our liquidity requirements are also affected by our dividend policy. See Item 8. Financial Information Dividend Policy and Payments. We have funded our liquidity and capital requirements primarily with cash provided by operations and, to a lesser extent, with proceeds of financings. We believe that our current cash reserves, cash provided by operations and anticipated proceeds from financings will be sufficient during the next 12 months to meet our liquidity requirements.

Cash and cash equivalents

Cash and cash equivalents as of December 31, 2006 were R$1,108 million compared to R$1,349 million as of December 31, 2005 and R$916 million as of December 31, 2004. None of our cash or cash equivalents was held in currencies other than *reais* as of December 31, 2006.

Cash flow from operating activities

Net cash provided by operating activities in 2006, 2005 and 2004 totaled R$2,286 million, R$1,775 million and R$1,498 million, respectively. The increase in cash provided by operating activities in 2006 compared to 2005 was due mainly to higher amounts received related to deferred regulatory assets and the increase in 2005 compared to 2004 was due primarily to the financial settlement of the CCEE transactions in 2004. Significant non-cash items affecting earnings included depreciation and amortization expense as a result of our on-going capital improvements projects, recognition of deferred regulatory assets, the effects of monetary variation and exchange rate variations and a partial reversal of the provision for loss on the receivable under the CRC Account Agreement.

Cash flow from investing activities

Net cash used in investing activities during 2006, 2005 and 2004 amounted to R$2,086 million, R$1,548 million and R$910 million, respectively, principally relating to the acquisition of property, plant and equipment and the modernization of existing generation, transmission and distribution facilities, as well as the acquisition of an interest in Light and transmission companies in 2006. Investments in affiliates amounted to R$568 million, R$32 million and R$10 million in 2006, 2005 and 2004, respectively. Capital expenditures from the acquisition of property, plant and equipment amounted to R$1,328 million, R$1,511 million and

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R$1,061 million in 2006, 2005 and 2004, respectively. See Item 4. Information on the Company Capital Expenditures for more detail regarding how these capital expenditures were applied by us.

Cash flow from financing activities

Net cash used by financing activities during 2006 was R$441 million, comprised of the repayment of R$1,817 million of *real* and foreign currency-denominated long-term financing and the payment of R$2,072 million in dividends and interest on capital, partially offset by R$2,248 million and R$1,200 million in proceeds from long-term financings and short-term loans, respectively.

Net cash provided by financing activities during 2005 was R$206 million, comprised of R$1,515 million in proceeds from long-term financing, offset by the repayment of R$818 million of real- and foreign currency-denominated long-term financing and the payment of R$491 million in dividends and interest on capital.

Net cash used for financing activities during 2004 was R$138 million, comprised of R$1,207 million and R$316 million in proceeds from long-term financing and short-term loans, respectively, offset by the repayment of R$1,424 million of real- and foreign currency-denominated long-term financing and the payment of R$237 million in dividends and interest on capital.

Our indebtedness from loans, financings and debentures as of December 31, 2006 was R$6,524 million, composed of R$5,833 million of long-term debt and R$691 million of the current portion of long-term debt. This compares with indebtedness from loans, financings and debentures as of December 31, 2005 of R$4,826 million, composed of R$3,841 million of long-term debt and R$985 million of the current portion of long-term debt. Of our long-term debt (including the current portion) at December 31, 2006, R$661 million was denominated in foreign currencies (R$554 million of which was U.S. dollar-denominated) and R$5,863 million was denominated in *reais*. Of our total indebtedness from loans, financings and debentures of R$6,524 million as of December 31, 2006, R$5,876 million is subject to variable interest rates. See Notes 13 and 22 to our consolidated financial statements.

We are subject to financial covenants contained in some of our debt agreements that require us to maintain certain financial ratios, one of which has been waived by the relevant creditor. These ratios are computed based on our financial statements prepared in accordance with accounting practices adopted in Brazil. These and other covenants could limit our ability to support our liquidity and capital requirements. See Item 13 Defaults, Dividend Arrearages and Delinquencies Restrictive Covenants .

Given the current portion of our financings in the amount of R$691 million due in 2007, we need funds in the short term to pay and refinance these obligations. For this reason, we are refinancing our debt in 2007 to lengthen maturities. We plan to raise approximately R$600 million in 2007, which will be used not only to repay debt but also to finance the capital expenditure. We cannot assure you that we will successfully consummate this refinancing.

On July 19, 2004, we set up a Local Note Program, or the Program, according to Instrução CVM No. 400 , dated December 29, 2003. Under the Program we were permitted to issue debentures in an amount of up to R$1.5 billion, and issued debentures in July 2004. As a result of the unbundling, we are unable to issue additional debentures under the Program. We may in the future establish other local note programs directly or through our subsidiaries.

As a state-controlled company, we are subject to restrictions under current financing laws and regulations in Brazil on our ability to obtain financing in certain situations. For example, we must obtain approval from the Brazilian Ministry of Finance and the Central Bank prior to certain international financial transactions and such approval is typically granted only if the purpose of the transaction is to finance the import of goods or to roll over our external debt. In addition, financial institutions in Brazil are subject to risk exposure restrictions with regard to state governments, governmental agencies and state-controlled companies such as us. The restrictions mentioned in this paragraph have not prevented us from obtaining financing, although there is no assurance that our ability to obtain financing will not be hindered in the future. See Item 3. Key Information Risk Factors Risks Relating to Brazil We currently face limitations on our ability to obtain financing.

We currently plan to make capital expenditures aggregating approximately R$1,148 million in 2007. The principal uses of these expenditures are expected to be for expansion of our distribution infrastructure and increases in our generation capacity. In 2006, we funded our capital expenditures and met our liquidity requirements through a combination of cash flow from operations and financings. We expect that we will fund our proposed capital expenditures and meet our other liquidity requirements in 2007 through a combination of cash flow from operations and financings. Because we rely primarily on cash generated from operations to fund our liquidity and capital requirements, factors that cause our revenues and net income to increase or decrease could have a corresponding effect on our access to sources of liquidity.

Over the long term, we anticipate that it will be necessary to make significant capital expenditures in connection with the maintenance and upgrading of our generation, transmission and distribution facilities, and we expect to employ a variety of liquidity

sources, such as cash flow from operations and financings, in connection with such requirements. See Item 3. Key Information Risk Factors for a discussion of certain matters that might adversely affect our liquidity position.

In January 2006, we sold the senior quotas of Cemig CRC Account Securitization Fund (FIDC) in the amount of R$900 million which increased our liabilities in this same amount. For additional information regarding the FIDC, see Additional Information - Material Contracts .

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Tabular Disclosure of Contractual Obligations

We have outstanding contractual obligations and commitments which include principal debt payment provisions, the obligation to purchase electricity for resale from Itaipu, the obligation to transfer and transport electric power from Itaipu as well as construction commitments. The following table provides information, as of December 31, 2006, about our contractual obligations and commitments in millions of *reais*.

	2007	2008	2009	2010	2011	2012	2013 and beyond	Total
Long-Term debt (1)	691	547	869	658	756	911	2,092	6,524
Derivative financial instruments (swaps)	103	15	36	9	8	8	8	187
Purchase of Electricity from Itaipu for resale (2)	1,216	1,021	1,070	1,103	1,115	1,159	499	7,183
Transportation of Electric Power from Itaipu (2)	78	82	85	89	93	97	42	566
Baguari hydroelectric power plant(3)	56	76	31	4				167
Aimorés hydroelectric power plant (3)	33	4						37
Três Marias hydroelectric power plant (3)	25	3						28
Luz para todos (Light for All) Program	204							204
Cresce Minas I	176	438	107					721
Sales Management System I	77	41	16					134
Furnas-Pimenta Transmission Line	14	2						16
Pension Plan Debt - Forluz	120	89	94	96	87	85	746	1,317
Purchase of Energy Spot Market	748	1,023	1,261	1,533	1,662	1,742	4,415	12,384
Total	3,541	3,341	3,569	3,492	3,721	4,002	7,802	29,468

(1) In the event of our non-compliance with certain covenants in our loan agreements, the total principal, future interest and any penalties due under these agreements may become immediately due and payable. These amounts do not include interest payments on debt or payments under interest rate swap agreements. We expect to pay approximately R$664 million in interest payments on debt in 2007. Interest payments on debt for years following 2007 have not been estimated since they are subject to future variations in variable interest rates and foreign currency exchange rates, We do not believe projections of interest payments and payments under interest rate swap agreements would be meaningful.

(2) Contract with Furnas, denominated in U.S. dollars, to supply electric power purchased from Itaipu until May 2013. Amounts are calculated based on the U.S. dollar exchange rate as of December 31, 2006.

(3) Contractual obligations with contractors.

Research and Development

We are engaged in projects that explore technological advances not only in electric power systems but in all energy-related fields such as the development of the usage of alternative energy sources, environmental control and power system performance and safety optimization.

In 2006, we spent approximately R$33 million on research and development, including transfers to *Fundo Nacional de Desenvolvimento Cientifico e Tecnológico* FNDCT (a federal research and development fund). During the years ended December 31, 2006, 2005 and 2004, we

spent an aggregate of approximately R$50 million on research and development, and we transferred a similar amount to FNDCT during that time. We expect to spend a total of approximately R$56 million on research and development in 2007. We conduct these efforts in accordance with Federal Law No. 9,991, which requires Brazilian power utilities to

spend at least 1% of their net income on research and development projects (including transfers to FNDCT), as well as in accordance with our strategic corporate plans.

Some of the research and development programs as well as energy efficiency programs related to 2006 and previous fiscal years have not yet been concluded by us. These delays have been caused by the time spent by ANEEL on the approval of the programs and for establishment of partnerships and development of the projects by the partners. In accordance with ANEEL instructions CEMIG recorded a liability in 2006 for future expenditures in research and development programs and energy efficiency programs in the amount of R$85 million relating to amounts that had already been included in the determination of our tariffs in 2006.

We have dedicated a substantial portion of our research and development activities to the development of the usage of alternative energy sources, including wind, solar and biomass power generation. For example, our experimental Morro do Camelinho wind farm, with an installed capacity of 1 MW, began operating in 1994. See Item 4. Information on the Company Generation and Purchase of Electric Power Wind Farm. We are currently involved in alternative energy research and development through projects that involve:

- the development of the first Latin American 500W and 1,000W prototypes of hydrogen fuel cells (Direct Hydrogen Proton Exchange Membrane Fuel Cells) and research regarding the development of cells fueled directly by ethanol without external reform (Direct Ethanol Proton Exchange Membrane Fuel Cell);

- the use of low cost technologies for electricity generation such as Elsbeth and Stirling motors, internal combustion engines, photovoltaic panels, micro turbines, high temperature fuel cells, biomass gasification, and bio-gas from animal biomass;

- the creation of an experimental laboratory for the production of hydrogen as an energy source;

- a joint research program with *Universidade Federal de Itajubá* relating to small hydroelectric plants, thermal generation and distributed energy resources;

- a joint research program with *Centro Tecnológico de Minas Gerais* focusing on the development of a low-cost photovoltaic cell;

- a joint research program with *Universidade Federal de Viçosa* relating to planted biomass for electricity generation; and

- a joint research program with *Centro Federal de Educação Tecnológica* focusing on the development of small solar thermal power plants using low-cost materials.

Our research and development projects in areas other than alternative energy sources include:

- projects regarding the minimization of the environmental impact in areas like fish safety, limnology, aquifers recharge, geology-related researches, riparian vegetation and environmental problems caused by turbines;

- projects for monitoring and optimizing of thermal and hydroelectric plants;

- meteorology projects, especially related to flood and lightning forecasts, the major causes of power outages;

- projects for the optimization and improvement of the performance of transmission and distribution systems, like the development of new computer tools, equipment and materials;

- projects for the development of new equipment for energy efficiency; and

- projects for the optimization of supervision, control and protection systems of the transmission and distribution control centers.

We have also been instrumental in developing programs relating to the generation of electricity in remote areas and for low-income consumers, such as our Lumiar and Luz Solar programs.

In view of the importance of technology with respect to our business strategy, the annual increase in funds allocated by CEMIG to technological research and development, and the need to maximize results achieved through these initiatives, we

implemented the Strategic Technology Management Center *(Centro de Gestão Estratégica de Tecnologia* CGET), an independent nonprofit entity whose partners are subsidiaries of CEMIG. Its mission is to promote research and development on technological innovations, with a goal of increasing the competitiveness in the power industry in the state of Minas Gerais, fostering sustainable regional development .

Trends

The purchase of energy from the Itaipu power plant and our generation resources were sufficient to meet almost 73.2% of our own load and our sale contracts in 2006. To complement our remaining energy needs (26.8%) in 2006, we bought energy under Bilateral Contracts , through contracts with other participants in the CCEE, and through contracts in the Regulated Contracting Environment (ACR). For more details about the energy purchased and sold in the ACR, see Item 10. Additional Information Material Contracts Electricity Sale Contracts in the Regulated Environment (CCEARs).

As a public service utility, we are subject to regulations issued by the Federal Government as described in Item 4. Information on the Company Brazil s Energy Market Regulation. Therefore, any change in the regulatory framework may affect us significantly either with respect to our revenue if the change relates to prices or with respect to our operating expenses if the change relates to costs incurred to provide service to consumers.

We do not anticipate any significant change in revenues in respect of the transmission and distribution businesses since the regulation in place meets the plans of the Federal Government administration.

The rate readjustment was applied differently to different client categories with industrial clients having higher readjustments than residential clients. For more information, see Item 4. Information on the Company Brazil s Energy Market Rates and Annex A The Brazilian Power Industry Rates for the Use of the Distribution and Transmission Systems . This difference in application may have an impact on sales volume growth in the future since large industrial clients tend to develop co-generation projects to supply energy to themselves at a lower cost. We are taking steps to mitigate this impact through the connection of new clients of different categories as well as clients based in other states. In the coming years, we expect electricity consumption to grow toward the pre-rationing level based on an assumption that economic activity in Brazil will return to the levels it reached prior to the Federal Government-imposed rationing in 2001. However, there can be no assurance that this will occur.

We expect that our Parcel A costs will increase at a rate well above inflation, which will require further rate increases. We expect our Parcel B costs to rise more or less at the rate of inflation since most of these cost items are adjusted for inflation according to contractual terms. We have taken measures to cut operating costs so as to meet benchmarks proposed by ANEEL in the periodic rate review process.

With respect to expansion, the most significant trend relates to universalization of client service. Utilities are currently required to provide service to all clients according to a schedule settled by ANEEL. The legislation establishes that financing for universalization of the services will come from the funds of the Energy Development Account (Conta de Desenvolvimento Energético), or CDE, and the Global Reversion Fund (Reserva Global de Reversão), or RGR. According to the Luz Para Todos Program launched by the MME and Eletrobrás for the universalization of electric services in rural areas, 22% of the necessary funds will come from CDE, 18.6% from RGR, 9.8% from the State Government and the remaining 49.6% will come from CEMIG.

An important projects that CEMIG invests in is the Minas PCH Program. This project aims to build hundreds of small hydroelectric power plants in the State of Minas Gerais, and will guarantee a diversified and higher energy supply for the growth of the regional economy.

Another highlight in new investment in distribution is the *Cresce Minas* program. This program will run from 2006 to December 2008 and will provide infrastructure and improvements to the electricity distribution system throughout Minas Gerais to improve the quality of electricity supply and adapt it to the new conditions of the market.

With respect to energy supply, we expect the current capacity and favorable reservoir levels to prevail in the near term. However, there are concerns about supply conditions in the mid term, since Brazil s production and importing of natural gas is not sufficient to meet all the consumption of thermal units in the case of a severe drought. Investment in new generating capacity is one of the major concerns of the Federal Government and it is expected that the new regulatory framework will encourage investment in new generation capacity.

Item 6. Directors, Senior Management and Employees

Directors and Senior Management

We are managed by our Board of Directors (*Conselho de Administração)*, which consists of 14 directors, with each director having a corresponding alternate, and our Board of Executive Officers (*Diretoria)*, which consists of eight executive officers. As our majority shareholder, the State Government has the right to elect the majority of our Board of Directors and, therefore, can control the outcome of Board of Director meetings. Each holder of our common shares is entitled to vote to elect members of our Board of Directors. Pursuant to the Brazilian Corporate Law, any shareholder holding at least 5% of our outstanding common shares may request that a cumulative voting procedure be adopted that would entitle each share to a number of votes equal to the current number of members of our Board of Directors and giving each shareholder the right to either vote cumulatively for a candidate or to distribute its votes among several candidates.

Pursuant to the Brazilian Corporate Law, holders of preferred shares representing at least 10% of our share capital or holders of common shares representing at least 15% of our voting capital (other than our controlling shareholder) have the right to appoint one member and an alternate to the Board of Directors. If none of the holders of common shares or preferred shares meets the respective thresholds described above, shareholders representing in the aggregate at least 10% of our share capital will be able to combine their holdings to appoint one member and an alternate to the Board of Directors.

CEMIG and its wholly-owned subsidiaries, Cemig Generation and Transmission and Cemig Distribution, all have the same Board of Directors, Board of Executive Officers and Fiscal Council.

Board of Directors

Our Board of Directors ordinarily meets once every two months. Its responsibilities include the establishment of corporate strategy, the general direction of our business and the election, dismissal and supervision of our executive officers.

Each regular member of the Board of Directors has an alternate member, who is elected at general shareholder meetings in the same manner as a regular member. Alternate directors act as substitutes for their respective directors from time to time when the directors are not available to perform normal director functions, or, in the case of a vacancy on the Board of Directors, until a replacement director is appointed to fill such vacancy. No member or alternate member of our Board of Directors has a service contract with us or any subsidiary that provides for benefits upon termination of employment.

The members of our Board of Directors are elected to serve three-year terms and may be reelected. Our full Board of Directors is elected every three years. Of the current 14 members of our Board of Directors, eight were elected by the State Government, five were elected by Southern and one was elected by our preferred shareholders. The terms of the current members of our Board of Directors expire in April 2009. The names, positions and dates of initial appointment of our directors and their respective alternates are as follows:

Name	Position	Date of Initial Appointment
Márcio Araújo Lacerda (1)	Director	June 22, 2007
Francisco de Assis Soares	Alternate	June 22, 2007
Djalma Bastos de Morais	Director	January 14, 1999
Lauro Sérgio Vasconcelos David	Alternate	April 28, 2006
Francelino Pereira dos Santos	Director	February 27, 2003
Luiz Antonio Athayde Vasconcelos	Alternate	February 27, 2003
Antônio Adriano Silva	Director	January 14, 1999
Marco Antônio Rodrigues da Cunha	Alternate	February 27, 2003
Wilson Nélio Brumer	Director	February 27, 2003
Guilherme Horta Gonçalves Júnior	Alternate	February 27, 2003
Haroldo Guimarães Brasil(2)	Director	December 30, 2004
Antônio Renato do Nascimento (2)	Alternate	December 30, 2004
Carlos Augusto Leite Brandão(2)	Director	May 07, 2004
Eduardo Leite Hoffmann(2)	Alternate	April 28, 2006
Andréa Paula Fernandes Pansa(2)	Director	May 07, 2004
Maria Amália Delfim de Melo Coutrim(2)	Alternate	April 28, 2006
Evandro Veiga Negrão de Lima(2)	Director	April 28, 2006
Andréa Leandro Silva(2)	Alternate	May 07, 2004
José Augusto Pimentel Pessôa(2)	Director	May 07, 2004
Nohad Toufic Harati(2)	Alternate	June 22, 2007
Aécio Ferreira da Cunha	Director	May 28, 2003
Eduardo Lery Vieira	Alternate	May 28, 2003
Maria Estela Kubitschek Lopes	Director	February 27, 2003
Fernando Henrique Shuffner Neto	Alternate	June 22, 2007
Alexandre Heringer Lisboa	Director	February 27, 2003
Franklin Moreira Gonçalves	Alternate	February 27, 2003
Wilton de Medeiros Daher(3)	Director	April 28, 2006

(1) Chairman of the Board of Directors.

(2) Elected by Southern.

(3) Elected by our preferred shareholders.

Set forth below is brief biographical information for each member of our Board of Directors.

Márcio Araújo de Lacerda, Mr. Lacerda received a degree in business administration from Minas Gerais Federal University (1977). Mr. Lacerda was Executive Secretary of the National Integration Ministry from 2003 to 2005, and head of the Regional Development Council of the Minas Gerais State Industries Federation (Fiemg) from 2006 to 2007. He has founded, and until January 2003 served as CEO of, the following companies: Construtel, a telecoms systems company operating worldwide (founded in 1975); the management company Partcom (incorporated in 1988); and the telephone equipment manufacturer Batik (founded in 1979), control of which was sold to Lucent Technologies in 1999. From 1973 to 1975 he was director of the telecoms engineering company Tele-America, and from 1996 to 1972 he was on the technical staff of the Minas Gerais Telecoms Company, CTMG. He was a member of the Council of the Minas Gerais State Industries Center (CICI) from 1993 until 2000 and has participated in many international telecom and technology industry events worldwide. Furthermore, Mr. Lacerda represented the Minas Gerais State Government in missions to Korea, Portugal and Chile. He has been a board member and manager of a large number of public-interest industrial and technological organizations connected with the State of Minas Gerais, and a board member of the private-sector educational company Pitágoras Apollo.

Djalma Bastos de Morais Mr. Morais holds a bachelor s degree in engineering from the Military Institute of Engineering and has completed additional post-graduate studies in telephony and computers at the same institute. Since January 1999 he has been our Chief Executive Officer, and since July 2002 he has been the Chief Executive Officer of Empresa de Infovias S.A. From January 1999 to December 2004 he was the Chief Executive Officer of Gasmig. From May 1999 to August 2001 he was the Chief Executive Officer of Empresa de Infovias S.A. From 1995 to 1998, he was Vice-President of Petrobrás Distribuidora S.A., the Brazilian oil company. From 1993 to 1994, Mr. Morais served as Brazilian Minister of Communications. He has also held various other positions, such as chief executive officer of Telecomunicações de Minas Gerais S.A. Telemig; manager of Telecomunicações Brasileiras S.A. Telebrás; chief operating officer of Telecomunicações de Mato Grosso Telemat; chief operating officer of Telecomunicações do Amazonas Telemazon; and manager of Telefônica Municipal S.A. Telemusa.

Francelino Pereira dos Santos Mr. Santos earned a law degree from the Law School of the Federal University of Minas Gerais in 1949. Mr. Santos was a Minas Gerais state senator from 1995 to 2002 and the Governor of Minas Gerais from 1979 to 1983. He also was a congressional representative for four successive terms from 1963 to 1979 and alderman for the city of Belo Horizonte from 1951 to 1954. From 1961 to 1966 he was Chief of Cabinet of the Minas Gerais State Secretary of Internal Affairs and Justice, Chief of the Minas Gerais State General Management Department and Chief Counselor for Municipalities Affairs of the Cabinet of the Governor. From 1985 to 1990, he was vice-president of management of Banco do Brasil S.A. and the chief executive officer of Acesita from October 1983 to August 1984. Mr. Santos was also a professor and director of the Municipal Accounting High School in Belo Horizonte from 1955 to 1959.

Antônio Adriano Silva Mr. Silva holds a business administration degree with a specialization in marketing. He has worked for several private entities, including Mesbla S.A., Empresa Brasileira de Varejo S.A. Embrava, Agência Jornalística Imagem, Associação Comercial de Minas, Asa Criação de Publicidade, and Coteminas.

Wilson Nélio Brumer Mr. Brumer earned a degree in business administration from the Economics, Administration and Accounting College FUMEC-BH in 1975 and has completed several financial management, planning and managerial development courses in Brazil and abroad. He was the Minas Gerais State Secretary of Economic Development from January 2003 to March 2007 and a director of Valepar S.A. since January 2001. He is the coordinator of the Strategic Development Group of the State of Minas Gerais and a member of the board of directors of Usiminas. He is the former chairman of the following companies: BHP Billiton Brasil from November 1998 to December 2002; Grupo Paranapanema from February 1996 to October 1998; Aço Minas Gerais Açominas from May 1995 to June 1997; Eletrometal Metais Especiais S.A. from 1994 to 1996; Brasifco S.A. from 1993 to 1996; Rio Doce Finance Ltd. RDF from 1990 to 1992; Itabira International Company Ltd. ITACO from 1990 to 1992 and Navegação Rio Doce S.A. DOCENAVE from 1990 to 1991. Mr. Brumer is a former vice president of the board of directors of the following companies: Acesita from November 1992 to October 1998; Acesita Energética S.A. from 1992 to 1996; Forjas Acesita S.A. from 1992 to 1996; CVRD from 1990 to 1992 and the Villares Group consisting of Indústrias Villares, Aços Villares S.A. and Elevadores Atlas S.A. from February 1995 to October 1998. He is a former director of: Companhia Siderúrgica de Tubarão CST from July 1996 to April 1999; Varig from November 1994 to February 1996; Usiminas from October 1991 to November 1992; Companhia Siderúrgica Tubarão from August 1992 to November 1992; Rio Doce Geologia e Mineração S.A. DOCEGEO from 1988 to 1990; Florestas Rio Doce S.A. from 1988 to 1990 and Ferritas Magnéticas S.A. FERMAG from 1984 to 1986. Mr. Brumer is also the former chief executive officer of: Acesita from November 1992 to October 1998; Companhia Siderúrgica de Tubarão from July 1996 to April 1999; CVRD from April 1990 to November 1992, Acesita Energética S.A. from 1992 to 1993 and Forjas Acesita S.A. from 1992 to 1993. He served as the chief financial officer of CVRD from February 1988 to April 1990. Mr. Brumer has also served as a member of the fiscal councils of: Navegação Rio Doce S.A. DOCENAVE from 1983 to 1987 (president); Urucum Mineração S.A. from 1983 to 1984 and Fundação Vale do Rio Doce de Seguridade Social VALIA from 1982 to 1983. Mr. Brumer has also served as the president of the Brazilian Steel Company Institute from August 1997 to May 1999, president of the Industrial Policy Council of the Industry Federation of Minas Gerais from 1994 to 1999, president of the finance committee of Valesul Alumínio S.A. from 1984 to 1988, executive director of the Brazilian Foreign Trade Association AEB from 1994 to 1997, and a member of several councils and committees.

Haroldo Guimarães Brasil Mr. Guimarães was born on July 13, 1962. He graduated with a degree in electrical engineering from PUC University of Minas Gerais, and earned a doctorate in economics from Rio de Janeiro Federal University in 1997. He was awarded a Master s Degree in Business Administration by Minas Gerais Federal University in 1991, and completed the Central Bank Technical Graduation Course (Sao Paulo, 1994), as well as post-graduation studies in Public Policies from ENAP of Brasília (1990), and a specialization in economic engineering from the Dom Cabral Foundation in 1986. He is a Director of Strategor Ltda Consultoria e Treinamento, a Consultant of the Management Development Foundation, a Lecturer in the Master s Degree Course in Business Administration of

the Pedro Leopoldo Foundation, Lecturer at IBMEC Educacional S.A., and a visiting professor in the Business Administration Master s Degree Program of Minas Gerais Federal University.

Carlos Augusto Leite Brandão Mr. Brandão was born on January 3, 1956. He obtained a degree in electrical engineering from Minas Gerais Federal University in 1978, and subsequently completed post-graduate studies in economic engineering at the Dom Cabral Foundation in 1980. In 2000 he attended the MBA course in finance at IBMEC (the Brazilian Capital Markets Institute). He is currently the Business Coordination Director for AES Eletropaulo, where he is responsible for regulatory and institutional action, and management coordination of the group s companies in Brazil. He is also chairman of the Audit Committee of the CCEE (*Câmara de Comercialização de Energia Elétrica*), was a member of the Market Executive Committee of that organization, and is a member of the Board, and Director, of ASMAE. He has been a member of IEEE The Institute of Electrical Engineers, Inc. since 1980, and a Senior Member since 1990. He was head of the Rio de Janeiro section of the IEEE from 1990 to 1992, and the Minas Gerais section (which he founded) from 1993 to 1996. He was chairman of *Conselho Brasil* from 1999 to 2001. He is a member of the Editorial Council of the Power Computer Society, has held several posts in the Power Engineering Society, and is the only foreign representative holding a position in the United States Activities Board, headquartered in Washington, D.C. He has been a lecturer in the Computer Science Center of Minas Gerais Federal University, various courses held by Eletrobrás and at the PUC University of Minas Gerais, and the Instituto Brasil-Estados-Unidos. He has more than 50 publications in and outside Brazil, and published a book

and CD-ROM jointly with the João Pinheiro Foundation, on Models for the Electricity Sector, in 1995. He coordinated the course in Regulation of the Electricity Sector held by the João Pinheiro Foundation in 1997, the first course of its type in Brazil. He began his career at CEMIG on March 15, 1979, and has held the positions of Engineer, Manager of the Operation and Maintenance Engineering Division, Manager of the Operation and Maintenance Department, Manager of the Planning and Automation Department, Consultant for Sales to Large Clients, and Manager of the Transmission Department. Mr. Brandão currently serves as CEMIG s advisor to the Vice-Presidency and Consultant to the Financial Director.

Andréa Paula Fernandes Pansa Ms. Fernandes was born on October 19, 1969. In 1992 she obtained a degree in business administration from FIRP (Faculdades Integradas Rio-Pretense), and completed postgraduate studies at the Getúlio Vargas Foundation (FGV) in 1995. She attended the Extension Business Course of the University of California at Berkeley in 1996, and the Banking Extension Course (GVPEC) of the Getúlio Vargas Foundation in 1998. In 2001 she obtained an MBA in Finance from IBMEC (the Brazilian Capital Markets Institute). She is an advisor to the Business Coordination Directorate of the AES Brasil group companies. Previously she worked at Eletropaulo Metropolitana Eletricidade de São Paulo S.A. as a financial analyst and Investor Relations analyst from 2000 to 2003. She was a portfolio analyst at Banco Santander Brasil S.A. from 1998 to 2000, worked in the marketing department of Tyson Foods in the United States in 1996, and worked at Citibank N.A in 1990 and 1991.

Evandro Veiga Negrão de Lima Mr. Negrão de Lima graduated with a degree in medicine with a specialization in psychiatry from the medical faculty of Minas Gerais Federal University in 1964, where, after hospital and university experience in Colorado, USA, he later became a lecturer and subsequently Monitor in Forensic Medicine. He was a clinical psychiatrist for the private social security institute of the employees of Minas Gerais state, retiring as head of medical services for the interior of the state. He has been Director of the Minas Gerais Commercial Association, Vice-president of the Real Estate Company Managers Club, Vice-president of América Football Club, director of the two steel trading companies, Cobraço and Cobrafer, and a licensed aircraft pilot since 1968. He is currently chairman of the planning and engineering company Sancruza, president of the Pampulha yacht club in Belo Horizonte, and chairman of the construction and development company, NL, and two real estate management companies.

José Augusto Pimentel Pessôa Mr. Pimentel was born on May 27, 1937, and obtained a degree in Civil Engineering from Minas Gerais Federal University (UFMG) in 1961, with additional specialization in water engineering and services. He worked for Tenenge as chief of the works office at Reduc, as a self-employed engineer (1963-1964), and as an engineer at CEMIG (1974-1974), where he worked in construction of transmission lines and as a field reconnaissance engineer for dam locations. In such capacity he was responsible for the structures sector of the Jaguara power plant. He was head of the Studies and Projects Department of Eletronorte (Centrais Elétricas do Norte do Brasil S.A.) from 1974 to 1978, and a director of Engevix from 1978 to 1994. Since 1994 he has been an independent consultant for Engevix. He was director of the National Union of Architecture and Engineering Companies (in 1994), Administrative Director and Director of the energy area of Amec, the Minas Gerais Association of Consulting and Engineering Companies (in 1992), and currently he is a consulting engineer for Amec. He was a Member and Council Member of the Brazilian Large Dams Committee from 1977 to 1996, and in 1977 was Coordinator of the GTCN the Northern Costs Working Group.

Aécio Ferreira da Cunha Mr. Cunha earned his law degree from the National Law Faculty of the University of Brazil, in Rio de Janeiro, in 1951. He was certified by the Brazilian Superior School of War in 1973. Presently, Mr. Cunha is an agribusiness entrepreneur in northern Minas Gerais. Since 1993, he has been a director of Furnas. In 1993 he was the chairman of BNDES. He was the congressional representative for six terms from 1963 to 1987, and representative of the Minas Gerais House of Representatives for two terms from 1955 to 1962. Prior to that, Mr. Cunha was the Chief of the Cabinet of the Minas Gerais State Secretary of Agriculture, Commerce and Labor. In 1988 Mr. Cunha was nominated Minister of the Brazilian Court of Audit, having his name approved by the Brazilian Congress, but for personal reasons, he declined before taking office.

Maria Estela Kubitschek Lopes Mrs. Lopes holds a degree in architecture and is an interior designer and entrepreneur. She is a managing partner of DF Consultores Ltda. and of Santa Júlia Importação, Exportação e Participações. Mrs. Lopes is also the adviser to the president of the Municipal Theater Foundation of the City of Rio de Janeiro, to the president of the Friends of the State of Rio de Janeiro AME-RIO and to the president of the board of Casa Santa Ignez (a philanthropic association responsible for the nourishment and education of children and aid to low-income families in the Rocinha neighborhood in Rio de Janeiro). She was one of the founders of Memorial JK, an organization founded in the memory of Juscelino Kubitschek de Oliveira (former President of Brazil), and served as its vice-president from September 1981 to May 2000 and as acting president since October 2000. Mrs. Lopes has also served as president of the council of the Cultural Institute Cesgranrio, vice-president of the council of the Women s Bank, president of the Beneficent Institutions of the State of Rio de Janeiro and a member of the council of Casa das Palmeiras, a cultural institution. Mrs. Lopes has received several cultural and social merit awards.

Alexandre Heringer Lisboa Mr. Lisboa holds a degree in electrical engineering from the Polytechnic Institute of the Pontifical Catholic University of Minas Gerais and a master s degree in mechanical engineering with an emphasis in solar energy

from the Federal University of Paraíba, in the city of João Pessoa (State of Paraíba). He also has received specialized wind energy training from the Deutsches Windenergie-Institut and from the Summer School on Wind Energy Technology at the University of Oldenburg in Germany. Mr. Lisboa has worked as an engineer for CEMIG since May 1985 and he is a director of SENGE as well as a counselor of the Regional Council of Engineering and Architecture. Mr. Lisboa served as an alternate member of the board of directors of CEMIG from January 1999 to December 2000. He was a researcher for and a consultant to the Technological Foundation Center of Minas Gerais CETEC from November 1983 to April 1985. From January 1977 to May 1979, he was a trainee at Usiminas, Companhia Siderúrgica Belgo-Mineira and Delle-Alstom S.A. DASA.

Wilton de Medeiros Daher Mr. Daher graduated with a degree in economics in 1972 and a degree in business management in 1975, from the University of Rio Grande do Norte, followed by post-graduation studies in foreign trade at the University of Brasília in 1984. He earned an MBA from the Economics Faculty of São Paulo University in 1994 and a masters degree in administration (specializing in international trade) from the University of Fortaleza in 2005. At Banco de Brasil, he served as International Business Advisor to the President s Office (from 1979-1985), joint manager of the bank s branches in Lisbon and Porto (1986-7), and Joint Managing Director and Managing Director for the state of Ceará (1988-1995). In the private sector, he has served as Executive Director of Intercredit Fomento Mercantil Ltda., has been a member of the Audit Board of Neoenergia S.A. (formerly Guaraniana S.A.), which is a company controlling six electricity utilities in the states of Rio Grande do Norte, Pernambuco and Bahia, has been a representative of Previ, the Banco do Brasil pension fund (2003), has been a member of the Audit Board of Duratex S.A., of the Itaúsa group, representing Previ (2004-2006), has been a member of the Brazilian Corporate Governance Institute (IBGC) in São Paulo, and has served as Vice-president of the Ceará State Federation of Trade, Industry, Services and Farming Associations (Facic) for the period 2006-2009.

Board of Executive Officers

Our Board of Executive Officers is responsible for the execution of decisions made by our Board of Directors and for our day-to-day management. Our executive officers have individual responsibilities established by our by-laws and serve for three-year terms. The terms of the current executive officers expire in April 2009. They are elected by our Board of Directors. Generally, ordinary meetings are held at least twice monthly and special meetings are held whenever called by the Chief Executive Officer or by two executive officers other than the Chief Executive Officer.

The names, positions and dates of initial appointment of our executive officers are as follows:

Name	Position	Date of Initial Appointment
Djalma Bastos de Morais	Chief Executive Officer	January 14, 1999
Djalma Bastos de Morais(1)	Executive Vice-President	May 25, 2006
José Carlos de Mattos	Chief New Business Development Officer	January 9, 2007
Fernando Henrique Schuffner Neto	Chief Energy Generation and Transmission Officer	January 9, 2007
José Maria de Macedo	Chief Energy Distribution and Commercialization Officer	February 11, 2003
Luiz Fernando Rolla	Chief Financial and Investor Relations Officer	January 9, 2007
Marco Antonio Rodrigues da Cunha	Chief Corporate Management Officer	January 9, 2007
Bernardo Afonso Salomão de Alvarenga	Chief Commercial Officer	April 27, 2007

(1) Temporarily, in addition to serving as Chief Executive Officer.

Set forth below is brief biographical information for each member of the Board of Executive Officers.

Djalma Bastos de Morais For biographical information regarding Mr. Morais, see Board of Directors.

José Carlos de Mattos Mr. Mattos received a degree in literature from Uni-BH (Belo Horizonte Central University) in

1972. He is currently the Chief Executive Officer of Gasmig. From 2004 to 2007 he was Director-President of Previminas, the Minas Gerais Social Security Foundation. In 2003 and 2004 he was the financial director of Codemig, the Minas Gerais Development Company. From 1983 to 1992 he was Regional Superintendent of the Federal Savings Bank (*Caixa Econômica Federal*) in the states of São Paulo, Rio de Janeiro and Minas Gerais, and was also Financial Director of the Federal Savings Bank from 1992 to 1994. From 1992 to 1994 he was also the Director of BIAPE the Inter-American Savings and Loan Bank. From 1995 to 1996, he was Vice-President of Bemge the State Bank of Minas Gerais. He was appointed Chief Planning, Projects and Construction Officer of CEMIG in January 2007.

Fernando Henrique Schuffner Neto Mr. Schuffner has a degree in electrical engineering from PUC University of Minas Gerais (1982), a master s degree from Unicamp (1984), and an MBA from Ibmec in 2000. After working in university research he joined CEMIG in 1985, working as a regional manager and administrator before becoming Superintendent for Coordination of

Planning and Management, successively, for Distribution, Distribution Expansion, and Distribution Market Expansion. He then became CEMIG s Executive Coordination Superintendent of the *Light for All* Program. He has lectured at universities, and published many scientific articles over the period from 1983 to 2005, from work on topologies of commutating circuits (1983) to joint authorship of *Fuzzy Preference Relations and Multiobjective Decision Making* presented to the Fourth IEEE International Workshop on Soft Computing as Transdisciplinary Science and Technology, in Muroran, Japan, May 2005. His work presented to international congresses includes three works on control of induction motors. Courses he has taken include the Amana Key APG management course in Sao Paulo in 2004. He was appointed Chief Energy Generation and Transmission Officer of CEMIG in January 2007.

José Maria de Macedo Mr. Macedo earned a degree in electrical engineering from the Federal University of Minas Gerais in 1967 and has completed several specialization courses on electricity and management. He was a trainee at the Bonneville Power Administration in Portland, Texas, at the Tennessee Valley Authority, at the Bureau of Reclamation in Denver, Colorado and Southern California Edison in California. Since March 2003, he has been the Executive Officer of Cemig Trading S.A. and since December 2005 he has been the Executive Officer of Central Hidrelétrica Pai Joaquim S.A. Mr. Macedo worked at CEMIG from September 1969 to May 1994, when he retired as superintendent of electricity transmission. After his retirement from CEMIG, Mr. Macedo was an organizer of Cooperativa de Prestação de Serviços de Engenharia Ltda., where he currently serves as president. Prior to joining CEMIG, Mr. Macedo served as an engineer at Sociedade Instalações Técnicas SIT. Mr. Macedo has conducted several studies and seminars on the electricity field in Brazil.

Luiz Fernando Rolla Mr. Rolla joined CEMIG in 1974. Mr. Rolla earned a degree in electrical engineering from the Federal University of Minas Gerais in 1974 and obtained several specialization courses. He became CEMIG s Investor Relations Manager in 1986, and was appointed Chief Financial and Investor Relations Officer in January 2007. As CEMIG s Investor Relations Manager, Mr. Rolla was responsible for the formulation and implementation of CEMIG s investor relations strategy beginning in 1986, including the structuring of the Level I and II ADR programs in 1993 and 2001, share sale transactions, prospectuses, investor presentations, roadshows, CVM registrations, detailed corporate governance matters, stockholders meetings, shareholder services, the Annual Report, our website, earnings releases and conference calls, market analyst meetings, and presentations at many of the most important emerging markets conferences in the last 15 years. In his 32 years with the company he has also been involved in other responsibilities including coordination of long-term planning, structured company-wide budget control and cost analysis, project finance transactions, and negotiation of important debt rollover contracts and issues. Recognition of Mr. Rolla s wide experience and present outstanding status in Brazilian investor relations includes Apimec s Best IR Professional in 1999 and 2005; Best Brazilian IRO from *IR* Magazine in 2006; Honorable Mention in *IR* Magazine s Best Latin American IRO in 2004, naming of CEMIG as Best Listed Company by Apimec in 2006; recognition by Abrasca for Best Annual Report in 2005; and Best Presentation of 2006 by the Apimec organizations of both São Paulo and Rio Grande do Sul.

Marco Antonio Rodrigues da Cunha Mr. Rodrigues da Cunha obtained a degree in civil engineering from Minas Gerais Federal University in 1978, with later specialization in structures and transportation, and in engineering valuation, accounting, and economics. He has subsequently gained numerous qualifications in quality management, finance, accounting and related subjects. Among university lecturing activities, has given a course in Creation of Companies and Business, at Una University, since 2001. He joined BDMG (the Minas Gerais State Development Bank) in 1978, working in assessment of public projects, including major infrastructure development projects. He served as President of the Employees Association from 1998 to 1990, and Manager of the Financial Division from 1988 to 1991. From 1988 to 1990 he was also President of the National Association of Official Banks Representative Associations. From 1991 to 1995 he was chairman of Minas Gerais Silos and Warehouses Company, the public-sector company coordinating the state s farming infrastructure facilities, and from 1995 to 1999 was Chairman of INDI the Minas Gerais Development Institute which provides support for numerous important industrial development projects in the state of Minas Gerais. During this time he negotiated international missions to Spain, France, Belgium, Holland, Canada, Argentina, Korea, Japan, and the USA to promote cooperation with Minas Gerais industry. He returned to the BDMG in 1999 to handle development planning, coordinating the state s economic and social development budgeting,

and other important strategic studies. He was appointed Chief Corporate Management Officer of CEMIG in January 2007.

Bernardo Afonso Salomão de Alvarenga Mr. Alvarenga earned a degree in electrical engineering from Minas Gerais Federal University in 1978, and an MBA from the Getúlio Vargas Foundation in 2001. He joined CEMIG in 1980, and worked in operational and pre-operational sales, sales to transmission consumers, and large client operational sales, before becoming our Sales Superintendent for Large Clients from 19998 to 2001, and for corporate clients from 2001 to 2005. From March 2006 to April 2007, he was our Superintendent for Wholesale Electricity Purchases and Sales, and in April 2007 he was appointed our Chief Commercial Officer. Mr. Alvarenga has been involved in several strategic projects at CEMIG, including the pioneering system for differentiated tariffs based on the season and time of day, from 1980 to 1982. His renegotiations in 1998 with industrial clients in default resulted in defaults being brought to near-zero, improving CEMIG s financial position and resulting in the acquisition of several small hydroelectric plants and one thermal plant.

Compensation of Directors and Executive Officers

For the year ended December 31, 2006, the aggregate amount of compensation, including pension and other retirement benefits, that we paid to all directors and executive officers was approximately R$5.5 million.

Fiscal Council

Our Fiscal Council is required to meet once every quarter, but in practice it has been meeting once a month. Our Fiscal Council consists of three to five members and their respective alternates elected by our shareholders at the annual meeting for a one-year term. Holders of the preferred shares as a group are entitled to elect one member of the Fiscal Council and a corresponding alternate. Holders of common shares representing at least 10%, individually or in the aggregate, are entitled to elect one member of the Fiscal Council and a corresponding alternate. The primary responsibility of the Fiscal Council, which is independent from management and from the independent public accountants appointed by the Board of Directors, is to review our financial statements and report on them to our shareholders. The Fiscal Council is also entitled to give opinions on any proposals from our management to be submitted to the shareholders meeting related to (i) changes in our share capital, (ii) issuances of debentures or rights offerings entitling the holder to subscribe for equity (bonus de subscrição), (iii) investment plans and capital expenditures budgets, (iv) distribution of dividends, (v) changes to our corporate form and (vi) corporate restructurings such as mergers, consolidations and spin-offs. The Fiscal Council also examines the activities of management and reports these activities to the shareholders.

The current members of the Fiscal Council and their alternates, all of whose terms expire on April 30, 2008, are as follows:

Name	Position	Date of Initial Appointment
Luiz Guaritá Neto	Member	February 27, 2003
Aristóteles Luiz Menezes Vasconcellos Drummond	Member	April 27, 1999
Luiz Otávio Nunes West(1)	Member	April 27, 1999
Thales de Souza Ramos Filho	Member	February 27, 2003
Celene Carvalho de Jesus (2)	Member	April 26, 2007
Ronald Gastão Andrade Reis	Alternate	April 30, 1998
Marcus Eolo de Lamounier Bicalho	Alternate	February 27, 2003
Leonardo Guimarães Pinto (1)	Alternate	April 26, 2007
Aliomar Silva Lima	Alternate	February 27, 2003
Ari Barcelos da Silva(2)	Alternate	April 29, 2005

(1) Elected by Southern.

(2) Elected by shareholders holding our preferred shares.

Consumer Council

We have established a Consumer Council pursuant to Brazilian law, which is comprised of representatives of consumer groups and advocacy organizations, but not members of our Board of Directors. The Consumer Council advises us as to service and other concerns of our consumers.

Audit Committee

Our Fiscal Council acts as our audit committee for purposes of the Sarbanes-Oxley Act of 2002. Under Section 10A-3 of the SEC rules on Audit Committees of listed companies, non-U.S. issuers are permitted not to have a separate Audit Committee made up of independent members if there is a Fiscal Council established and chosen in accordance with the legal rules of its origin country, expressly requiring or allowing that such council follow certain obligations. Also in accordance with this exemption, a Fiscal Council may exercise the obligations and responsibilities of an Audit Committee of the United States up to the limit permitted by Brazilian Law. The financial expert of our Fiscal Council is Luiz Otávio Nunes West.

Employees

On December 31, 2006 we had 10,658 employees, of which 180 were at the management level. During the year ended on that date we had an average of 111 temporary employees. As of December 31, 2005, we had 10,271 employees, of which 176 were at the management level. During the year ended on that date we had an average of 168 temporary employees. As of December 31, 2004, we had 10,668 employees, of which 161 were at the management level, with an average of 327 temporary employees during the period then ended. This table shows the breakdown of our employees by type on those dates:

	Number of Employees at		
	December 31, 2006	December 31, 2005	December 31, 2004
Managers	180	176	161
Professional staff	1,451	1,191	1,285
Operational technical staff and office employees	9,027	8,904	9,222
Total	10,658	10,271	10,668

In 2006, 529 new employees were hired, and 142 employees left the company.

Unions

Once a year we hold collective negotiation meetings with the unions that represent our employees. The resulting contract remains in effect for the subsequent 12-month period beginning on November 1. About 11 years ago CEMIG ceased to follow the previous market practice in Brazil of automatically adjusting salaries based on inflation.

In November 2006, we concluded the annual collective wage agreement for the period from November 1, 2006 to October 31, 2007, after wide-ranging discussion of all the terms and conditions with the unions that represent our employees. The resulting collective agreement established an increase of 3.98% for all salaries, effective on November 1, 2006. The collective agreement also established an extraordinary distribution of amounts under the profit sharing program totaling 2.8 times the monthly base salary of each employee, which was paid in December 2006.

Our employees have not held any strikes in the last six years. We cannot predict what effect, if any, future litigation under the labor laws may have on our operating results or our financial condition. In 2006, three work stoppages occurred during the collective work negotiations for 2006/2007: for one hour on October 31, 2006; for half the working day on November 8, 2006; and for one hour on November 22, 2006. These stoppages did not have any negative effects on the Company.

Remuneration

In 2003, the Careers and Remuneration Plan was approved. The goal of this plan is to provide us with the remuneration tools necessary to maintain an equitable and competitive pay structure and establish criteria for promotions. The plan was implemented in January 2004 for professional staff, and in March 2004 for the administrative and operational employees. An internal committee, with representatives of both CEMIG and the labor unions, was created in connection with the plan.

Under a program referred to as the Anuênio, CEMIG provides its employees hired on or before October 31, 2005 with an annual 1% increase in monthly base salary for each year of employment with the Company, up to a limit of 35 years. Based on an agreement with our labor unions, on April 27, 2006, CEMIG offered each of its employees hired on or before October 31, 2005 an up-front payment in exchange for the relinquishment by the employee of its rights to the Anuênio. Under the terms of this offer, CEMIG pays the employee an amount equal to: (i) an estimate of the future amounts to be paid to the employee under the Anuênio, but based on the number of years remaining for the employee to complete its contributions to the National Social Security Institute (INSS), rather than the remaining years to reach up to the limit of 35 years under the Anuênio, (ii) multiplied by a 12% discount rate and (iii) reduced by the application of a variable reduction factor stipulated by the Company for each individual employee. The total amount paid to our employees as a result of this offer was approximately R$178 million.

Profit Sharing Plan

In 1995, we established a profit-sharing program for the employees in accordance with the applicable Brazilian labor legislation. Under this program, we may not contribute an amount to the employee profit sharing plan that is in excess of 25% of the total dividends proposed for that year. In 2006, payment of employee profit shares, including the mandatory charges and payments based on payroll, totaled R$210.0 million.

Benefits

As of January 1, 2003, we implemented changes to our existing employee health care plans. The changes are a result of an agreement we entered into with our employees labor unions, most of which are represented by Sindieletro. The changes modified the contributions that we, our employees and our retirees are responsible for and the types of benefits covered by each plan. A total of R$ 173.6 million was paid in benefits to

employees, consisting of pension plan contributions and assistance benefits.

Voluntary Employee Termination Program

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In December 2003, in order to effectively manage our employment relations while following our strategic guidelines for growth and the addition of value, we implemented a voluntary employee termination program.

In 2004, a total of 1,101 employees accepted the terms of our voluntary termination agreement. Of these, 656 left the company in 2004, and another 318 completed the procedures and left in 2005. Of the 127 remaining employees, four retired in 2006, three retired in January 2007, one is scheduled to retire in 2007, five lost the right to take part in the program due to medical leave, and 114 were withdrawn from the program in accordance with the terms of the contract signed between the company and each employee due to the fact that the INSS did not accept their early retirement.

Health and Safety

With the establishment of our Health and Safety Management System in 2006, our standards for classifying work accidents became more rigorous. This has resulted in a higher number of accidents being recorded, but generally of a less serious nature than accidents in previous years. The increase in safety reflects the increased safety measures taken by the Company, and also better management by contractors.

Share Ownership

Each of our directors and executive officers beneficially owns less than 1% of our preferred shares.

Item 7. Major Shareholders and Related Party Transactions

Principal Shareholders

As of December 31, 2006, the State Government owned, directly or indirectly, 36,125,857,399 common shares, or 50.97% of our outstanding voting stock, and 1,776,588,408 preferred shares, or approximately 1.95% of those outstanding. As of the same date, Southern, our second largest shareholder, owned 23,362,956,173 common shares, or approximately 32.96% of those outstanding. Southern is a joint venture formed in 1994. We believe that a principal participant in Southern is Cayman Energy Traders, a subsidiary of Mirant Corporation (formerly Southern Energy Inc.), a large United States-based power company. We believe that the other significant member of Southern is, as of December 31, 2006, AES Corporation, a global power company based in Arlington, Virginia that is engaged in the energy generation, distribution and retail supply businesses. We believe that the Opportunity Fund, a Brazilian investment fund, has a minority interest in Southern through 524 Participações S.A. Our principal shareholders do not have different voting rights with respect to the shares they own.

The following table sets forth certain information regarding the ownership of our outstanding common shares and preferred shares at December 31, 2006.

Shareholder	Common Shares	% of Class	Preferred Shares (2)	% of Class
State Government (1)	36,125,857,399	50.97	1,776,588,408	1.95
Southern	23,362,956,173	32.96		
All directors and executive officers as a group	1,933,058		128,359	0.00
Other	11,383,421,293	16.07	89,433,805,932	97.97
Total of outstanding shares	70,874,167,923	100.00	91,210,522,699	99.92
Treasury shares			69,128,403	0.08
Total of authorized and issued shares	70,874,167,923	100.00	91,279,651,102	100.00

(1) The shares in this line item attributed to the State Government include shares held by MGI, other State Government agencies and state controlled companies.

(2) On May 3, 2007, we effected a partial stock split in the form of a 50% stock dividend of our preferred shares. On June 11, 2007, we effected a reverse stock split of our preferred shares in the form of a consolidation whereby every 500 preferred shares, par value R$0.01, was consolidated into one preferred share with a par value of R$5.00.

Since our incorporation, our operations have been influenced by the fact that the State Government controls us. Our operations have had and will continue to have an important impact on the development of business and industry in Minas Gerais and on social conditions in the state. The State Government has from time to time in the past directed us to engage in certain activities and make certain expenditures designed primarily to promote the social, political or economic goals of the State Government and not necessarily designed with a view to our profitability, and it may direct us to do so in the future. See, Item 3. Key Information Risk Factors Risks Relating to CEMIG We are controlled by the State Government.

As of December 31, 2006, we had 22 common shareholders in the United States, holding a total of 2,037,549,823 common shares. We also had 183 preferred shareholders in the United States, holding a total of 12,554,351,108 preferred shares. These numbers do not include the 22,264,439,788 preferred shares converted into ADRs.

We are not aware of any significant changes in the percentage ownership of any shareholders that held 5% or more of our outstanding voting shares during the past three years.

Based on publicly available filings with the SEC, we are aware of the following changes in ownership of our outstanding preferred shares. On March 8, 2005, Capital Group International, Inc., or CGII, a foreign investment management company, acquired, on behalf of its clients, ADRs that increased its holdings of preferred shares of CEMIG to 4,598,610,000, corresponding to 5.03% of CEMIG s preferred shares. In addition, Capital Research and Management Company, also a foreign investment management company and an affiliate of CGII, holds ADRs representing 2,702,900,000 preferred shares in CEMIG, corresponding to 2.96% of the preferred shares. On April 12, 2005, the aggregate proprietary position of the UBS Group in preferred shares of CEMIG increased to 6,098,366,579 preferred shares, representing 6.68% of the Company s total preferred shares. On September 21, 2005 the position of Morgan Stanley Uruguay Ltda., a foreign investor under Resolution 2,689/00 of the Brazilian National Monetary Council, increased to 5.03% of CEMIG s total preferred shares. This position included both 2,603,500,952 nominal preferred shares and 1,983,984 ADRs (corresponding to 1,983,984,000 nominal preferred shares). We are not aware of any changes in ownership by majority shareholders in 2006.

Although our by-laws do not provide any restrictions concerning a change in our control, a state law authorizing a change of control would be required for a change of control to take place. Because we are a state-controlled company, the sale of more than 50% of the voting stock of CEMIG by the State Government requires the passage of specific authorizing legislation by the legislature of Minas Gerais.

Related Party Transactions

We are party to the following related-party transactions:

- Our agreement with the State Government with respect to the CRC Account and related financial income and provision for loss and VAT advance payments, expenses, assets and liabilities;

- Our agreement with FORLUZ, the entity responsible for managing our employee pension fund, pertaining to the fund and related balances; and

- Our agreement with COPASA, a Minas Gerais state-controlled company, related to accounts receivable from energy sales.

For a more detailed discussion of related party transactions, see Notes 3, 7, 8, 12, 13, 15, 18 and 20 to our consolidated financial statements.

Item 8. Financial Information

Consolidated Financial Statements and Other Financial Information

Please refer to our financial statements that appear beginning on page F-1 of this document as well as Item 3. Key Information Selected Consolidated Financial Data.

Legal Proceedings

We are affected by an ongoing dispute between our shareholders. We are also defending several judicial proceedings involving rate increases, taxes and contributions, labor and pension fund obligations and civil liabilities, as well as several administrative proceedings regarding tax obligations, environmental penalties and other charges imposed by governmental agencies, including ANEEL. We recognize contingencies only when a loss is probable and estimable. The most relevant proceedings in which we are involved are summarized below. See also Notes 16 and 24 to our consolidated financial statements.

Shareholders Agreement

In connection with the sale in 1997 of approximately 33% of our shares to Southern as described in Item 7. Major Shareholders and Related Party Transactions Principal Shareholders, Southern and the State Government entered into a shareholders agreement that contained special quorum and veto provisions granting Southern expanded control over certain decisions.

In 1999, after a new State Government administration took office, the State Government filed a lawsuit seeking to nullify the shareholders agreement on the grounds that these special provisions constituted an unlawful transfer of control from us to Southern under principles of Brazilian constitutional law, and claiming in particular that the State Government may only cede control of us pursuant to specific state legislation providing for the same.

On March 21, 2000, the First Court of Fazenda Pública e Autarquias in Belo Horizonte rendered a decision declaring the shareholders agreement null and void, and this decision was ratified on August 7, 2001 by the Minas Gerais State Court of Appeals. At present, the State Government has been restored to its position as our sole controlling shareholder and none of the special quorum or veto provisions are in effect. This decision was appealed to the Superior Tribunal de Justiça (Superior Court of Justice), which upheld the decision of the Minas Gerais State Court of Appeals in December 2003. The decision of the Superior Tribunal de Justiça is subject to a bill of review and therefore the effectiveness of the shareholders agreement and control of CEMIG remain subject to further judicial challenge in the Supreme Court (*Supremo Tribunal Federal*).

Rate Increases

We are the defendant in several lawsuits brought by industrial consumers alleging that increases in electricity rates during a price freeze imposed by the Federal Government from March through November 1986, known as the Cruzado Plan, were illegal. Some of the plaintiffs further allege that all our rates after the Cruzado Plan period were illegal in part because they included the Cruzado Plan period increases in the amounts that served as the basis for calculating the further increases. Some of these claims have been decided at the trial court level in our favor, whereas others have been decided in favor of our consumers. All of the cases that have been decided at the trial court level have been appealed to the Superior Tribunal de Justiça (Superior Court of Justice), which ruled, in most of the cases, that the plaintiffs were entitled only to reimbursement for rate increases introduced during the Cruzado Plan. We are actively contesting all of the aforementioned rate increase claims. In the aggregate, these rate increase claims brought against us amounted to R$104.3 million as of December 31, 2006, which were fully provisioned.

We are also a defendant in lawsuits and class actions brought by consumers, consumer rights groups and the office of the public prosecutor of Minas Gerais contesting the rates we charge our consumers, the application of the rate increases determined by ANEEL, the inflationary index used to increase our rates and the rate subsidies granted to low income consumers. These lawsuits involve claims for the suspension of the rate increases and for the reimbursement to our consumers of twice the amount of any additional rates we collected. All our rate increases are granted based on ANEEL s prior authorization and we believe we have a meritorious defense to each of these lawsuits. It is not possible at the present time to estimate the amounts involved in these claims. We have not accrued any liability related to these claims. The Associação Brasileira de Consumidores ABC (Brazilian Association of Consumers) has filed a class action lawsuit against us, seeking to prevent us from suspending the energy supply in cases of consumer default. We received a favorable decision at the trial court level that is subject to appeal. We have not accrued any liability related to this lawsuit. The Company believes that the likelihood of an adverse outcome in this matter is remote.

We are a defendant, together with *Comercializadora Brasileira de Energia Elétrica* CBEE, in several lawsuits filed between February 2002 and March 2004 contesting the Encargo de Capacidade Emergencial (Emergency Capacity Charge) which we collect from our consumers on behalf of the CBEE. It is not possible at the present time to estimate the amounts involved in these claims. We believe we have a meritorious defense since we merely act as the agent for raising these funds. However, there is a remote risk that we might at some time be made jointly responsible for their return by a court judgment.

In addition, the Federal Public Auditing Court is challenging the criteria used by ANEEL to calculate the adjustments we applied to our rates in 2003 and in connection with the energy reduction emergency program. See Regulatory Matters.

Taxes and Other Contributions

We are party to a number of proceedings and claims involving the Federal Government as well as other proceedings and claims arising in the ordinary course of business. These proceedings and claims include judicial disputes regarding the payment of taxes and contributions, including three disputes regarding corporate income tax and social contribution tax, for which we have accrued a total liability of R$42.6 million as of December 31, 2006.

We also are involved in disputes regarding the ISS tax involving R$13.5 million, the Imposto de Transmissão Causa Mortis e Doação ITCMD (inheritance and donation tax) involving R$131.9 million, the Imposto Predial Territorial Urbano IPTU (real state tax) involving R$19.6 million, the PIS/COFINS contributions involving R$280.7 million, and the CPMF (banking tax) involving R$10.4 million. We have not recorded any reserve for these disputes since we do not believe that the likelihood of a loss on any of these claims is probable. Our defense is based primarily on the fact that we timely joined a tax amnesty program that granted tax payers relief from any outstanding interest and penalties provided that the outstanding principal amount of tax debt was paid.

In addition, we are a party to two *Fundo de Investimento Social* (Finsocial) contribution disputes. We received an unfavorable decision in connection with a claim initiated in 1990 related to Finsocial contributions, and incurred a loss equivalent to R$199.62 million, which had been deposited. We filed a motion for a new trial seeking to nullify that decision and recover the amount involved. We have also filed an injunction contesting the value-added tax (*Imposto sobre Circulação de Mercadoria* ICMS) assessed on that deposit, for which we have accrued a reserve of R$20.5 million for the full amount involved.

We have also contested a number of administrative proceedings asserted by federal tax authorities with respect to an income tax set-off resulting from an adjustment made in 2001 to our consolidated financial statements prepared in accordance with accounting practices adopted in Brazil for the years ended December 31, 1997, 1998 and 1999. The adjustment related to new accounting rules for pension fund obligations was established by CVM Instruction No. 371 of December 13, 2000. We received a favorable decision relative to the years 1997 and 1998; with respect to the year 1999, for which we received an unfavorable decision, we filed an injunction. We estimate the amount involved in these claims to be R$554 million. No reserve has been recorded as a result of this claim, since the Company believes that the procedures which generated the tax credits are legally sound. An adverse outcome in this mater has been deemed remote.

Several Municipalities of the State of Minas Gerais have assessed us for the payment of the tax referred to as *Taxa de Ocupação do Solo*. There are several administrative proceedings and lawsuits related to this matter, in the total amount of approximately R$11.1 million, for which we have not accrued any reserves. The Company believes that the likelihood of an adverse outcome in this matter is possible.

The State of Minas Gerais filed several administrative proceedings against us related to the ICMS, in the total amount of approximately R$119.2 million. We have not accrued reserves in connection with these administrative proceedings since we believeour chances of success in these disputes are possible. We have also contested nine administrative proceedings asserted by federal tax authorities regarding the alleged absence of payment of the rural real estate tax (*Imposto Territorial Rural* ITR), which involve a total amount of approximately R$233.5 million. We have not accrued reserves in connection with these administrative proceedings since we believe that the likelihood of an adverse outcome in this matter is remote.

Since 2002, we have been receiving a subsidy from Eletrobrás to reimburse us for losses incurred as a result of the discount we were required to provide to low income consumers under Federal Law No. 10,604/02. In 2005, the State of Minas Gerais issued Decree No. 43,999/05 charging the ICMS on this subsidy. We believe the subsidy is not taxable and we are therefore not collecting the ICMS on the subsidy. However, the State of Minas Gerais filed an administrative proceeding against us with regard to this matter. We estimate the contingency to be approximately R$78.1 million. No provision has been recorded with respect to this dispute, since the Company believes that the likelihood of an adverse outcome in this matter is possible.

In 2006, CEMIG made an up-front payment to certain of its employees for in exchange for such employees rights for future payments under the Anuênio. CEMIG did not pay income tax or make social security contributions on these payments, since it is CEMIG s opinion that these obligations do not apply to these payments. As a result, CEMIG received notices from the Federal Revenue Service and from the INSS. To avoid the risk of a possible fine, CEMIG applied to the judiciary for a writ of mandamus. CEMIG received an unfavorable decision at the trial court level, which the Company appealed in February 2007. No provision has been recorded with respect to this matter. The Company believes that the likelihood of an adverse outcome is in this matter is possible.

Also in 2006, CEMIG was notified by the INSS regarding the non-payment of the social security contribution on the amounts paid to its employees as profit sharing in the period from 2000 to 2004. We received an unfavorable decision and filed a writ of mandamus seeking to reverse the federal tax authority s position. The total amount involved is R$91.5 million. The Company appealed the decision in an administrative proceeding. No provision has been recorded since the Company believes that the likelihood of an adverse outcome in this action is possible.

Also in 2006, the Federal Revenue Service issued a tax assessment against CESIBA and against us (as a co-obligor) alleging that PIS and COFINS potentially due on foreign exchange variations related to a credit facility agreement have not been collected. We submitted an administrative defense requesting the cancellation of such assessment notice and are awaiting a decision. The total amount involved is R$21.2 million. No provision has been recorded with respect to this matter since the Company believes that the likelihood of an adverse outcome is remote.

Labor Obligations

We are the defendant in approximately 7,100 claims filed by our employees and third parties (outsourced manpower). These claims generally relate to overtime and hazardous occupation compensation. In the fourth quarter of 2006, the Company reviewed the labor-law cases and the expectation of loss with respect to these cases, and changed the criteria for provisioning from a percentage over the total amount of the cases to an individual analysis of the cases, which resulted in a reduction of the amounts provisioned.

Pursuant to Brazilian labor laws, claimants must file a labor claim for unpaid services within two years of the termination of their employment agreement (limited to rights which arose no more than five years prior to termination). As of December 2006, the amount in dispute involved in the aforementioned claims was approximately R$135.8 million. As of December 2006, we had provisioned R$35 million for the payment of these labor contingencies.

Claims in the Ordinary Course of Business

We are a party to several civil claims brought by people who have suffered damages arising mainly from accidents that occurred during the ordinary course of our business and damages suffered as a result of the interruption of the supply of energy to them. We are also a party to claims under contractual and other commercial obligations. These claims totaled an estimated R$170.1 million as of December 31, 2006. As of that date, we had accrued a liability of R$69.2 million with respect to these claims.

We have contested a lawsuit brought by a Brazilian company, referring to alleged damages estimated at R$138.2 million arising from a services agreement that was affected by economic distress caused by the real devaluation in 1999. No provision has been recorded with respect to this matter since the Company believes that the likelihood of an adverse outcome is remote.

Legal Proceedings Related to Environmental Matters

We are party to a number of proceedings and claims involving environmental matters. These proceedings and claims include court and administrative disputes regarding certain environmental matters, including fauna and flora issues, disposal of waste and protected areas. These claims totaled an estimated R$142.80 million on December 31, 2006. We have not accrued any liability related to the following claims since the Company does not believe that the likelihood of a loss on any of these claims is probable.

CEMIG is a defendant in two public civil actions which involve claims for the suspension or cancellation of the Capim Branco I and II power plants environmental licenses. The value involved in each one of these actions is R$23.7 million. CEMIG is also the defendant in a public civil action brought by the Federal Public Attorneys Office and the Public Attorneys Office for Minas Gerais involving the Capim Branco I and II plants claiming (i) R$10 million for pain and suffering and property damage, and (ii) R$10.5 million for losses of environmental and mineral resources, and the implementation of environmental programs. The licenses of the Capim Branco I and II plants have not been suspended or cancelled by reason of any of these actions.

We are also a co-defendant, along with CVRD, in a public civil action lawsuit brought by the Federal Public Attorneys Office, concerning the Aimorés hydroelectric power plant. The plaintiffs allege that we did not obtain proper licensing for this project, and seek to recover damages and annul the environmental licenses relating to this plant and those of the related concessions. We have not accrued any liability related to this claim. We have also contested a lawsuit related to this power plant brought by a municipality that alleges that the project authorizations have not been duly approved and seeks to stop construction of the power plant.

The Federal Public Attorneys Office filed a suit against CEMIG alleging irregularities in the installation of the Irapé hydroelectric power plant, which allegedly would result in material adverse impacts on the environment and the local population. The action was settled after CEMIG signed an undertaking and committed to implement social and environmental measures. Recently, the Federal Public Attorneys Office filed another action alleging non-compliance with the obligations assumed and claiming foreclosure on the guarantee that CEMIG had given.

A Conduct Adjustment Agreement (TAC) was entered into between the Federal Public Attorneys Office and CEMIG in relation to the Irapé plant. The Federal Public Attorneys Office alleged that CEMIG did not comply with its social-environmental responsibilities and sued us. The trial court found CEMIG to be in compliance with the TAC and the case was dismissed. The Federal Public Attorney s Office appealed, and CEMIG counter-appealed, to the federal court of appeals. The estimated value of the case is R$5.5 million.

CEMIG also received an infringement notice from the Environmental Agency of the State of Goiás, claiming that CEMIG operated the São Simão plant without the appropriate operational license. An administrative appeal was presented against the infringement notice. CEMIG s defense alleged that the Goiás State Environment and Natural Resources Office did not have standing to sue the Company in this case. The preliminary argument was accepted and the case was submitted to the Brazilian Environmental Authority, IBAMA, in 2001. That agency has not yet made any decision on the case. The project was licensed by IBAMA in 2006. The estimated value of the fine is R$6.5 million.

There is also a Civil Public Action brought by the organization S.O.S. São Francisco against CEMIG (and others), alleging pollution of the waters of the São Francisco River supposedly caused by Votorantim Metais e Zinco S.A. s discharge of zinc into the river. CEMIG is a party to the action because the opening of the spillways of our Três Marias Plant allegedly exacerbated the damage by agitating the substances on the river s bottom. There has been a decision by the First Level Federal Court in Minas Gerais, Judicial Sub-Section and Single Court of Sete Lagoas, granting the request for interim relief made by the plaintiff. CEMIG was duly served

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notice and answered in a timely manner. The plaintiff presented an interlocutory appeal which CEMIG has answered. The approximate value of the claim is R$6.5 million.

We are defendant in a Civil Public Action in which the Municipality of Raposos is requesting the adoption of preventive measures by CEMIG to avoid damage such as that caused by the Rio das Pedras plant in the floods of 1995 and 1997, and for the defendant to be ordered to control and monitor the environmental impact of the dam and to update its safety standards by desilting of the Rio das Velhas River, recomposing the upstream and downstream forest on the banks of the river, and other actions. The plaintiff filed an interlocutory appeal, requesting suspension of the effect of the interlocutory decision that allowed it to shift of the burden of proof in the matter. CEMIG presented its answer to the appeal in a timely manner. The 8th Civil Chamber of the Minas Gerais State Appeal Court refused to grant the interlocutory appeal. The municipality of Raposos filed a motion for declaration against the Appeal Court judgment that refused the interlocutory appeal. This motion was rejected. The approximate value of the claim is R$31.5 million.

A public civil action was brought by the Federal Public Attorneys Office requesting an order that CEMIG be required to provide water to the seven municipalities downstream from the Irapé dam that have no clean water due to possible contamination of the Jequitinhonha River. The action also sought an analysis of the river s water and, if contamination is found, an order requiring the defendant to take measures necessary to re-establish the water parameters indicated by Conama Resolution 357/2005 which sets forth the water bodies classification and standards/parameters for the discharge of liquid effluents. An preliminary injunction was granted requiring CEMIG to provide water to the river bank population and carry out a water analysis of the Jequitinhonha River. CEMIG filed an interlocutory appeal against the injunction and obtained a decision temporarily suspending the preliminary injunction until a final decision is rendered by the court of appeals. The approximate value of the claim is R$103 thousand.

In view of the Brazilian environmental legislation, we are carrying out environmental works in our facilities to avoid contamination of the soil by insulating mineral oil. On October 20, 2005 we received a notice of infringement from the Minas Gerais State Environmental Foundation (FEAM), the environmental body of the government of Minas Gerais, in which that agency alleged inappropriate storage of high-voltage transformers with direct leaks into the soil of insulating mineral oil at one of our facilities, named the Materials Distribution Center, in the municipality of Juatuba. We are appealing this notice of infringement because the equipment referred to consists of powerful transformers which are in our reserve inventory, in perfect technical condition, for replacement of similar transformers to avoid electricity supply outages in the event of an emergency situation in substations throughout Minas Gerais. Also, these transformers were built with high-technology seals to avoid oil leaks, which also provide more effective control of any leaks that do happen. An investigative study was carried out in 2006 in this area to find any contamination of the soil by mineral oil. The study concluded that the levels of concentration of mineral oil found in the soil were within the environmental quality standards used in benchmark references such as the Dutch List - VROM 2000. This study was submitted to FEAM, which requested the investigation of the contamination of the subterranean waters of this area. CEMIG has agreed to undertake this study.

In 2006, CEMIG voluntarily carried out an environmental investigation at the Conselheiro Lafaiete substation in Minas Gerais for soil contamination with polychlorinated biphenyls (BCPs). The contaminated area of the substation was marked out and the volume of soil contaminated was estimated to be 10.20 m^3. CEMIG is arranging for the removal and incineration of this material.

Regulatory Matters

Prior to 1993, electric utilities in Brazil were guaranteed a rate of return on investments in assets used to provide electric service to consumers, the rates charged to consumers were uniform throughout the country, and profits from more profitable utilities were reallocated to less profitable ones so that the rate of return for all companies would equal the national average. Shortfalls experienced by most electric utilities in Brazil were accounted for in each company s CRC Account. When the CRC Account and the guaranteed return concept were abolished, we used our positive balances in the CRC Account to offset our liabilities to the Federal Government.

ANEEL has brought an administrative proceeding against us, contesting a R$623 million credit related to such positive balance. On October 31, 2002 ANEEL issued a final administrative decision against us. On January 9, 2004, the Brazilian Treasury Authority (Secretaria do Tesouro Nacional) issued an Official Collection Letter to us in the amount of R$516.2 million to be paid by January 30, 2004. We filed a writ of mandamus to suspend our inclusion in the national non-payers registry (CADIN). Although the relief was denied by the lower court, we appealed to the Federal Court of the First Circuit which granted us a temporary injunction to suspend the inclusion in the CADIN. Therefore, we have not accrued any liability related to this claim. No provision has been recorded with respect to this matter since the Company believes that the likelihood of an adverse outcome is possible.

We are a defendant in an administrative proceeding brought by ANEEL because we did not meet the September 21, 2002 deadline for completion of the unbundling process. On November 11, 2002, ANEEL imposed a fine of R$5.5 million upon us. However we believe we should not be responsible for any non-compliance with the restructuring requirements and, for this reason, on

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November 28, 2002, we appealed ANEEL s fine. On February 23, 2005 ANEEL issued a ruling reducing the fine to R$2.7 million. On March 7, 2005 we filed an appeal requesting the cancellation of the fine and the infraction notice. We also presented arguments before ANEEL on August 8, 2005. We continue to contest this fine. No provision has been recorded with respect to this matter since the Company believes that the likelihood of an adverse outcome is possible.

On June 12, 2003, ANEEL imposed a R$5.1 million fine on us for our alleged failure to comply with certain electric power supply quality standards with respect to our consumers. We have recorded a full provision for this fine and have filed a suit to suspend the fine and our inclusion in CADIN and in the active list of debts of the Federal Government (Dívida Ativa da União).

On November 14, 2003, the Federal Public Auditing Court, which has the authority to audit any decision by ANEEL that may impact public finance, initiated an administrative proceeding against ANEEL to evaluate the criterion adopted by ANEEL in the Energy Consumption Reduction Emergency Program (*Programa Emergencial de Redução de Consumo de Energia Elétrica*), or PERCEE. The Federal Public Auditing Court has asked us to provide certain information with respect to our rates, which, according to the Federal Public Auditing Court, were mistakenly approved by ANEEL. If we cannot provide support for these rates and ANEEL fails to confirm the legality of the criterion adopted, we may incur losses in the amount of R$122.9 million. No provision has been recorded with respect to this matter since we believe that can provide the necessary support and that ANEEL can confirm the legality of the rates. The likelihood of an adverse outcome is possible.

In addition, the Federal Public Auditing Court contested the index and the X Factor applied by ANEEL in our rate revision of 2003. We have filed an administrative proceeding before the Federal Public Auditing Court to challenge its decision. Currently this administrative proceeding is still under review of the Attorney General of Minas Gerais. This administrative proceeding may involve losses of up to approximately R$79.8 million No provision has been recorded with respect to this matter since the Company believes that the likelihood of an adverse outcome is possible.

We are the defendant in a suit challenging the charging of tax on public lighting. The plaintiffs allege that we supplied only 11 hours and 8 minutes of public light and charged the municipalities for 12 hours. The approximate value of this claim is R$399 million. We believe we have sound arguments in defense of this claim, and therefore have made no provisions for this suit. The Company believes the likelihood of an adverse outcome is possible.

We filed an administrative appeal against ANEEL on July 25, 2005, seeking reconsideration of ANEEL s Ruling No. 787, dated June 30, 2005, which declared null and void the registries before ANEEL and the CCEE of some supply agreements entered into by and between consumers connected in 13.8 kV. We continue to contest this Ruling. Such contracts under discussion before ANEEL amount to R$14 million. No provision has been recorded with respect to this matter since the Company believes that the likelihood of an adverse outcome is possible.

On January 25, 2006, Companhia Força e Luz Cataguazes Leopoldina - CFLCL alleged that Horizontes Energia S.A. was commercializing energy with prices below market values with Companhia Industrial Cataguazes - CIC (a company located in the CFLCL s concession area) and filed an administrative appeal before ANEEL, alleging anti-competitive conduct. We were mistakenly included in the appeal as the energy supplier of CIC. With a view to clarifying this misunderstanding, we filed our counter-arguments before ANEEL on November 28, 2005. The value of such contingency is estimated in R$37 million. No provision has been recorded with respect to this matter since the Company believes that the likelihood of an adverse outcome is possible.

We are currently contesting a Class Action *(Ação Popular)* lawsuit in which our procedures related to a public bid are being challenged. Due to the lack of legal requirements with respect to some items of the bidding notice, we declared it null and void. The class action seeks to have the bidding notice altered and the public bid procedures restarted. A request for summary judgment was denied and therefore we presented our pleadings. The Company believes the likelihood of an adverse outcome is possible.

On January 9, 2007, Cemig Distribution received a notification from ANEEL pursuant to a possible breach of the applicable electric energy legislation concerning different tariffs to low income consumers. On February 27, 2007 Cemig Distribution answered ANEEL s notification setting forth that the consumers should be classified as low income consumers pursuant to the National Department of Water and Electric Energy (*Departamento Nacional de Energia Elétrica DNAEE*) Administrative Act No. 242/96 (Portaria DNAEE nº 242/96) and that, therefore, CEMIG s tariffs were correctly applied. On March 1, 2007, ANEEL responded to Cemig Distribution setting forth that the differences between the amounts considered adequate by ANEEL and those defined by Cemig Distribution were not legally ratified by ANEEL. The amount of the fine is of R$143 million. The Company recorded a provision in 2007 of R$30 million, which, according to its estimates, represents the

potential loss relating to these matters.

Dividend Policy and Payments

Obligatory dividend; priority and amount of dividends

Under our by-laws, we are required to pay to our shareholders, as obligatory dividends, 50% of the net income of the fiscal year ending December 31. Our preferred shares have priority in the allocation of the obligatory dividend for the period in question. The order of priority of the distribution of dividends is as follows:

- The annual minimum dividend for the preferred shares: These have preference in the event of reimbursement of shares, and have an annual minimum dividend equal to the greater of the following:
- 10% of their par value; or
- 3% of the shareholders equity associated with it.
- The dividends on the common shares, up to the minimum percentage for the preferred shares.

If a portion of the obligatory dividend remains after the payment of the common dividend, the remaining funds are to be distributed on an equal, pro rata basis with respect to all preferred shares and common shares.

Without prejudice to the obligatory dividend, beginning in fiscal year 2005, every two years, or shorter period if the company s cash position permits, we will distribute extraordinary dividends, up to the limit of the cash available, as determined by the Board of Directors, under the Company s Strategic Guidelines Plan and the dividend policy specified in that plan.

The dividends declared, whether obligatory shall be paid in two equal installments, the first by June 30 and the second by December 30 of each year. The extraordinary dividends shall be paid according to the board of directors decision.

Under the Brazilian Corporate Law, the Board of Directors may declare interim dividends, in the form of interest on capital, to be paid from retained earnings, income reserves or income ascertained in semi-annual or quarterly financial statements. Any interim dividends paid shall be calculated based on the dividend to be paid in the fiscal year in which the interim dividend was declared. Our by-laws authorize our Board of Directors to declare interim dividends. Any interim dividend paid may be set off against the amount of the obligatory dividend payable for the fiscal year in which the interim dividend was paid.

In the fiscal years in which we do not have sufficient income to pay dividends to our preferred and common shareholders, the State of Minas Gerais guarantees a minimum dividend of 6% of the per value of the preferred or common shares, respectively, per year to all shares in the company issued up to August 5, 2004 and held by individuals.

Amounts available for distribution

The amount available for distribution is calculated on the basis of the financial statements prepared in accordance with accounting practices adopted in Brazil and the procedures described below.

The obligatory dividend is calculated on the basis of *adjusted net income*, defined as net income after addition or subtraction of: (a) amounts allocated to the legal reserve, (b) amounts destined to the formation of the contingency reserves and reversal of these reserves formed in previous fiscal years, and (c) any unrealized income transferred to the unrealized income reserve account, and any amounts previously posted to this reserve account which have been realized in the fiscal year and used to offset losses.

We are obliged to maintain a legal reserve, to which 5% of the net income of each fiscal year must be allocated until the reserve s total value is equal to 20% of the company s total paid-in capital. However, we are not obliged to make any allocation to the legal reserve in relation to any fiscal year in which the sum of the legal reserve and the other established capital reserves exceeds 30% of the company s total paid-in capital. Any net losses may be charged against the legal reserve.

Under the Brazilian Corporate Law, income in subsidiaries or affiliated companies reported by the equity method, and income on term sales, realizable after the end of the next fiscal year, are also considered to be unrealized income.

The total of income reserves (with the exception of the reserve for contingencies relating to expected losses and the unrealized income reserve), the legal reserve, the special reserves, the reserve for investment projects, and retained earnings may not be greater than the company s registered capital. The amount in excess of our registered capital must be used to increase our registered capital or be distributed as cash dividends.

Under the Brazilian Corporate Law and our by-laws, dividends not claimed within three years from the date on which they are distributed revert to us.

Interest on equity

Under Brazilian law we may pay interest on equity as an alternative for the distribution of funds to shareholders. Funds distributed as interest on equity qualify within the calculation of minimum dividend established in the by-laws. These amounts may be paid in cash; and the company may treat them as an expense for purposes of the calculation of the income tax and the social contribution tax. The total amount paid in interest on equity is limited to the result of application to the company s shareholders equity of the Long Term Interest Rate (TJLP), published by BNDES and may not exceed the greater of (i) 50% of the net income(before taxes for social contribution on net profits, income tax, and the deduction of the interest attributable to shareholders equity) for the period in respect to which the payment is made or (ii) 50% of retained earnings as of the date of the beginning of the period in respect of which the payment is made. Shareholders who are not resident in Brazil must register with the Brazilian Central Bank so that the foreign currency proceeds of their dividend payments, or of sale or other amounts relating to their shares, may be remitted to them outside Brazil. The preferred shares underlying our ADSs and the common shares underlying our common share ADSs are held in Brazil by the custodian bank, as agent for the depositary bank, which is the registered owner of the shares.

Currency Exchange

Payments of cash dividends and distributions, if any, will be made in *reais* to the custodian on behalf of the depositary bank, which will then convert such proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the depositary bank for distribution to holders of ADRs. In the event that the custodian is unable to immediately convert the *reais* received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by devaluations of the *real* that occur before such dividends are converted and remitted. The real appreciated approximately 8.13% relative to the U.S. dollar in 2006. See Item 3. Key Information Risk Factors Risks Relating to Brazil The Brazilian government exercises a significant influence on the Brazilian economy. Political and economic conditions can have a direct impact on our business.

Dividends in respect of the preferred shares and common shares paid to holders who are not Brazilian residents, including holders of ADSs and common share ADSs, are generally not subject to Brazilian withholding tax, although in general payments of interest on capital are subject to withholding tax. See Item 10. Additional Information Taxation Brazilian Tax Considerations Taxation of Dividends and U.S. Tax Considerations Taxation of Distributions. There is no specific record date upon which the depositary bank will determine the exchange rate to be used in connection with converting cash dividends or other cash distributions. Pursuant to the Second Amended and Restated Deposit Agreement, the depositary bank will arrange for the funds to be converted into U.S. dollars upon receipt of notice of cash dividends or other cash distributions.

History of Dividend Payments

The following table sets forth the recent history of declarations of dividends and interest on capital on our common shares and preferred shares. For each year in the table, the payment of the dividends occurred during the year following declaration. For the periods indicated, the dividends paid per 1,000 common shares and per 1,000 preferred shares were the same. As a result of a share consolidation on June 4, 2007 with respect to both our preferred shares and our common shares, dividends payments subsequent to that date will be per one common share and one preferred share. See Item 3. Key Information Selected Consolidated Financial Data.

Declaration History of Dividends and Interest on Capital (1)

Dividend Year	Common Shares		Preferred Shares	
	(R$)(2)	(US$)(3)	(R$)(2)	(US$)(3)
2002	96,198,579	33,846,035	123,801,421	43,557,683
2003	140,081,485	47,630,144	180,412,546	61,343,408
2004	302,634,209	119,476,593	389,766,059	153,875,270
2005	904,951,727	432,991,257	1,165,497,675	557,654,390
2006 (4)	603,948,640	297,394,445	777,832,359	383,017,706

(1) In accordance with the accounting practices adopted in Brazil, dividends and interest on capital are accounted for as having been paid in the dividend year in which they are proposed, even if such dividends or interest on capital were formally approved by a shareholders meeting in the following year.

(2) Real amounts are expressed in nominal *reais*.

(3) U.S. dollar amounts are calculated by dividing the amount of dividends paid, expressed in nominal *reais*, by the noon buying rate on the respective dates when we first paid the indicated dividends.

(4) The 2006 dividends were approved at the ordinary and special general shareholders meetings held on April 26, 2007. On April 26, 2007, R$497 million of extraordinary dividends were also approved. The 2006 dividends and the extraordinary dividends will be paid in two equal installments by June 30, 2007 and December 30, 2007. The first installment was paid on June 29, 2007. See note 17 to our consolidated financial statements.

Significant Changes

A significant change in our financial condition since the date of our financial statements that are included in this annual report on Form 20-F is a 9.43% rate increase implemented in 2007, which has had a positive effect on our electricity sales revenues.

Item 9. The Offer and Listing

Trading Market

The principal trading market for our preferred shares is the São Paulo Stock Exchange. Our ADSs, each representing 1,000 preferred shares as of December 31, 2006 (and each ADS representing one preferred share as of June 11, 2007), have traded on the NYSE under the symbol CIG since September 18, 2001. Prior to that date, our ADSs were traded in the over-the-counter, or OTC, market in the United States. The ADSs are evidenced by ADRs issued by Citibank, N.A., as depositary, pursuant to a Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, as amended on June 11, 2007, by and among us, the depositary and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder. As of December 31, 2006, there were approximately 22,264,440 ADSs outstanding, representing approximately 22,264 million preferred shares or approximately 24.4% of our 91,210 million outstanding preferred shares. Such ADSs were held by 10 record holders as of that date. Our common shares are also listed and traded on the São Paulo Stock Exchange and, on June 12, 2007, we established an American Depositary Shares program for our common shares on the NYSE under the symbol CIG.C , under which each American Depositary Share represents one of our common shares.

The following table sets forth the reported high and low closing sale prices for the preferred shares on the São Paulo Stock Exchange (per lot of 1,000 preferred shares through June 1, 2007) and the ADSs on the NYSE for the periods indicated.

Period	Preferred Shares(1) Price in Nominal R$		ADSs Price in US$	
	High	Low	High	Low
2002	39.70	18.90	16.73	4.85
2003	52.75	20.74	18.46	6.00
2004	68.00	36.80	25.10	11.42
2005	95.00	53.49	41.07	19.71
2006	114.01	80.00	52.65	34.58
2005				
First quarter	68.20	53.49	26.10	19.71
Second quarter	77.09	61.71	31.85	23.40
Third quarter	88.75	70.50	39.15	29.41
Fourth quarter	95.00	76.70	41.10	33.55
2006				
First quarter	114.01	93.50	52.65	39.37
Second quarter	105.85	80.00	51.45	34.58
Third quarter	97.34	83.20	44.75	37.60
Fourth quarter	104.99	84.80	49.20	38.81
2007				
First quarter	106.31	96.72	50.76	45.52
January 2007	105.90	97.00	49.30	45.52
February 2007	105.70	98.70	50.76	46.85
March 2007	106.31	96.72	49.98	46.29
April 2007	107.55	92.97	56.46	48.82
May 2007 (2)	76.00	71.06	39.47	36.05

June 2007 (3)	42.80	38.10	22.36	18.92
July 2007 (4)	42.29	40.50	22.54	21.50

(1) Preferred share prices and volumes per 1,000 preferred shares through June 1, 2007.

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(2) On May 3, 2007, a 50% stock dividend was paid on the preferred shares, resulting in an adjustment to the price per preferred share. On May 7, 2007, a corresponding adjustment was made to the ADSs through the issuance of one additional ADS for every two ADSs, resulting in an adjustment to the price per ADS.

(3) The last day of trading of the preferred shares in lots of 1,000 shares was June 1, 2007. A reverse stock split of the preferred shares was effected in the form of a share consolidation on June 4, 2007 whereby every 500 preferred shares, par value of R$0.01, were consolidated into one preferred share with a par value of R$5.00. In addition, a 100% forward split of the ADSs was effected on June 11, 2007. The price per preferred share and pre ADS were adjusted accordingly.

(4) Through July 17, 2007.

On July 17, 2007, the closing price per preferred share on the São Paulo Stock Exchange was R$41.2 and the closing price per preferred ADS on the NYSE was US$21.9.

On June 12, 2007, our common share ADSs began trading on the NYSE. The high and low closing sale prices from that date through July 17, 2007 per common share ADS were US$23.74 and US$19.30, respectively. On July 17, 2007, the closing price per common share ADSs was US$23.25.

Since July 12, 2002, our depositary receipts have traded on the LATIBEX, under the ticker symbol XCMIG. The LATIBEX is an electronic trading market created in 1999 by the Madrid Stock Exchange in order to facilitate the trading market of Latin American Securities in Euros.

Trading on the São Paulo Stock Exchange

The preferred shares and common shares are traded on the São Paulo Stock Exchange, the only Brazilian stock exchange that trades shares. Trading on the São Paulo Stock Exchange is limited to member brokerage firms and a limited number of authorized non-members. The CVM and São Paulo Stock Exchange have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances.

If you were to trade in the preferred shares or common shares on the São Paulo Stock Exchange, your trade would settle in three business days after the trade date. Delivery of and payment for shares is made through the facilities of separate clearinghouses for each exchange, which maintain accounts for member brokerage firms. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. The clearinghouse for the São Paulo Stock Exchange is Companhia Brasileira de Liquidação e Custódia.

In order to better control volatility, the São Paulo Stock Exchange has adopted a circuit breaker system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the index of this stock exchange falls more than 10% from the index registered for the previous trading session.

The São Paulo Stock Exchange is less liquid than the NYSE and other major exchanges in the world. As of December 31, 2006, the aggregate market capitalization of the 350 companies listed on the São Paulo Stock Exchange was equivalent to approximately US$722 billion and the 10 largest companies listed on the São Paulo Stock Exchange represented approximately 51.2% of the total market capitalization of all listed companies. Although any of the outstanding shares of a listed company may trade on a Brazilian stock exchange, in most cases fewer than half of the listed shares are actually available for trading by the public. The remainder of these shares is held by small groups of controlling persons, governmental entities or one principal shareholder. As of December 31, 2006, we accounted for approximately 1.03% of the total market capitalization of all listed companies on the São Paulo Stock Exchange.

Our preferred shares and common shares have daily liquidity on the São Paulo Stock Exchange and have had no suspension of trading in the past five years

We have been a member of Special Corporate Governance Level 1 of the São Paulo Stock Exchange since October 2001. As a result, we have agreed to do the following:

- present a consolidated balance sheet, a consolidated statement of results and the accompanying letter to shareholders;

- include, in the explanatory notes to our financial statements, a cash flow statement;

- disclose any direct or indirect ownership interest, including beneficial ownership interest, exceeding five percent of our capital stock;

- disclose the amount and characteristics of our securities held directly or indirectly by insiders;
- disclose changes in the amount of securities held by insiders within the preceding 12 months;
- disclose the amount of free float shares and their respective percentage in relation to total shares outstanding, which shall be of at least 25% of shares representing our capital stock;
- disclose, at the end of January of each year, an annual schedule of corporate events, and any subsequent changes to the schedule;
- disclose any agreements which we have executed with any of our affiliates, subsidiaries, managers (or any company owned or controlled by our managers) or controlling shareholders (or any affiliate or subsidiary of our controlling shareholders), whenever the aggregate value of such agreement exceeds either R$200 thousand or 1% of our net equity. For each such agreement we must disclose the purpose, term, amounts, provisions for termination and expiration and, if applicable, the influence the agreement may have over our management or business;
- hold at least one annual meeting with market analysts and any other interested parties; and
- adopt mechanisms that provide for capital dispersion in any public share offerings.

Disclosure of Trading by Insiders

Brazilian securities regulations require our controlling shareholders, management, members of our Fiscal Council and any other technical or advisory body to disclose to us, the CVM and the São Paulo Stock Exchange the number and types of securities issued by us, our subsidiaries and our controlling companies that are held by them or by persons closely related to them and any changes in their respective ownership positions during the preceding 12 months. The information regarding the acquisition of such securities (amount, price and date of acquisition) must be provided to us within 10 days of the end of the month in which they were acquired.

Disclosure of Material Developments

Under Brazilian securities regulations, we must disclose any material development related to our business to the CVM and the São Paulo Stock Exchange. We are also required to publish a notice of those material developments. A development is deemed material if it has a material impact on the price of our securities, the decision of investors to trade in our securities or the decision of investors to exercise any rights as holders of any of our securities. Under special circumstances, we may submit to the CVM a request for confidential treatment for certain material developments.

Trading on Brazilian stock exchanges by non-residents of Brazil is subject to limitations under Brazilian foreign investment legislation. See Item 10. Additional Information Exchange Controls.

Regulation of Brazilian Securities Markets

The Brazilian securities markets are principally governed by Law No. 6,385, dated December 7, 1976, and the Brazilian Corporate Law, each as amended and supplemented, and by regulations issued by the CVM, the National Monetary Council and the Central Bank, which has, among other powers, licensing authority over brokerage firms and which regulates foreign investments and foreign exchange transactions.

Under the Brazilian Corporate Law, a corporation is either publicly owned , such as we are, or closely held (*companhia fechada*). All publicly owned companies, including us, are registered with the CVM and are subject to reporting requirements. Our shares are traded on the São Paulo Stock Exchange, but may be traded privately subject to certain limitations. The Brazilian OTC market consists of direct trades and trades between individuals in which a financial institution registered with the CVM serves as intermediary.

We have the option to ask that trading in our securities on the São Paulo Stock Exchange be suspended in anticipation of a material announcement. Trading may also be suspended on the initiative of the São Paulo Stock Exchange or the CVM based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to

inquiries by the CVM or the stock exchange.

Brazilian law provides general restrictions on unfair trading practices and market manipulation, although in Brazil there may be fewer instances of enforcement actions and judicial precedent is less well defined than in certain other countries. The Brazilian Corporate Law provides that the controlling shareholders, any shareholder that appoints members to the board of directors and to the

fiscal council, members of the board of directors, members of the fiscal council and executive officers will be required to disclose any purchase or sale of shares to the CVM and the São Paulo Stock Exchange.

Trading on the São Paulo Stock Exchange by non-residents of Brazil is subject to limitations under Brazilian foreign investment and tax legislation. The Brazilian custodian for the preferred shares or the common shares and the depositary bank must obtain a certificate of registration from the Central Bank of Brazil to be eligible to remit U.S. dollars abroad for payments of dividends, any other cash disbursements, or upon the disposition of the shares and sales proceeds thereof. In the event that a holder of ADSs exchanges its ADSs for preferred shares, the holder will be entitled to continue to rely on the depositary bank s certificate of registration for five business days after the exchange. Thereafter, the holder may not be able to obtain and remit U.S. dollars abroad upon the disposition of the preferred shares or common shares, or distributions relating to the preferred shares or common shares, unless the holder qualifies for and obtains a new certificate of registration. See Item 10. Additional Information Exchange Controls.

Item 10. Additional Information

Corporate Governance Differences from NYSE Practices

On November 4, 2003, the New York Stock Exchange (NYSE) established new corporate governance rules. Under the rules, foreign private issuers are subject to a more limited set of corporate governance requirements than U.S. domestic issuers. Under these rules, we are required to set forth in our annual report to shareholders a description of the significant differences between CEMIG s corporate governance practices and those that would apply to a U.S. domestic issuer under the NYSE corporate governance rules. The following table summarizes these differences.

Section	NYSE Corporate Governance Rule for U.S. Domestic Issuers	Our Approach
303A.01	A listed company must have a majority of independent directors. Controlled companies are not required to comply with this requirement.	CEMIG is a controlled company because more than a majority of its voting power is controlled by the government of the State of Minas Gerais. As a controlled company, CEMIG would not be required to comply with the majority of independent directors requirements if it were a U.S. domestic issuer. There is no legal provision that requires CEMIG to have independent directors.
303A.03	The non-management directors of a listed company must meet at regularly scheduled executive sessions without management.	The non-management directors of CEMIG do not meet at regularly scheduled executive sessions without management.
303A.04	A listed company must have a nominating/corporate governance committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties. Controlled companies are not required to comply with this requirement.	As a controlled company, CEMIG would not be required to comply with the nominating/corporate governance committee requirements if it were a U.S. domestic issuer. CEMIG does not have a nominating/corporate governance committee.
303A.05	A listed company must have a compensation committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties. Controlled companies are not required to comply with this requirement.	As a controlled company, CEMIG would not be required to comply with the compensation committee requirements if it were a U.S. domestic issuer. CEMIG does not have a compensation committee.
303A.06 and 303A.07	A listed company must have an audit committee with a minimum of three independent directors that satisfy the independence requirements of Rule 10A-3 under the Exchange Act, with a written charter that covers certain minimum specified duties.	CEMIG has a permanent conselho fiscal, or Fiscal Council in accordance with the applicable provisions of Brazilian Corporate Law. As required by Brazilian Corporate Law, our Fiscal Council is independent of our management and external auditors. The primary responsibility of the Fiscal Council is to review management s activities and the financial statements, and to

		report its findings to the shareholders. Our Fiscal Council acts as our audit committee for purposes of the Sarbanes-Oxley Act of 2002. Under Section 10A-3 of the SEC rules on Audit Committees of listed companies, non-U.S. issuers are permitted not to have a separate Audit Committee made up of independent members if there is a fiscal council established and chosen in accordance with the legal rules of its origin country, expressly requiring or allowing that such council follow certain obligations. Also in accordance with this exemption, a fiscal council may exercise the obligations and responsibilities of an Audit Committee of the United States up to the limit permitted by Brazilian Law.
303A.08	Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with limited exemptions set forth in the NYSE rules.	Under Brazilian Corporate Law, shareholder preapproval is required for the adoption of equity compensation plans.
303A.09	A listed company must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects.	CEMIG does not have formal corporate governance guidelines.
303A.12	Each listed company Chief Executive Officer must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards.	CEMIG s Chief Executive Officer will promptly notify the NYSE in writing after any executive officer of CEMIG becomes aware of any material non-compliance with any applicable provisions of the NYSE corporate governance rules.

By-laws

We are a state-controlled company registered under the laws of Brazil. The registration number given to us by Junta Comercial do Estado de Minas Gerais, or the Board of Trade of Minas Gerais, is 3130004012. Set forth below is a brief summary of certain significant provisions of (i) our by-laws, as amended by our special shareholders meeting on April 26, 2007, and (ii) Brazilian Corporate Law. The description of our by-laws contained herein does not purport to be complete and is qualified by reference to our by-laws, which have been filed as an exhibit to this annual report.

Object and Purpose

As described in Article 1 of our by-laws, we have four main purposes: (i) to construct and operate electric power generation, transformation, transmission and distribution systems and to trade electric power and related services; (ii) to develop commercial activities in the energy field; (iii) to render consulting services to companies in Brazil and abroad; and (iv) to perform activities directly or indirectly relating to our corporate purposes.

Preferred Shares

Holders of preferred shares have the right to receive annual minimum dividends in an amount equal to the greater of 10% of the par value of each preferred share or 3% of the shareholders equity associated with each preferred share. Holders of our preferred shares also will have priority over any other class of shares if we decide to redeem shares. A preferred share does not entitle its owner to vote at the general shareholders meetings.

Share Subscription

Shares purchased by the State Government, which must constitute at all times the majority of our voting shares, are paid for in accordance with the Brazilian Corporate Law. Shares purchased by other shareholders (whether natural persons or companies) shall be paid for in accordance with the decision resulting from the general meeting of shareholders that addresses the matter.

Article 171 of the Brazilian Corporate Law provides that each shareholder has a general preemptive right to subscribe for new shares or convertible securities issued in any capital increase, in proportion to that shareholder s shareholding, except in the event

of the exercise of any option to acquire shares of our capital stock. Shareholders must exercise their preemptive rights within 30 days after the publication of the notice of capital increase.

In the event of a capital increase, holders of ADSs, which represent preferred shares, and holders of common share ADSs, which represent common shares, would have preemptive rights to subscribe only to newly issued preferred shares or common shares, as the case may be, in proportion to their shareholdings but may not be able to exercise these rights because of U.S. securities law limitations. See Item 3. Risk Factors Risks Relating to the Preferred Shares and ADSs You may not be able to exercise preemptive rights with respect to the preferred shares.

Minority Shareholders

Our by-laws provide that the preferred and minority common shareholders are entitled to elect one member and an alternate to the Board of Directors, as more fully described in Rights of Shareholders Rights of Minority Shareholders.

Dividends

For a discussion of our dividend policy, see Item 8. Financial Information Dividend Policy and Payments.

General Meetings

General meetings of shareholders are held for any legal purpose, as provided by the Brazilian Corporate Law. Ordinary general meetings of shareholders are held within the first four months of the fiscal year and are called upon 15 days prior notice. The Brazilian Corporate Law also provides that the following actions may only be taken at a shareholders meeting:

- amendment of our by-laws;
- increases or decreases to our issued capital stock or subscription of new shares;
- election of members to our Board of Directors and Fiscal Council;
- authorization of the issuance of debentures or any convertible securities;
- suspension of the rights of a shareholder who has violated Brazilian Corporation Law or our by-laws;
- approval of any merger (*fusão*) or consolidation (*incorporação*) with another company in which we are not the surviving company or a spin-off (*cisão*);
- acceptance or rejection of the valuation of in-kind contributions offered by a shareholder in consideration for the issuance of shares of our capital stock;
- approval of our transformation into a limited liability company (*sociedade empresária limitada*) or any other corporate form;
- approval of any dissolution or liquidation, the appointment and dismissal of the respective liquidator and review of the reports prepared by him or her;
- any action regarding an application for bankruptcy or compulsory rescheduling of our debts;
- approval of the financial statements on an annual basis; and
- cancellation of registration with the CVM as a publicly-held company or delisting of our common

shares from the São Paulo Stock Exchange, except in the case of a privatization tender offer.

As a general rule, the affirmative vote of shareholders representing at least the majority of our issued and outstanding common shares present in person or represented by proxy at a shareholders meeting is required to approve or ratify any proposed action, and abstentions are not taken into account. However, the affirmative vote of shareholders representing one half of our issued and outstanding voting capital is required to:

- create preferred shares or to increase disproportionately an existing class of preferred shares relative to the other classes of shares, unless such action is provided for or authorized by our by-laws;

- modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or to create a new class with greater privileges than the existing classes of preferred shares;

- reduce the percentage of mandatory dividends;

- change our corporate purpose;

- merge us with another company if we are not the surviving company or consolidate us with another company;

- spin off a portion of our assets or liabilities;

- approve our participation in a group of companies;

- apply for cancellation of liquidation status;

- approve our dissolution; and

- approve the compulsory transfer of all of our shares to another company in order to make us a wholly-owned subsidiary of that other company (*incorporação de ações*).

Shareholders may be represented at a shareholders meeting by an attorney-in-fact appointed no more than one year prior to the meeting date. To be eligible to represent a shareholder in a shareholders meeting, the attorney-in-fact must be a shareholder, one of our executive officers or directors or an attorney-at-law. In a publicly held corporation, such as ours, the attorney-in-fact may also be a financial institution.

Subject to the provisions of the Brazilian Corporate Law and our by-laws, our Board of Directors may ordinarily call our shareholders meetings. These meetings may also be called by:

- the Fiscal Council, if the Board of Directors fails to call a general shareholders meeting within one calendar month after the date it was required to do so under applicable laws or a special shareholders meeting in the case of serious and urgent matters affecting us; any shareholder, whenever the executive officers fail to call the meeting of shareholders within 60 days of being required to do so by the Brazilian Corporate Law or by our by-laws; and

- shareholders holding at least five percent of our capital stock, if our Board of Directors fails to call a meeting within eight days after receipt of a request from that shareholder to call the meeting that indicates the issues to be discussed or calls for the creation of the Fiscal Council.

Board of Directors

Our by-laws mandate that our Board of Directors shall be comprised of 14 directors and 14 alternates. One director is designated a chairman and another director is designated the vice-chairman.

Our Board of Directors is responsible for:

- establishing the general direction of our business;

- electing and dismissing executive officers;

- approving the execution contracts between us and our shareholders or any entity that controls, is controlled by or is under joint control with our shareholders;

- approving the sale or pledge of our fixed assets, or the granting of guarantees to third parties, with a value of at least R$5 million;

- approving, upon proposal by the Board of Executive Officers, the sale or the creation of any in rem guarantees with respect to our permanent assets and the granting by us of any personal guarantee to any third party in an amount exceeding R$5 million;

- approving, upon a proposal by the Board of Executive Officers, loans, financings, agreements and any actions which would bind us in an amount exceeding R$5 million;

- calling the general meetings of shareholders;

- supervising the management of the Board of Executive Officers, reviewing our books and documents and requesting information regarding executed and soon-to-be executed contracts, as well as other items of interest;

- approving our annual and interim financial statements;

- appointing and dismissing independent auditors annually;

- approving, upon proposal by the Board of Executive Officers, the commencement or waiver of bidding proceedings for the purchase of goods or services with a value of at least R$5 million;

- authorizing, upon proposal by the Board of Executive Officers, legal and administrative action to be taken on our behalf and the settlement of judicial and extra judicial matters in which we are involved with a value of at least R$5 million;

- approving the issuance of securities (debentures, commercial papers, *notas promissórias*, among others) in the local and international capital markets; and

- delegating to Board of Executive Officers the power to authorize signature contracts of commercialization of electric energy or rendering distribution and transmission services, in terms of legislation.

Under the Brazilian Corporate Law, directors of a corporation generally have certain duties equivalent to those imposed under the laws of most states of the United States, including a duty of loyalty to the corporation, a duty to refrain from self-dealing and a duty to use reasonable care in the management of the corporation s affairs. Our directors and officers may be held liable for breaches of duty to us and our shareholders and may be subject to judicial actions in proceedings brought by government agencies or our shareholders.

There are no provisions in our by-laws with respect to (i) a director s power to vote on proposals or contracts in which such director is materially interested, (ii) borrowing powers exercisable by the directors, (iii) age limits for retirement of board members, and (iv) number of shares required for director qualification.

The chairman and vice-chairman of our Board of Directors are chosen by our Board of Directors at its first meeting following the election of the board members. The vice-chairman of our Board of Directors will act as a temporary replacement for our chairman when the chairman is absent from board meetings.

Our shareholders determine the remuneration of our directors during the general meeting of shareholders at which our directors are elected to office.

Rights of Shareholders

We extend to our shareholders all of the rights that are provided under Brazilian law. Our by-laws are in compliance with the Brazilian Corporate Law.

Essential Rights

Article 109 of the Brazilian Corporate Law provides that a corporation may not deny certain rights to its shareholders under any circumstances. These shareholders rights include:

- the right to have a share of the corporation s earnings;
- the right to have a share of the corporation s assets, in the event of liquidation thereof;

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- the right to supervise our management according to the Brazilian Corporate Law;
- preemptive rights to subscribe new shares or securities convertible into shares, except for exceptions provided by the Brazilian Corporate Law and our by-laws; and
- the right to withdraw from the company under certain circumstances provided in the Brazilian Corporate Law.

Voting Rights

As a general rule, only our common shares are entitled to vote and each common share corresponds to one vote. Holders of preferred shares acquire voting rights if, during three consecutive fiscal years, we fail to pay a fixed or minimum dividend to which the preferred shares are entitled. If a holder of preferred shares acquires voting rights in this manner, such rights will be identical to the voting rights of a holder of common shares and will continue until the dividend is paid. No restrictions exist on the right of a holder of common shares or preferred shares to exercise voting rights with respect to such shares by virtue of such holder being a non-resident of Brazil or a citizen of a country other than Brazil. However, holders of ADSs may only vote the underlying preferred shares through the depositary according to the terms of the Second Amended and Restated Deposit Agreement. In any circumstance in which holders of preferred shares are entitled to vote, each preferred share will entitle its holder to one vote.

Redemption rights

Our common shares and preferred shares are not redeemable, except that a dissenting shareholder is entitled under Brazilian corporate law to obtain redemption upon a decision made at a shareholders meeting by shareholders representing at least 50% of the voting shares:

(1) to create a new class of preferred shares or to disproportionately increase an existing class of preferred shares relative to the other classes of shares (unless such actions are provided for or authorized by the by-laws);

(2) to modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or to create a new class with greater privileges than the existing classes of preferred shares;

(3) to reduce the mandatory distribution of dividends;

(4) to change our corporate purposes;

(5) to merge us with another company or consolidate us;

(6) to transfer all of our shares to another company in order to make us a wholly-owned subsidiary of such company;

(7) to approve the acquisition of control of another company at a price that exceeds certain limits set forth in Brazilian corporate law;

(8) to approve our participation in a centralized group of companies as defined under Brazilian corporate law; or

(9) in the event that the entity resulting from (a) a merger, (b) a transfer of shares as described in clause (6) above or (c) a spin-off that we conduct fails to become a listed company within 120 days of the shareholders meeting at which such decision was taken.

Only holders of shares adversely affected by the changes mentioned in items (1) and (2) above may require us to redeem their shares. The right of redemption mentioned in items (5), (6) and (8) above may only be exercised if our shares do not satisfy certain tests of liquidity at the time of the shareholder resolution. The right of redemption lapses 30 days after publication of the minutes of the relevant shareholders meeting, unless, in the case of items (1) and (2) above, the resolution is subject to confirmation by the preferred shareholders (which must be made at a special meeting to be held within one year), in which case the 30-day term is counted from the publication of the minutes of the special meeting.

We would be entitled to reconsider any action giving rise to redemption rights within 10 days following the expiration of such rights if the redemption of shares of dissenting shareholders would jeopardize our financial stability. Law No. 9,457 dated May 5, 1997, which amended Brazilian corporate law, contains provisions which, among other provisions, restrict redemption rights in certain cases and allow companies to redeem their shares at their economic value, subject to certain requirements. Our by-laws currently do not provide that our capital stock will be redeemable at its economic value and, consequently, any redemption pursuant to Brazilian Corporate Law would be made at no less than the book value per share, determined on the basis of the last balance sheet approved by

the shareholders; provided that if the general shareholders meeting giving rise to redemption rights occurred more than 60 days after the date of the last approved balance sheet, a shareholder would be entitled to demand that his or her shares be valued on the basis of a new balance sheet dated within 60 days of such general shareholders meeting.

Rights of Minority Shareholders

The Brazilian Corporate Law provides that shareholders who own at least 5% of the capital stock of a corporation are afforded the following rights, among others:

- the right to require that the books of the corporation be made available for review, whenever these shareholders become suspicious that Brazilian law or the corporation s by-laws have been violated, or that irregularities have been committed by the management of the corporation;

- the right to call a general meeting of shareholders, under certain circumstances, whenever the corporation s directors or officers, as the case may be, fail to do so; and

- the right to file an action for indemnification by directors or officers, as the case may be, for damages caused to the assets of the corporation, whenever it is determined at the general meeting of shareholders that such a claim shall not be filed.

Minority shareholders that own, individually or in the aggregate, 10% of our outstanding common shares, and also holders of our preferred shares, have the right to appoint one member of the Fiscal Council and an alternate. All shareholders have the right to attend general meetings of shareholders.

The Brazilian Corporate Law also provides that minority shareholders that hold either (i) preferred shares representing at least 10% of the total share capital of a company or (ii) common shares representing at least 15% of the voting capital of a company, have the right to appoint one member and an alternate to the board of directors. If no common or preferred shareholder meets these thresholds, shareholders holding preferred shares or common shares representing at least 10% of the total share capital of the company are entitled to combine their holdings to appoint one member and an alternate to the board of directors.

Changes in Rights of Shareholders

Any change with respect to the rights of holders of our common shares or preferred shares requires a shareholders meeting. Under the Brazilian Corporate Law, the proposed changes must be approved by a majority of the affected class. Certain changes with respect to the rights of non-voting shares, including preferred shares, such as a change in payment or voting rights, may give rise to the exercise of redemption rights by the holders of the affected shares.

Going Private Transactions and Delisting from the São Paulo Stock Exchange

Our delisting, as a public company, must be preceded by a tender offer by our controlling shareholders or ourselves for the acquisition of all our then outstanding shares, subject to the conditions below:

- the price offered for the shares under the public offering must be the fair value of those shares, as established in Brazilian Corporate Law; and

- shareholders holding more than two thirds of our float shares shall have expressly agreed to our decision to become a private company or accepted the offer.

According to Brazilian corporate law, a fair price shall be at least be equal to our valuation, as determined by one or more of the following valuation methods: book value, net book value assessed by market price, discounted cash flow, multiples, price of our shares in the market or any other valuation method accepted by the CVM. This price of the offer may be revised if challenged within 15 days of its publication by holders of at least 10% of our outstanding shares, by means of a request sent to our management that a special shareholders` meeting be called to decide on whether to request a new valuations under the same or different valuation method. Our shareholders that request a new valuation and those who approve such request shall reimburse us for incurred costs if the new valuation is lower than the challenged valuation. However, if the

second valuation is higher, the offeror will have the option to continue the offer with the new price or quit the offer.

Arbitration

Pursuant to the Brazilian Corporate Law and related regulations, if provided for in a company s by-laws, disputes among shareholders will be subject to arbitration. Our by-laws currently do not provide for arbitration.

Material Contracts

CRC Account Agreement - Contract for Assignment of Credit of the Remaining Balance of the Revenue Compensating Account, dated May 31, 1995, between the State Government and CEMIG, and Amendments thereto

Prior to 1993, electric utilities in Brazil were guaranteed a rate of return on investments in assets used to provide electric service to consumers, the rates charged to consumers were uniform throughout the country, and profits from more profitable utilities were reallocated to less profitable ones so that the rate of return for all companies would equal the national average. Shortfalls experienced by most electric utilities in Brazil were accounted for in each company s CRC Account. When the CRC Account and the guaranteed return concept were abolished, concessionaires with positive balances were permitted to offset such balances against their liabilities to the Federal Government.

After all of our eligible payables and debt to the Federal Government had been offset against our CRC Account balance, we entered into an agreement with the State Government in May 1995 to transfer the right to receive the balance of our CRC Account from the Federal Government to the State Government in return for a promissory note from the State Government payable in monthly installments plus interest. This account receivable had a balance of approximately R$2,942 million as of December 31, 2004, which included a significant amount of overdue installments. The agreement relating to this transfer, the CRC Account Agreement, originally required the State Government to make monthly payments to us over twenty years with an initial three-year grace period for interest and principal payments. Interest on the amount receivable under the CRC Account Agreement accrues at a rate of 6% per year plus inflation adjustments. Interest began to accrue on May 2, 1995, and deferred interest during the initial three-year grace period was capitalized.

Since May 1995, the CRC Account Agreement has been amended as follows:

(a) The CRC Account Agreement was first amended in February 2001 to replace the monetary restatement index originally applicable to the outstanding balance with the IGP-DI.

(b) The CRC Account Agreement was next amended by the Second Amendment to the CRC Account Agreement, signed on October 14, 2002, which refers to 149 monthly installment payments, with maturities from January 1, 2003 through May 1, 2015, representing the total amount of R$1,845 million of December 31, 2004, bearing interest at 6% per year, with restatement based on the IGP-DI. We entered into this Second Amendment with the State Government in order to preserve the terms and conditions of the original CRC Account Agreement with respect to the above-referenced installments. We did not receive any scheduled payments from the State Government with respect to this Second Amendment. In 2001, we recorded a full loss provision with respect to the entire outstanding balance of the Second Amendment. See Note 3 to our consolidated financial statements.

(c) The CRC Account Agreement was next amended by the Third Amendment to the CRC Account Agreement, signed on October 24, 2002, which refers to outstanding installments originally due under the CRC Account Agreement from April 1, 1999 through December 1, 1999 and from March 1, 2000 through December 1, 2002. These installments, which totaled R$1,097 million as of December 31, 2004, bear interest at an annual rate of 12%, with restatement based on the IGP-DI. We were permitted to retain payments of dividends and interest on capital due to the State Government as our shareholder as a set-off against amounts that the State Government owes us under this Third Amendment. For this reason, did not record a loss provision for amounts due thereunder. We paid interest on capital in lieu of dividends in December 2004, of which R$72 million was due to the State Government. Part of this interest on capital, amounting to R$49 million, was used by the State Government to settle part of the CRC overdue credits and the remainder, in the amount of R$23 million, to acquire debentures issued by CEMIG for the Irapé power plant construction. See Note 3 to our consolidated financial statements.

(d) Given the prior default by the State Government in the payment of amounts due under the CRC Account

Agreement and in order to ensure the full payment to CEMIG of the installments due from the State Government under the CRC Account balance, a Fourth Amendment to the CRC Account Agreement was signed on January 23, 2006. Under the Fourth Amendment, the State Government irrevocably agreed to pay the outstanding CRC Account balance, corresponding to R$2,942 million at December 31, 2004, plus interest, by authorizing CEMIG to retain 65% of the dividends and interest on capital due to the State Government. The outstanding balance is subject to monetary correction for inflation by the variation in the IGP-DI inflation index and will bear interest at 8.18% per year, compounded semi-annually.

Under the Fourth Amendment, the State is required to make 61 semi-annual payments due on June 30 and December 31 of each year. The Fourth Amendment applies retroactively to December 31, 2004, with the first payment date being June 30, 2005 and the final payment being due on June 30, 2035. The semi-annual payments are adjusted for inflation by the IGP-DI inflation index and range from approximately R$29.4 million for the first five installments and approximately R$76.5 million for the last installment. The 65% of dividends and interest on capital retained by CEMIG are to be applied in the following order: (i) the settlement of any past due installments, (ii) the settlement of the installment relating to the half-year in which dividend or interest on capital takes place, (iii) pre-payment of up to two installments and (iv) amortization of the outstanding balance due under the CRC Account.

If the retention of ordinary dividends and interest on capital is not sufficient to cover the applicable installment, beginning on January 1, 2008, CEMIG is entitled to retain up to 65% of any extraordinary dividends or interest on equity due to the State Government for the payment of that installment. Furthermore, if the sum of 65% of the ordinary dividends and interest and capital and extraordinary dividends on interest and capital is not sufficient to cover an installment due, CEMIG is entitled to retain 100% of such dividends and interest on capital, beginning in the six-month period immediately following that of the past due date of the past due installment. In addition, if there is a reduction in the ownership of CEMIG by the State Government, the retention percentage will be automatically adjusted upward such that the total dividend amount retained will remain the same.

A fifth amendment to the CRC Account is currently being considered, to adjust the outstanding balance of the CRC Agreement in accordance with a provision in the Fourth Amendment in which the parties recognized that there was a disagreement regarding the outstanding balance of the CRC Agreement at December 31, 2004. The State of Minas Gerais and CEMIG have reached an agreement that the correct value of the outstanding balance of the CRC Account as of December 31, 2004 is R$2,839 million. CEMIG and the State of Minas Gerais are ready to sign the Fifth Amendment to the CRC Agreement, but must wait for approval by the Cemig CRC Account Securitization Fund (*Cemig Fundo de Investimento em Direitos Creditorios Conta CRC*), or FIDC, to which the CRC Account receivables were transferred in January 2006.

Contract on Concessions for Generating Electric Energy, dated July 10, 1997, between the Federal Government and CEMIG

In order to provide electric energy generation services to the public, we entered into a contract with the Federal Government. This concession contract establishes terms of the concessions for each of our generation plants. Although the concessions for different generation plants have different expiration dates, these concessions are extendable by the Federal Government for a period of up to 20 years upon our application. This contract grants us free access to land in the public domain, certain rights of way, and existing transmission and distribution systems so that we may transmit the energy produced in our generating stations. In return, among other things, we must maintain a minimum level of regularity, continuity, efficiency and safety and we must set aside funds to account for fuel consumption, use of water resources and contributions to the RGR. We do not pay the Charge for Use of Public Assets (*Uso do Bem Público)*, or UBP, when generating under the public service regime.

This contract also provides that ANEEL (formerly DNAEE) or a substitute agency will supervise us in the provision of our energy generation services and that we will be subject to penalties if we fail to comply with certain contractual provisions. As a party to this contract, we serve a public utility function and we must receive authorization from the Federal Government prior to entering into any other entrepreneurial activities. The Federal Government may

intervene in our concession at any time in order to ensure that we are providing our electric energy generation services properly and that we are acting in compliance with this contract.

In connection with the unbundling process, this agreement was assigned to Cemig Generation and Transmission. This assignment remains subject to the approval of ANEEL through an amendment to the agreement, which is expected to occur in the near future.

Contract for Concessions of Electric Energy Transmission Services, dated July 10, 1997, between the Federal Government and CEMIG

In July 1997, we entered into a contract with the Federal Government authorizing us to provide our electric energy transmission services to the public until July 8, 2015. This contract also provides the rates at which we may charge our consumers for our services. Upon our application, this contract may be extended by the Federal Government, at its own discretion, for a 20-year period. Pursuant to the contract, we are given free access to land in the public domain and certain rights of way in order to operate our electric energy transmission service. In return, among other things, we must maintain adequate technology, equipment, facilities and operating methods to ensure optimization of the use of existing and future electric energy resources and we must satisfy the demands of the electric energy market. We are also required to enter into a transmission service agreement with the ONS, pursuant to which we must make the facilities of our transmission service available to the interconnected power system.

These contracts also provide that ANEEL or a substitute agency will supervise us in the provision of our energy transmission services and that we will be subject to penalties if we fail to comply with certain contractual provisions. The Federal Government may

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intervene in our concession at any time in order to ensure that we are providing our electric energy transmission services properly and that we are complying with this contract.

In connection with the unbundling process, this agreement was assigned to Cemig Generation and Transmission. The assignment was approved by ANEEL on November 16, 2005.

Contract on Concessions for Distributing Electric Energy, dated July 10, 1997, between the Federal Government and CEMIG

To enable us to provide electricity distribution service to the public, we have a concession contract with the Brazilian Federal Government. This contract also provides for the rates at which we may charge clients for our services. We may apply for a 20-year extension of the period of this contract, and the Federal Government has the discretion to grant or refuse this extension.

The contract gives us free access to land in the public domain, and certain rights of way, in order to operate our electricity distribution service. In return we are required, among other obligations, to maintain certain specified minimum levels of regularity, continuity, efficiency and safety of service; to keep our infrastructure, equipment and services up-to-date; and to maintain availability to the population as a whole, courtesy in provision of services, and moderateness in the rates we charge.

The concession contract covers the state of Minas Gerais, divided into four areas (the North, South, East, and West of the state).

The rates we charge for our services are regulated by the concession-granting power, which grants: (i) an annual adjustment; and (ii) an overall review every five years. The last five-year review took place on April 8, 2003, and the next will be on April 8, 2008.

This contract also provides that ANEEL or a substitute agency will supervise us in the provision of our energy generation services and that we will be subject to penalties if we fail to comply with certain contractual provisions. As a party to this contract, we serve a public utility function and we must receive authorization from the Federal Government prior to entering into any other entrepreneurial activities. The Federal Government may intervene in our concession at any time in order to ensure that we are providing our electric energy generation services properly and that we are acting in compliance with this contract.

In connection with the unbundling process, this agreement was assigned to Cemig Distribution. The assignment was approved by ANEEL on March 31, 2005.

Contract for the Supply and Exchange of Electricity, and Passthrough and Transport of Power from Itaipu, dated 31 May 1993, between Furnas and CEMIG

In 1993, we signed a contract with Furnas governing the supply and exchange of energy between Furnas and CEMIG, for a period of 10 years, and also the transfer of power and energy generated by Itaipu, for a period of 20 years.

Since January 2003, Decree 4,550 of December 27, 2002 has governed the sale of energy generated by Itaipu, appointing Eletrobrás as a trader of Itaipu s output. The volumes of energy purchased by CEMIG and the prices of such energy are, since then, established annually by ANEEL. Under decree 4,550, contracts executed with Furnas were required to be assigned to Eletrobrás.

Shareholder s Agreement, dated June 18, 1997, between the State Government and Southern

In 1999, after a new State Government administration took office, the State Government filed a lawsuit to nullify this shareholders agreement on the grounds that it violated the state and federal constitutions because the Special Quorum Provisions would constitute an unlawful transfer of the control of CEMIG to Southern. According to the lawsuit, state legislation would be required in order for the State Government to relinquish control of CEMIG to Southern.

After some preliminary decisions unfavorable to the State Government by the lower courts, in 1999 the State Government obtained an injunction from the State Court of Appeals, which suspended the effects of the Special Quorum Provisions pending the result of the lawsuit.

In August 2001, the Minas Gerais State Court of Appeals rendered a decision declaring the shareholders agreement null and void. Given this decision, the voting rights as set forth in our by-laws, not those contained in the shareholders agreement, are currently in effect. Our by-laws provide that each common share entitles the holder thereof to one vote at shareholders meetings. The by-laws do not provide Southern with any extraordinary rights or privileges other than the rights it possesses by virtue of its ownership of our common shares. The decision of the State

Court of Appeals has been appealed to a superior court, the Superior Tribunal de

Justiça, and a final decision, subject only to a request of amendment, was rendered in December 2003. Therefore the effectiveness of the shareholders agreement and control of CEMIG remain subject to judicial challenge in the Supreme Court.

Indenture Covering the First Public Issuance of Debentures, Divided into Two Series of the Same Class, Without Guarantee or Preference, of CEMIG, dated October 4, 2001, between CEMIG and Planner Corretora de Valores S.A.

On November 1, 2001, pursuant to an indenture entered into between us and Planner Corretora de Valores S.A, as fiduciary agent, we publicly issued R$625 million of debentures in two series of R$312.5 million each. The first series of debentures will mature on November 1, 2009 and the second series of debentures will mature on November 1, 2011. The debentures are subject to early redemption at the option of the debenture holders (in 2005 in the case of the first series and in 2006 in the case of the second series). Upon maturity, we are obligated to pay to the debenture holders an amount equal to the indexed par value of any debentures still outstanding plus compensatory interest. These debentures are not convertible and do not have preferences or guarantees.

Should we make a late payment of any amount due to the debenture holders, we will have to pay, in addition to the amount due, a penalty of 10% of the amount due plus interest calculated from the date payment was due to the date of actual payment at the rate of 1% per month on the amount due. In addition, if we do not pay an amount due on a maturity date, the related debentures must be accepted by us as payment by the debenture holders for electricity that we supply to them.

The proceeds from this issuance were used to finance generation, transmission and distribution projects, including projects in partnership with private sector companies in accordance with our capital investment program for 2001 and 2002.

At the General Meeting of Holders of the Company s First Issue of Non-convertible Debentures held on December 3, 2004, the debenture holders approved an amendment to the indenture providing for the compulsory exchange of the Company s First Issue of Debentures for debentures to be issued by Cemig Generation and Transmission, in connection with the implementation of the process of unbundling of the Company. Such exchange must occur in a 180 day period beginning on the date of the transfer of the concessions to Cemig Generation and Transmission, which date will be considered as the date of the publication of the amendments to the concession contracts. If CEMIG fails to make such mandatory exchange in this time period, there will be an automatic early redemption of the debentures. On the other hand, the time period can be extended if a debenture holders meeting so authorizes. In addition, it was provided that the debentures to be issued by Cemig Generation and Transmission will keep the same characteristics and financial terms of the debentures that will be exchanged and will be guaranteed by CEMIG, the holding company.

On November 1, 2005, the debentures of the first series were subject to early redemption at the option of the debenture holders. As an alternative to redemption, we proposed the following new terms for the debentures of the first series: (i) the second remuneration period (the period following the early redemption option date) would begin on November 1, 2005 and end on November 1, 2009, the date of the final maturity of the debentures of the first series; (ii) the debentures of the first series would earn interest corresponding to 100% of the CDI, plus a spread of 1.20% per year, calculated based on a 252 business day year. Any debenture holders not agreeing to the proposed new terms could redeem the debentures of the first series in accordance with their terms on November 1, 2005. As a result, we acquired 28.49% of the outstanding debentures of the first series for an amount of R$139.5 million, equal to the monetarily adjusted nominal value plus any accrued and unpaid interest. We have not yet decided whether to cancel the acquired debentures or resell them in the market.

On November 1, 2006, the debentures of the second series were subject to early redemption at the option of the debenture holders. As an alternative to redemption, we proposed the following new terms for the debentures of the second series: (i) the second remuneration period (the period following the early redemption option date) would begin on November 1, 2006 and end on November 1, 2011, the date of the final maturity of the debentures of the second series; and (ii) the debentures of the second series would earn interest corresponding to 104% of the CDI rate, based on a year of 252 business days. Any debenture holders not agreeing to the proposed new terms could redeem the debentures of the second series in accordance with their terms on November 1, 2006. As a result, we acquired 52.63% of the outstanding debentures of the second series for an amount of R$265.3 million, equal to the monetarily adjusted nominal value plus any accrued and unpaid interest. We have not yet decided whether to cancel the acquired debentures or resell them in the market.

In connection with the unbundling process, the indenture, as amended, provided for the mandatory exchange of the debentures issued by CEMIG for debentures issued by Cemig Generation and Transmission. Such issuance was approved by the CVM on April 17, 2007, and the exchange took place on April 27 and April 30, 2007. The debentures issued by Cemig Generation and Transmission have the same characteristics and financial terms as the debentures that were exchanged, and are guaranteed by CEMIG, as the holding company. The First Public Issuance of Common Debentures of CEMIG was

cancelled following the exchange. As a consequence, the debentures are no longer listed in the *Câmara de Custódia e Liquidação,* CETIP .

Financing Agreements by Extension of Credit No. 02.2.962.3.1, dated February 7, 2002 and No. 03.2.286.3.1 dated July 1, 2003, between BNDES and CEMIG and Intervening Third Parties

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On February 7, 2002 and on July 1, 2003, we entered into two financing agreements pursuant to which BNDES, upon satisfaction of certain conditions, extended two loans to us in the amounts of approximately R$396.7 million and R$176.5 million, respectively. We borrowed R$335 million pursuant to these agreements and used the proceeds to partially settle our outstanding obligations to the CCEE relating to spot market energy we purchased during the period of the Electricity Rationing Plan. This financing was extended to us pursuant to the terms of the General Agreement of the Electricity Sector. The first loan is repayable to BNDES through 60 monthly installments over five years, beginning March 15, 2003, with the final payment due on February 15, 2008. The second loan is repayable to BNDES through 55 monthly installments over five years, beginning August 15, 2003, with the final payment due on February 15, 2008. Interest on the outstanding balance of both financings accrues at a rate of 1% over the Sistema Especial de Liquidação e Custódia (Special System for Settlement and Custody) overnight rate, or SELIC, the Brazilian benchmark interest rate. We may prepay all or a part of the outstanding balance under these agreements.

BNDES has agreed that as a result of the unbundling process, these contracts were assigned to Cemig Generation and Transmission.

Our obligations under these loans were originally guaranteed by the rate revenue relating to electricity sales to final consumers corresponding to 3.27% (as defined in the first loan agreement) and 1.36% (as defined in the second loan agreement) of our monthly sales. As a consequence of the transferring of the debt to Cemig Generation and Transmission, since the revenue of Cemig Generation and Transmission is lower than that of CEMIG which guaranteed the debt prior to the unbundling, the guarantee was increased as follows: the loans will be guaranteed by the rate revenue of Cemig Generation and Transmission relating to electricity sales to final consumers corresponding to 9% (as defined in the first loan agreement) and 5% (as defined in the second loan agreement) of the monthly sales.

Indenture Covering the Third Public Issuance of Common Debentures, Without Guarantee or Preference, of CEMIG, dated June 14, 2004, between CEMIG and Pavarini Distribuidora de Títulos e Valores Mobiliários

On June 14, 2004, we and Pavarini Distribuidora de Títulos e Valores Mobiliários, as fiduciary agent, executed an indenture covering the public issuance of 40,000 debentures, in a total amount of R$400 million. The debentures issued pursuant to this agreement are unsecured, not convertible into shares, with a nominal unit value of R$10,000. On August 2, 2004, a total of 23,042 debentures were subscribed and fully paid up, representing the total amount of R$230.4 million issued on June 1, 2004. The remaining debentures, which were not subscribed, were cancelled. The debentures will mature on the first business day of June 2014. Upon maturity, we are obligated to pay to the debenture holders an amount equal to the indexed outstanding par value of the debentures plus interest. The proceeds from this issuance were used to roll over part of the debt raised to finance investments in the distribution segment.

In connection with the unbundling process, the indenture provided for the mandatory exchange of the debentures issued by CEMIG for debentures issued by Cemig Distribution. Such exchange occurred on November 1, 2006. In accordance with the indenture, the debentures issued by Cemig Distribution have the same characteristics and financial terms as the debentures that were exchanged and are guaranteed by CEMIG, as the holding company. The Third Public Issuance of Common Debentures of CEMIG were cancelled following the exchange. As a consequence, the debentures are no longer listed in the *Câmara de Custódia e Liquidação,* CETIP .

Second Issuance of Commercial Paper of Cemig Distribution

On December 14, 2006, Cemig Distribution entered into a placement agreement with Banco Citibank S.A. relating to the second public issuance of commercial paper of Cemig Distribution in an aggregate total amount of R$200 million. On January 2, 2007, the commercial paper was subscribed and fully paid up. The commercial paper matured 180 days after the subscription date, on July 1, 2007. Upon maturity, Cemig Distribution will be obligated to pay to the holders an amount equal to the par value of the paper plus interest at the rate of 102% of CDI.

Third Issuance of Commercial Paper of Cemig Distribution

On June 12, 2007, Cemig Distribution entered into a placement agreement with Caixa Econômica Federal relating to the third public issuance of commercial paper of Cemig Distribution in an aggregate total amount of R$400 million. The commercial paper was subscribed and fully paid up on June 29, 2007. The commercial paper matures 180 days after the subscription date, on December 26, 2007. Upon maturity, Cemig Distribution will be obligated to pay to the holders an amount equal to the par value of the paper plus interest at the rate of 101.6% of CDI.

Banknotes (Cédulas de Crédito Bancário) to Banco do Brasil S.A. *Cemig Distribution and Cemig Generation and Transmission*

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On October 24, 2006, Cemig Generation and Transmission issued banknotes (*Cédulas de Crédito Bancário*) to Banco do Brasil S.A. in the aggregate amount of R$900 million, which were used to repay outstanding obligations previously issued by Cemig Generation and Transmission with the same aggregate value. The banknotes bear interest equal to 104.1% of the CDI, and are guaranteed by CEMIG. Payment of the banknotes will be made in three equal annual installments in 2012, 2013 and 2014.

On October 24, 2006, Cemig Distribution also issued banknotes (*Cédulas de Crédito Bancário*) to Banco do Brasil S.A. in the aggregate amount of R$300 million, with the same terms and conditions.

Electricity Sale Contracts in the Regulated Environment (CCEARs)

In 2004, Law 10,848 and Decree 5,163 came into force, altering the structure of the electricity sector, especially the sale of electricity. Under the new regulations, the distributors must buy energy, to serve their markets, through public auctions in the regulated environment, in which the CCEARs are signed. In December 2004, the first auction of existing electricity under the new industry model was held. In this auction Cemig Distribution and Cemig Generation and Transmission made electricity purchase and sale contracts.

Cemig Distribution purchased, to serve its market, 530 average MW in contracts with terms of eight years, with the supply starting on January 1, 2005, at an average price of R$57.51/MWh, and 919 average MW in contracts with terms of eight years with the supply starting on January 1, 2006 at an average price of R$67.33 MWh. The contracts were signed with 12 companies holding generation concessions, including Cemig Generation and Transmission.

In the same auction Cemig Generation and Transmission sold 927 average MW in contracts with terms of eight years, with the supply beginning on January 1, 2006. The sale price of the electricity is R$69.58/MWh, referring to January 2005. The contracts were signed with 35 distributors, including Cemig Distribution, which serve consumers in all the regions of the Brazilian national grid system.

In April 2005, the second auction of existing electricity under the new industry model was held. In this auction Cemig Distribution and Cemig Generation and Transmission signed CCEARs. Cemig Distribution purchased, to serve its market, 105 average MW in contracts with terms of eight years, with the supply starting on January 1, 2008, at an average price of R$83.13/MWh. The contracts were signed with ten companies holding generation concessions, including Cemig Generation and Transmission. In the same auction Cemig Generation and Transmission sold 105 average MW in contracts with terms of eight years, with the supply beginning on January 1, 2008. The sale price of the electricity is R$83.50/MWh, referring to April 2005. The contracts were signed with 34 distributors, including Cemig Distribution, which supply consumers in all the regions of the Brazilian national grid system.

In October 2005, the third and fourth auctions of existing electricity took place, however Cemig Distribution and Cemig Generation and Transmission did not participate in these auctions.

In December 2005 the first auction for electricity to be produced by the new generation plants was held, and Cemig Distribution acquired 282.8 average MW in contracts with terms of 30 and 15 years for hydroelectric and thermal energy, respectively, which is equivalent to approximately 76% of its energy needs for 2008, 2009 and 2010 as described in an energy requirements statement provided by Cemig Distribution to the MME.

In June 2006, the second auction for electricity to be produced by the new generation plants was held, and Cemig Distribution acquired 98 average MW in contracts with terms of 30 and 15 years for hydroelectric and thermal energy, respectively. In the same auction, Cemig Generation and Transmission sold 355 average MW in contracts with terms of 30 years. The supply of energy under these contracts will begin on January 1, 2009.

In October 2006, the third auction for electricity to be produced by new generation plants was held, and Cemig Distribution acquired 48 average MW in contracts with terms of 30 and 15 years for hydroelectric and thermal energy, respectively, with the supply beginning on January 1, 2011. Cemig Generation and Transmission did not take place in this auction.

Purchases of Power by Cemig Distribution: At the end of 2006, acquisitions by Cemig Distribution in the regulated environment totaled 1,501 average MW under contracts for existing energy (generated by existing power plants), with start dates ranging from 2005 to 2008, and 429 average MW in contracts for new energy (from new generation projects) with start dates ranging from 2008 to 2011, to meet part of its needs for energy in those years.

Sales of Power by Cemig Generation and Transmission: Similarly, at the end of 2006, sales made by Cemig Generation and Transmission in the regulated environment totaled 989 average MW in existing energy contracts with dates ranging

from 2006 to 2008, and 355 average MW in contracts for supply from new generation projects, with supply starting in 2009, and 26 average MW to

be provided by one new hydro power plant, Baguari, with supply starting in 2010. These figures include the reductions under the Surpluses and Deficits Compensation Mechanism (MCSD).

For more information about the CCEAR and the energy auctions, see Annex A The Brazilian Power Industry .

Contracts for Sale of Energy to Free Consumers

Cemig Generation and Transmission sold, through bilateral contracts, power capacity averaging approximately 1,900 MW to a wide range of Free Consumers, the majority of them being in the State of Minas Gerais, under contracts with terms between six and ten years. The average price of these transactions for the year 2006 is around R$77/MWh. In 2010, as some of these contracts expire, there will be a reduction of approximately 600 MW in the amount contracted, especially with large clients such as Usiminas, Cosipa and White Martins. Our expectation is that these contracts will be renewed at better prices in 2010 than the present prices, since we do not expect that there will be the same excess of energy in 2010 that exists today.

These contracts provide for flexibility in the clients purchase of energy. The revenue of Cemig Generation and Transmission may vary due to this contractual flexibility.

Gasmig Shareholders Agreement and Association Agreement

As a condition to the investment of Petrobras in Gasmig, we and Petrobras entered into a Shareholders Agreement, pursuant to which the prior approval of Petrobras is required in matters related, among others, to new investments to be conducted by Gasmig, distribution of dividends, nomination of members to the Board of Directors, the issuance of new shares or debentures, annual budget investment plans and any transaction involving more than R$1.5 million. Under the terms of the Gasmig Shareholders Agreement, our ability to transfer our shares in Gasmig is limited, and Petrobras shall have a right of first refusal in any future transfer of shares. As a result of this Shareholders Agreement, our ability to manage Gasmig was considerably reduced.

On December 15, 2004, CEMIG sold part of its shares in Gasmig, corresponding to 40% of the registered capital, 0.5% to Gaspetro and 39.5% to its subsidiary, TSS Participações S.A. The total value of the transaction was R$154 million, providing a gain for CEMIG of R$102 million. This gain was posted in the income statement for 2004 as non-operational revenue. On July 26, 2006, TSS, a wholly-owned subsidiary of Gaspetro, was merged into Gasmig, and Gaspetro remained with 40% of Gasmig s registered capital.

Gasmig is not a consolidated subsidiary in our financial statements as of the year ended December 31, 2004, in accordance with the FASB s EITF Issue No. 96-16, Investor s Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights. We consolidated Gasmig s revenues and expenses for the period from January 1, 2004 to December 15, 2004.

This sale is the result of the Association Agreement between CEMIG, Gasmig, Gaspetro and Petrobras signed on August 25, 2004, the purpose of which is to develop the market for natural gas throughout the State of Minas Gerais. Under the agreement, a Guidelines Plan specifies the markets to be served, the investment to be made by Petrobras and its subsidiaries in gas pipelines and the investment to be made by Gasmig in expansion of the gas distribution networks.

This capital investment will increase the volume of gas sold from its present level of 2.7 million m³/day to 4.2 million m³/day at the end of 2006, and 10.0 million m³/day in 2023. In 2005 Gasmig sold 1.9 million m³/day.

Agreement between CEMIG and companies in the New Agreement of the Electric Sector

Resolution No. 91 of the Electricity Crisis Management Chamber (Câmara de Gestão da Crise de Energia Elétrica), or GCE, of December 21, 2001, and Law 10,438 of April 26, 2002, established the procedures for implementing the General Agreement for the Electricity Sector, which came into force on December 27, 2001, and resulted in the repayment by consumers of losses incurred by distributors and generators during the period of rationing of 2001 to 2002. These repayments are referred to as an extraordinary rate readjustment, or RTE (Recomposição Tarifária Extraordinária). The RTEs became part of the assets of the companies, and are amortized through extraordinary revenue . See note 4 to our consolidated financial statements.

A condition to receipt of the RTE is that the recipient must not to be involved in any lawsuit with ANEEL that questions the RTE or any related regulation. As CEMIG has contested the clearance process at the CCEE, ANEEL issued an order to suspend the payment of the RTE to CEMIG.

CEMIG executed a settlement agreement with ANEEL, the CCEE and the CCEE participants, to settle the lawsuit CEMIG filed to contest the procedures used by the CCEE during the settlement process. As a condition to the agreement, CEMIG withdrew its

lawsuit against ANEEL. As a result of this agreement, ANEEL revoked the ruling that suspended the payment of the RTE to our distribution subsidiary, which will result in a payment of approximately R$219 million to CEMIG. CEMIG agreed to repay the other CCEE participants the outstanding amounts that ANEEL calculated as being due by CEMIG during the settlement process held by the CCEE between September 2002 and January 2003. The calculation of the exact amount due to the participants of the CCEE was determined by the CCEE to be a total of R$171 million, and such amount is being paid in up to 50 installments, depending on the total amount due to each creditor and are indexed to the SELIC interest rate plus a spread of 1%. We had fully accrued a liability related to this matter. See Item 8. Financial Information Legal Proceedings Regulatory Matters.

The Cemig CRC Account Securitization Fund, dated as of January 26, 2006.

As part of our tax planning on January 26, 2006 we created the Cemig CRC Account Securitization Fund (*Cemig Fundo de Investimento em Direitos Creditorios Conta CRC*), or the FIDC. The FIDC was arranged and placed by Banco Itaú BBA S.A. and Banco Bradesco S.A., and it is managed by Intrag Distribuidora de Títulos e Valores Mobiliários Ltda., an affiliate of Banco Itaú BBA S.A. The FIDC will continue until the full amortization of the receivables under the Fourth Amendment to the CRC Account Agreement, which is expected to occur no later than June 2035.

We assigned all our receivables under the CRC Account Agreement to the FIDC. The present value of the CRC Account receivables transferred to the FIDC as of December 31, 2006 is R$1,726 million. The FIDC is composed of 900,000,000 senior quotas and 760,125,012 non-transferable subordinated quotas, with the nominal value of R$1.00 per each quota. The quotas were fully subscribed and paid in on January 27, 2006 and we subscribed to and hold all the subordinated quotas.

The senior quotas have a benchmark return of the CDI plus 1.70% per year, and will be amortized over a 10 year period in 20 semi-annual payments. Each of the semi-annual payment dates of the senior quotas match the dates on which CEMIG pays its semi-annual dividends, and consequently gets repaid under the Fourth Amendment to the CRC Account Agreement. 65% of the dividends payable to the State Government on each dividend payment date are retained by CEMIG and automatically transferred to the FIDC. In the event that dividends are not sufficient to make a certain scheduled payment with respect to the senior quotas, CEMIG, as a co-obligor, is required to contribute whatever amount is necessary to make the scheduled payment. The amortization schedule was designed to meet CEMIG s dividend forecast and to minimize the risk of CEMIG being requited to make any additional payment. The subordinated quotas will be amortized with any excess of cash available at the FIDC or upon the termination of the FIDC.

Exchange Controls

There are no restrictions on the ownership of preferred shares or common shares by legal entities domiciled outside Brazil. However, your right to convert dividend payments and proceeds from the sale of preferred shares or common shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that you register the relevant investment with the Central Bank and the CVM.

Investments in the preferred shares through the holding of ADSs, or in the common shares through the holding of common share ADSs, must be made pursuant to Annex V to Resolution No. 1,289, as amended, of the National Monetary Council, also known as the Annex V Regulations. Direct investments in the preferred shares upon the cancellation of the ADSs, or in the common shares upon the cancellation of the common share ADSs, may be held by foreign investors under Law No. 4,131 of September 3, 1962 or Resolution No. 2,689 of the National Monetary Council, both of which effectively allow registered foreign investors to invest substantially in any capital market instrument in Brazil and extend a favorable tax treatment to all foreign investors registered and qualified under Resolution No. 2,689, who are not resident in a tax haven, as defined by Brazilian tax laws.

Under Resolution No. 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with Resolution No. 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities that are domiciled or headquartered abroad.

Securities and other financial assets held by Resolution No. 2,689 investors must be registered or maintained in deposit accounts or in the custody of an entity duly licensed by the Central Bank or the CVM. In addition, any transfer of a security that is held pursuant to Resolution No. 2,689 must be made through the stock exchanges or organized OTC markets licensed by the CVM, except for a transfer resulting from a corporate reorganization outside of Brazil or occurring upon the death of a foreign investor by operation of law or will.

Holders of ADSs or common share ADSs who have not registered their investment with the Central Bank could be adversely affected by delays in, or refusals to grant, any required government approval for conversions of payments made in *reais* and remittances abroad of these converted

amounts.

The Annex V Regulations provide for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. The ADSs have been approved under the Annex V Regulations by the Central Bank and the CVM, and the common share ADSs have been approved by the CVM (since authorization from the Central Bank is no longer necessary).

Electronic certificates of registration have been issued in the name of Citibank, N.A., the depositary bank, with respect to the ADSs and the common share ADSs, and are maintained by Citibank Distribuidora de Títulos e Valores Mobiliários S.A., the Brazilian custodian for the preferred shares and the common shares, on behalf of the depositary bank. These electronic certificates of registration are registered through the Central Bank Information System. Pursuant to the certificates of registration, the custodian and the depositary bank are able to convert dividends and other distributions or sales proceeds with respect to the preferred shares represented by ADSs and the common shares represented by the common share ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges such ADSs for preferred shares, or a holder of common share ADSs exchanges such common share ADSs for common shares, such holder will be entitled to continue to rely on the depositary bank s certificate of registration for five business days after the exchange. Thereafter, the holder may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, the preferred shares or the common shares, unless the holder is a duly qualified investor under Resolution No. 2,689 by registering with the CVM and the Central Bank and appointing a representative in Brazil. If not so registered, the holder will be subject to less favorable Brazilian tax treatment than a holder of ADSs or common share ADSs. Regardless of qualification under Resolution No. 2,689, residents in tax havens are subject to less favorable tax treatment than other foreign investors. See Taxation Brazilian Tax Considerations.

Under current Brazilian legislation, the Federal Government may impose temporary restrictions of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil s balance of payments. For approximately nine months in 1989 and early 1990, the Federal Government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors, in order to conserve Brazil s foreign currency reserves. These amounts were subsequently released in accordance with Federal Government directives. We cannot assure you that the Federal Government will not impose similar restrictions on foreign reparations in the future.

Taxation

The following summary contains a description of the material Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposition of preferred shares, common shares, ADSs or common share ADSs by a U.S. person, as defined in the Internal Revenue Code of 1986, or the Code, or a holder that otherwise will be subject to U.S. federal income tax on a net income basis in respect of preferred shares, common shares, ADSs or common share ADSs, which we refer to as a U.S. holder, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase preferred shares, common shares, ADSs or common share ADSs. In particular this summary deals only with U.S. holders that will hold preferred shares, common shares, ADSs or common share ADSs as capital assets and does not address the tax treatment of U.S. holders that own or are treated as owning 10% or more of the voting shares of the Company or that may be subject to special tax rules, such as banks, insurance companies, dealers in securities or currencies, persons that will hold preferred shares, common shares, ADSs or common share ADSs as a position in a straddle or a conversion transaction for tax purposes, and persons that have a functional currency other than the U.S. dollar.

The summary is based upon tax laws of Brazil and the United States as in effect on the date hereof which are subject to change possibly with retroactive effect. Prospective purchasers of ADSs or common share ADSs are encouraged to consult their own tax advisors as to the Brazilian, U.S. or other tax consequences of the purchase, ownership and disposition of preferred shares, common shares, ADSs or common share ADSs, including, in particular, the effect of any foreign, state or local tax laws.

Although there is currently no income tax treaty in force between Brazil and the United States, the tax authorities of both countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of preferred shares, common shares, ADSs or common share ADSs.

Brazilian Tax Considerations

General. The following discussion summarizes the main Brazilian material tax consequences of the acquisition, ownership and disposition of preferred shares, common shares, ADSs or common share ADSs, as the case may be, by a holder that is not domiciled in Brazil, which we refer to as a non-Brazilian holder for purposes of Brazilian taxation. In the case of a holder of preferred shares or common shares, we assume the investment is registered with the Central Bank. The following discussion does not address all of the Brazilian tax considerations applicable to any particular non-Brazilian holder. Therefore, each non-Brazilian holder should consult his or her own tax adviser concerning the Brazilian tax consequences of an investment in our preferred shares, common shares, ADSs or common share ADSs.

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Taxation of Dividends. Dividends paid by us, including stock dividends and other dividends paid in property to the depositary in respect of the preferred shares or common shares, or to a non-Brazilian holder in respect of the preferred shares or common shares, are currently exempted from withholding tax in Brazil to the extent that the dividends are paid out of profits earned after January 1, 1996. Dividends relating to profits generated prior to January 1, 1996 may be subject to Brazilian withholding tax at varying rates, depending on the year the profits were generated.

Payments of Interest on Capital. Law No. 9,249, dated as of December 26, 1995, as amended, permits Brazilian corporations to make distributions to shareholders of interest on equity, or interest attributed to shareholders equity. These distributions may be paid in cash. Such payments represent a deductible expense from the payor s income tax and social contribution tax basis. This interest is limited to the daily pro rata variation of the Federal Government s long-term interest rate, as determined by the Central Bank from time to time, and cannot exceed the greater of:

- 50% of net income (before taxes for social contribution on net profits, income tax, and the deduction of the interest attributable to shareholders equity) for the period in respect of which the payment is made; or

- 50% of retained earnings as of the date of the beginning of the period in respect of which the payment is made.

Any payment of interest on capital to shareholders (including holders of ADSs in respect of preferred shares and common share ADSs in respect of common shares) is subject to a withholding tax at a rate of 15%. These payments may be included, at their net value, as part of any mandatory dividend.

To the extent that payments of interest on capital are included as part of a mandatory dividend, we are required to distribute an additional amount to ensure that the net amount received by shareholders, after payment of the applicable withholding tax is at least equal to the mandatory dividend.

Distributions of interest on net equity to foreign holders may be converted into U.S. dollars and remitted outside Brazil, subject to applicable exchange controls, to the extent that the investment is registered with the Brazilian Central Bank.

We cannot assure you that our Board of Directors will not determine that future distributions should be made by means of dividends or interest on net equity.

Taxation of Gains.

For purposes of Brazilian taxation, there are two types of non-Brazilian holders of ADSs or preferred shares:

- market investors, which represent those non-Brazilian residents who register with the Central Bank and the CVM to invest in Brazil, in accordance with Resolution No. 2,689 of the National Monetary Council; and

- ordinary non-Brazilian holders, which include any and all non-residents in Brazil who invest in the country through any other means.

The comments contained below are applicable to all non-Brazilian holders, including non-Brazilian holders investing under Resolution No. 2,689, except where otherwise noted.

Resolution No. 2,689 grants a favorable tax treatment to all non-Brazilian holders of preferred shares or common shares provided the respective disposal occurs on the Brazilian stock exchange and the following conditions are met:

- to appoint a representative in Brazil with powers to take action relating to their investment;

- to appoint an authorized custodian in Brazil for their investments;
- to register as a foreign investor with the CVM; and
- to register their investment with the Central Bank.

As mentioned, the sale of preferred shares or common shares by U.S. market investors carried out on the Brazilian stock exchange is exempted from the income tax rate. We cannot assure you that the current preferential treatment for U.S. market investors under Resolution No. 2,689 will continue in the future.

The sale of preferred shares or common shares that occurs out of the Brazilian stock exchange will be subject to the same tax treatment applicable to Ordinary U.S. Holders. The redemption or distribution of proceeds deriving from the liquidation of preferred shares or common shares will be treated as a sale carried out of the Brazilian stock exchange.

Non-Brazilian Holders

Non-Brazilian holders are subject to income tax at a 15% rate, as of January 1, 2005, on gains realized on the sale, redemption or distribution of proceeds deriving from the liquidation of preferred shares or common shares.

With respect to the cost of acquisition to be adopted for calculating such gains, Brazilian law has conflicting provisions regarding the currency in which such amount must be determined. Cemig s Brazilian counsel s view is that the capital gains should be based on the positive difference between the cost of acquisition of the preferred shares or common shares registered with Brazilian Central Bank in foreign currency and the value of disposition of those preferred shares or common shares in the same foreign currency. This view has been supported by a precedent issued by the Brazilian administrative court. However, considering that tax authorities are not bound by such precedent, assessments have been issued adopting the cost of acquisition in Brazilian currency.

As of January 1, 2005 the purchase price of preferred shares or common shares sold on the Brazilian stock exchange is subject to a withholding tax rate of 0.005%, except in case of non-Brazilian holders, which invest in Brazil pursuant to Resolution No. 2,689. This tax may be offset against the 15% income tax due on the gains realized upon the sale of the preferred shares or common shares. The withholding tax must be withheld by one of the following entities: (i) the agent receiving the sale or disposition order from the client; (ii) the stock exchange responsible for registering the transactions; or (iii) the entity responsible for the settlement and payment of the transactions.

Any exercise of preemptive rights relating to the preferred shares or common shares will not be subject to Brazilian taxation. Conversely, any gain on the sale or assignment of preemptive rights relating to the preferred shares or common shares by the depositary on behalf of the holders of ADSs or common share ADSs or by a non-Brazilian holder of preferred shares or common shares will be subject to the same rules of taxation applicable to the sale or assignment of preferred shares or common shares. The maximum rate is currently 15%.

Sale of ADS, common share ADS, preferred shares and common shares by U.S. Holders to other non-residents in Brazil

Pursuant to Article 26 of Law No. 10,833, published on December 29, 2003, the sale of property located in Brazil involving non-resident investors is subject to Brazilian income tax as of February 1, 2004. Our understanding is that ADSs do not qualify as property located in Brazil and, thus, should not be subject to the Brazilian withholding tax. Insofar, as the regulatory norm referred to in Article 26, is recent and generic and has not been tested through the administrative or judicial courts, we are unable to assure the final outcome of such discussion.

If such argument does not prevail, it is important to mention that with respect to the cost of acquisition to be adopted for calculating such gains, Brazilian law has conflicting provisions regarding the currency in which such amount must be determined. CEMIG s Brazilian counsel s view is that the capital gains should be based on the positive difference between the cost of acquisition of the preferred shares or common shares registered with Brazilian Central Bank in foreign currency and the value of disposition of those preferred shares or common shares in the same foreign currency. This view has been supported by a precedent issued by the Brazilian administrative court. However, considering that tax authorities are not bound by such precedent, assessments have been issued adopting the cost of acquisition in Brazilian currency.

Gains on the exchange of ADSs for preferred shares or the exchange of common share ADSs for common shares

The exchange of ADSs for preferred shares or common share ADSs for common shares is not subject to Brazilian tax. Non-Brazilian Holders may exchange ADSs for the underlying preferred shares or common share ADSs for the underlying common shares, sell the preferred shares or common shares on a Brazilian stock exchange and remit abroad the proceeds of the sale within five business days from the date of exchange (in reliance on the depositary s electronic registration), with no tax consequences.

Upon receipt of the underlying preferred shares in exchange for ADSs or the underlying common shares in exchange for common share ADSs, Non-Brazilian Holders may also elect to register with the Central Bank the U.S. dollar value of such preferred shares or common shares as a foreign portfolio investment under Resolution No. 2689/00, which will entitle them to the tax treatment referred above in connection with U.S. market investors .

Alternatively, the Non-Brazilian Holder is also entitled to register with the Central Bank the U.S. dollar value of such preferred shares or common shares as a foreign direct investment under Law 4,131/62, in which case the respective sale would be subject to the tax treatment referred in the section Ordinary Non-Brazilian Holders .

Gains on the exchange of preferred shares for ADSs or common shares for common share ADSs

The deposit of preferred shares in exchange for the ADSs of common shares in exchange for the common share ADSs may be subject to Brazilian income tax on capital gains if the amount previously registered with the Central Bank as a foreign investment in preferred shares or common shares or, in the case of other market investors under Resolution No. 2,689, the acquisition cost of the preferred shares or common shares, as the case may be, is lower than:

- the average price per preferred share or common share on the Brazilian stock exchange on which the greatest number of such preferred shares or common shares were sold on the day of deposit; or

- if no preferred shares or common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred shares or common shares were sold during the 15 preceding trading sessions.

The difference between the amount previously registered, or the acquisition cost, as the case may be, and the average price of the preferred shares or common shares, calculated as set forth above, is considered a capital gain subject to income tax at a rate of 15%.

Beneficiaries Residing or Domiciled in Tax Havens or Low-Tax Jurisdictions.

Law No. 9,430, dated as of December 27, 1996, defines low-tax jurisdictions as those that do not tax income or impose a rate lower than 20%.

Law No. 9,779, dated as of January 19, 1999, states that, except under limited circumstances, any income derived from operations by a beneficiary that resides or is domiciled in a country considered to be a tax haven is subject to income tax to be withheld by the source at a rate of 25%.

Accordingly, if the distribution of interest attributed to shareholders equity is made to a beneficiary residing or domiciled in a tax haven, the applicable income tax will be at a rate of 25% instead of 15%. The increased rate also applies for capital gains earned in transactions carried out of the Brazilian stock exchange and paid to residents of low-tax jurisdictions as of February 2004. However, the increased rate does not apply to dividends distributions, which remain exempted even if the beneficiary resides in a low-tax jurisdiction.

In accordance with Law No. 9,959, non-Brazilian holders of ADSs, preferred shares, common share ADSs or common shares, which are resident in tax havens are also excluded from the tax incentives granted to holders of ADSs and investors under Resolution No. 2,689 as of January 1, 2000 and will be subject to the same tax treatment applicable to holders that are resident or domiciled in Brazil in case of transactions carried out on the Brazilian stock exchange.

Taxation of Foreign Exchange Transactions. A financial transaction tax is imposed on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. Although the current applicable rate for almost all foreign currency exchange transactions is zero, the Ministry of Finance may increase the rate at any time, up to 25%. However, it may only do so with respect to future transactions.

Taxation of Bonds and Securities Transactions. Law No. 8,894, dated as of June 21, 1994, created the Tax on Financial Transactions, or IOF, which may be imposed on any transaction involving bonds and securities, even if the transaction includes Brazilian stock, futures or commodities exchanges. The rate of IOF/Títulos with respect to transactions of preferred shares, ADSs, common shares and common share ADSs is currently zero, although the executive branch may increase the rate up to 1.5% per day of the terms of the securities, but only with respect to future preferred shares, common shares, ADSs and common share ADSs transactions.

*Other Brazilian Taxe*s. Some Brazilian states impose gift and inheritance tax on gifts or bequests made by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such states. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of preferred shares, common shares, ADSs or common share ADSs.

CPMF is imposed on bank account debits at 0.38%. Constitutional Amendment No. 42/2003 approved the continued imposition of the CPMF tax until December 31, 2007. The responsibility for the collection of the CPMF tax is borne by the financial

institution that carries out the relevant financial transaction. Additionally, when the non-Brazilian holder transfers the proceeds from the sale or assignment of preferred shares or common shares by a currency exchange transaction, the CPMF tax will be levied on the amount to be remitted abroad in *reais*. If we perform any exchange transaction in connection with ADSs, common share ADSs, preferred shares or common shares, we will bear the CPMF tax.

Non-Brazilian holders investing in the Brazilian stock exchange are granted a CPMF exemption upon the entrance of funds into Brazil and the remittance abroad.

U.S. Tax Considerations

As of December 31, 2006, no common share ADSs were outstanding. The following U.S. tax considerations refer only to our preferred shares and the preferred share ADSs.

In general, for U.S. federal income tax purposes, holders of ADRs evidencing ADSs will be treated as the beneficial owners of the preferred shares represented by those ADSs.

Taxation of Distributions. Distributions with respect to the preferred shares or the ADSs (other than distributions in redemption of the preferred shares subject to Section 302(b) of the Code or in a liquidation of the Company) will, to the extent made from current or accumulated earnings and profits of the Company as determined under U.S. federal income tax principles, constitute dividends. Whether such current or accumulated earnings and profits will be sufficient for all such distributions on the preferred shares or ADSs to qualify as dividends for U.S. federal income tax purposes depends on the future profitability of the Company and other factors, many of which are beyond the control of the Company. To the extent that such a distribution exceeds the amount of the Company s earnings and profits, it will be treated as a non-taxable return of capital to the extent of the U.S. holder s basis in the preferred shares or ADSs, and thereafter as capital gain (provided that the preferred shares or ADSs are held as capital assets). As used below, the term dividend means a distribution that constitutes a dividend for U.S. federal income tax purposes. Cash dividends (including amounts withheld in respect of Brazilian taxes) paid with respect to (i) the preferred shares generally will be includible in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the U.S. holder or (ii) the preferred shares represented by ADSs generally will be includible in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the depositary bank and, in either case, will not be eligible for the dividends received deduction allowed to corporations. Dividends paid in *reais* will be includible in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day they are received by the U.S. holder, in the case of preferred shares, or the depositary bank, in the case of preferred shares represented by ADSs.

If dividends paid in *reais* are converted into U.S. dollars on the day they are received by the U.S. holder or the depositary bank, as the case may be, U.S. holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss if any *reais* received by the U.S. holder or the depositary bank are not converted into U.S. dollars on the date of receipt, as well as the tax consequences of the receipt of any additional *reais* from the custodian on account of Brazilian inflation.

Dividends generally will constitute foreign source income and, with certain exceptions, for taxable years beginning on or before December 31, 2006, will be passive income or financial services income , which is treated separately from other types of income for U.S. foreign tax credit purposes. For taxable years beginning after December 31, 2006, such income generally will constitute passive category income or, in the case of certain U.S. holders, general category income, for foreign tax credit purposes. In the event Brazilian withholding taxes are imposed on such dividends, such taxes may be treated as a foreign income tax eligible, subject to generally applicable limitations and conditions under U.S. federal income tax law, for credit against a U.S. holder s U.S. federal income tax liability (or at a U.S. holder s election, may be deducted in computing taxable income). The calculation and availability of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions, involves the application of rules that depend on a U.S. holder s particular circumstances. In the event Brazilian withholding taxes are imposed, U.S. holders should consult their own tax advisors regarding the availability of foreign tax credits with respect to Brazilian withholding taxes.

It is not entirely clear whether the preferred shares will be treated as preferred stock or common stock within the meaning of section 305 of the Code. If the preferred shares are treated as common stock for purposes of section 305, distributions to U.S. holders of additional shares of such

common stock or preemptive rights relating to such common stock with respect to their preferred shares or ADSs that are made as part of a pro rata distribution to all shareholders of the Company generally will not be treated as dividend income for U.S. federal income tax purposes, but could result in additional U.S.-source taxable gain upon the sale of such additional shares or preemptive rights. On the other hand, if the preferred shares are treated as preferred stock within the meaning of section 305, or if the U.S. holder receives a distribution of additional shares or preemptive rights other than as described in the preceding sentence, such distributions (including amounts withheld in respect of any Brazilian taxes) will be treated as dividends that are includible in the U.S. holder s gross income to the same extent and in the same manner as distributions payable in cash. In that

event, the amount of such distribution (and the basis of the new shares or preemptive rights so received) generally will equal the fair market value of the shares or preemptive rights on the date of distribution.

A holder of preferred shares or ADSs that is not a U.S. holder generally will not be subject to U.S. federal income or withholding tax on dividends received on preferred shares or ADSs, unless such income is effectively connected with the conduct by the holder of a trade or business in the United States.

Qualified Dividend Income. Notwithstanding the foregoing, certain dividends received by individual U.S. holders that constitute qualified dividend income will be subject to a reduced maximum marginal U.S. federal income tax rate. Qualified dividend income generally includes, among other dividends, dividends received during the taxable year from qualified foreign corporations. In general, a foreign corporation is treated as a qualified foreign corporation with respect to any dividend paid by the corporation with respect to stock of the corporation that is readily tradable on an established securities market in the United States. For this purpose, a share is treated as readily tradable on an established securities market in the United States if an ADR backed by such share is so traded.

Notwithstanding this previous rule, dividends received from a foreign corporation that is a passive foreign investment company (as defined in section 1297 of the Code), or in either the taxable year of the corporation in which the dividend was paid or the preceding taxable year will not constitute qualified dividend income. In addition, the term qualified dividend income will not include, among other dividends, any (i) dividends on any share of stock or ADS which is held by a taxpayer for 60 days or less during the 120-day period beginning on the date which is 60 days before the date on which such share or the shares backing the ADS become ex-dividend with respect to such dividends (as measured under section 246(c) of the Code) or (ii) dividends to the extent that the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respects to positions in substantially similar or related property. Moreover, special rules apply in determining a taxpayer s foreign tax credit limitation under section 904 of the Code in the case of qualified dividend income.

Individual U.S. holders should consult their own tax advisors to determine whether or not amounts received as dividends from us will constitute qualified dividend income subject to a reduced maximum marginal U.S. federal income tax rate and, in such case, the effect, if any, on the individual U.S. holder s foreign tax credit.

Taxation of Capital Gains. Deposits and withdrawals of preferred shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Gain or loss realized by a U.S. holder on the sale, redemption or other disposition of preferred shares or ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between such U.S. holder s basis in the preferred shares or the ADSs and the amount realized on the disposition. Gain realized by a U.S. holder on a sale, redemption or other disposition of preferred shares or ADSs, including gain that arises because the U.S. holder s basis in the preferred shares or ADSs has been reduced because a distribution is treated as a return of capital rather than as a dividend, generally will be treated as U.S. source income for U.S. foreign tax credit purposes.

If a Brazilian withholding tax or income tax is imposed on the sale or disposition of preferred shares or ADSs as described in Taxation Brazilian Tax Considerations, the amount realized by a U.S. holder will include the gross amount of the proceeds of such sale or disposition before deduction of the Brazilian withholding tax or income tax if applicable. The availability of U.S. foreign tax credits for these Brazilian taxes and any Brazilian taxes imposed on distributions that do not constitute dividends for U.S. tax purposes is subject to certain limitations and involves the application of rules that depend on a U.S. holder s particular circumstances. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, preferred shares or ADSs.

A holder of preferred shares or ADSs that is not a U.S. holder will not be subject to U.S. federal income or withholding tax on gain realized on the sale of preferred shares or ADSs, unless (i) such gain is effectively connected with the conduct by the holder of a trade or business in the United States or (ii) in the case of gain realized by an individual holder, the holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

Information Reporting and Backup Withholding. The information reporting requirements will generally apply to U.S. holders of ADSs. A holder of ADSs that is not a U.S. holder may be required to comply with applicable certification procedures to establish that they are not United States persons in order to avoid the application of U.S. information reporting requirements and backup withholding tax.

Dividends and Paying Agents

We pay dividends on preferred shares and common shares in the amounts and in the manner set forth under Item 8. Financial Information Dividend Policy and Payments. We will pay dividends in respect of preferred shares represented by ADSs or common shares represented by common share ADSs to the custodian for the depositary bank, as record owner of the preferred shares represented by ADSs or the common shares represented by common share ADSs. As promptly as practicable after receipt of the dividends we pay through Citibank N.A. to the custodian, it will convert these payments into U.S. dollars and remit such amounts to the depositary bank for payment to the holders of ADSs or common share ADSs in proportion to individual ownership.

Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the Commission. These materials, including this annual report and the accompanying exhibits, may be inspected and copied at the Commission s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of the materials may be obtained from the Commission s Public Reference Room at prescribed rates. The public may obtain information on the operation of the Commission s Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. In addition, copies of the exhibits that accompany this annual report may be inspected at our principal executive offices located at Avenida Barbacena, 1200, 30190 131 Belo Horizonte, Minas Gerais, Brazil.

Insurance

We have insurance policies to cover damages to the turbines, generators and transformers of our major power plants and substations caused by fire and risks such as equipment failures. We do not have general third party liability insurance covering accidents and have not solicited bids relating to this type of insurance. However, we may contract for this type of insurance in the future. In addition, we have not solicited bids for, nor do we carry, insurance coverage for major catastrophes affecting our facilities such as earthquakes and floods or for operating system failures. We do not have insurance coverage for business interruption risk, which means damages we suffer and consequential damages suffered by our consumers resulting from an interruption in power distribution are generally not covered by our insurance and we may be subject to significant related losses. See Item 3. Key Information Risk Factors Risks Relating to CEMIG We operate without general third party liability and catastrophe insurance policies.

We believe that, since we have contracted for fire and operational risk insurance, our insurance coverage will be at a level that is customary in Brazil for the type of businesses in which we are engaged.

Difficulties of Enforcing Civil Liabilities Against Non-U.S. Persons

We are a state-controlled mixed capital company established under the laws of Brazil. All of our executive officers and directors presently reside in Brazil. In addition, substantially all of our assets are located in Brazil. As a result, it will be necessary for holders of ADSs or common share ADSs to comply with Brazilian law in order to obtain an enforceable judgment against our executive officers or directors or our assets. It may not be possible for holders of ADSs or common share ADSs to effect service of process within the United States upon our executive officers and directors, or to realize in the United States upon judgments against these persons obtained in U.S. courts based upon civil liabilities of these persons, including any judgments based upon U.S. federal securities laws, to the extent these judgments exceed these persons U.S. assets. We have been advised by Brazilian counsel, Machado, Meyer, Sendacz e Opice Advogados, that judgments of U.S. courts for civil liabilities based upon the federal securities laws of the United States may be, subject to the requirements described below, enforced in Brazil. A judgment against us, or the persons described above obtained outside Brazil without reconsideration of the merits, is subject to confirmation by the Brazilian Superior Court of Justice. That confirmation will occur if the foreign judgment:

- fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted;
- is issued by a competent court after proper service of process is made in accordance with Brazilian Law;
- is not subject to appeal;
- is for the payment of a sum certain;

- is authenticated by a Brazilian consular officer in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese; and

- is not contrary to Brazilian national sovereignty, public policy or public morality.

We cannot assure you the confirmation process described above will be conducted in a timely manner or that Brazilian courts would enforce a monetary judgment for violation of the United States securities laws with respect to the ADSs and the preferred shares represented by the ADSs or the common share ADSs and the common shares represented by the common share ADSs.

We were further advised by respective Brazilian counsel that:

- original actions based on the federal securities laws of the United States may be brought in Brazilian courts and that, subject to Brazilian public policy and national sovereignty, Brazilian courts will enforce liabilities in such actions against us and our officers; and

- the ability of a judgment creditor or the other persons named above to satisfy a judgment by attaching our assets or those of the selling shareholders is limited by provisions of Brazilian law.

A plaintiff (whether Brazilian or non-Brazilian) residing outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that could secure such payment. The bond must have a value sufficient to satisfy the payment of court fees and defendant s attorney fees, as determined by a Brazil judge. This requirement does not apply to proceeding to enforce a foreign judgment, which has been confirmed by the Brazilian Superior Court of Justice.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in foreign currency exchange rates and interest rates.

We are exposed to foreign exchange risk because certain of our loans and financings are denominated in currencies (primarily the U.S. dollar) other than the currency in which we earn revenues (the *real*). Despite the fact that our electricity purchases from Itaipu, which represented R$822 million in 2006, are denominated in U.S. dollars, the related foreign exchange risk is no longer reflected in our operating revenues and operating expenses due to rate legislation changes in 2001 which allow electricity utilities such as us to record exchange rate losses related to Itaipu purchases as deferred regulatory assets. See Item 5. Operating and Financial Review and Prospects Critical Accounting Estimates.

Exchange Rate Risk

At December 31, 2006, approximately 10.1% of our outstanding indebtedness, or R$661 million, was denominated in foreign currencies, of which approximately 83.8%, or R$554 million, was denominated in U.S. dollars. We do not have substantial revenues denominated in any foreign currencies and, due to regulations that require us to keep excess cash on deposit in *real*-denominated accounts at Brazilian banks, we do not have monetary assets denominated in foreign currencies.

In 2006, we used financial instruments such as interest rate swaps to hedge our foreign exchange rate exposure. The purpose of the swaps was to reduce our exposure on the original interest rate of certain financing from an interest rate calculated based on the U.S. dollar/*real* exchange rate to an interest rate calculated based on the Certificado de Depósito Interbancário CDI (Interbank Deposit Certificate) rate. See Notes 2(d), 13, 20, 22 and 23 to our consolidated financial statements.

In 2007, the potential loss we would experience in the event of a hypothetical 20% depreciation of the *real* against the U.S. dollar would be approximately R$110.8 million related principally to loans and financing and primarily due to an increase in our *real*-denominated interest expense, which would be reflected on our income statement. In 2007, a hypothetical 20% depreciation of the *real* would result in an additional annual cash outflow of approximately R$397 million, reflecting the increased cost in *reais* of servicing foreign currency-denominated indebtedness from loans, financings and debentures and increased purchasing power relating to Itaipu. This sensitivity analysis assumes a simultaneous unfavorable 20% fluctuation in each of the exchange rates affecting the foreign currencies in which our indebtedness, the related interest expense and the expenses relating to the purchase of energy from Itaipu are denominated. This sensitivity analysis also assumes that the unfavorable fluctuation in the exchange rate affecting the purchase of energy from Itaipu would affect the annual cash payments but would not affect the expense recorded on the statement of operations, since the additional currency exchange expense would be recorded as a deferred regulatory asset.

The tables below provide summary information regarding our exposure to exchange rate risk as of December 31, 2006:

	2006
U.S. Dollar	
Financing	554
Less Contracted derivative instruments	(233)
	321
Japanese Yen	
Financing	70
Less Contracted derivative instruments	(70)
Other Currencies	
Financing	37
Net liabilities exposed to exchange rate risk	358

Interest Rate Risk

At December 31, 2006, we had R$6,524 million in loans and financing outstanding, of which approximately R$5,876 million bore interest at floating rates. Of this R$5,876 million, R$5,650 million is subject to monetary restatement through the application of inflation indices established by the Federal Government, principally the IGP-M, and R$226 million is subject principally to LIBOR.

At December 31, 2006, we had liabilities, net of other assets, that bore interest at floating rates in the amount of R$1,076 million. These assets consisted mainly of our account receivable from the State Government and deferred regulatory assets, partially offset by CCEE obligations, bearing interest at rates tied to IGP-DI and SELIC, respectively, as summarized in the tables below. A hypothetical, instantaneous and unfavorable change of 100 basis points in interest rates applicable to floating rate financial assets and liabilities held at December 31, 2006 would result in a potential loss of R$10.8 million to be recorded as a financial expense in our consolidated financial statements.

Total Debt Portfolio

	R$ Million
Floating rate debt:	
Real-denominated	5,650
Foreign currency-denominated	226
	5,876
Fixed rate debt:	
Foreign currency-denominated	435
Total	6,311

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	Total Portfolio Floating Rate (R$ million)
Assets:	
Cash and cash equivalents	1,008
Account receivable from State Government	1,726
Deferred regulatory assets	2,697
Total	5,431
Liabilities:	
Account payable to suppliers-payment to generator for energy purchased on the CCEE	(328)
Financings (Floating Rate)	(5,876)
Derivative instruments(1)	(303)
Total liabilities	(6,507)
Total	(1,076)

(1) Swaps to reduce our exposure on the original interest rate of certain financing from an interest rate calculated based on the U.S. dollar/*real* exchange rate to an interest rate calculated based on the Certificado de Depósito Interbancário-CDI (Interbank Deposit Certificate) rate.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Certain of CEMIG s loans, financing agreements and debentures contain covenants that require us to maintain financial ratios, calculated according to Brazilian Corporate Law. As of December 31, 2006, we were not in compliance with one such covenant, the Capital Expenditures / EBITDA ratio, contained in a credit instrument (*Cédulas de Crédito Bancário*) among Cemig Distribution, Banco Itaú BBA S.A., HSBC Bank Brasil S.A. and West LB do Brasil. Such ratio is required to be less than or equal to 60%, and as of December 31, 2006, the ratio was 73.59%. Cemig Distribution has obtained a waiver from the creditors that are parties to this contract. The waiver affirms that such creditors will not exercise their rights to demand either accelerated or immediate payment of the total amount due until December 31, 2007.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

Item 15. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Our executive board, including our Chief Executive Officer (CEO) and Chief Financial and Investor Relations Officer (CFO), evaluated the effectiveness of our controls and procedures for disclosure, and concluded that on December 31, 2006, these controls and procedures were effective for providing reasonable assurance that our financial information and that of our consolidated subsidiaries was recorded, processed, summarized and disclosed in accordance with the rules and regulations provided by the Commission.

(b) Management s annual report on internal control over financial reporting

Our executive board, including our CEO and CFO, is responsible for the implementation, effectiveness and maintenance of the system of internal controls over financial reporting.

Our internal controls over financial reporting include policies and procedures were implemented to provide reasonable assurance as to: (i) the reliability of the recording accounting and financial information; (ii) the preparation of accounting records in accordance with U.S. GAAP; (iii) the processing of payments and receipts in accordance with management authorization; and (iv) the timely detection of inappropriate acquisitions, and the disposal or allocation of material assets. We emphasize that due to their inherent limitations, the possibility exists that these actions may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may decline.

The company s management evaluated the effectiveness of our internal controls related to the consolidated financial statements as of December 31, 2006, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) - and concluded that, for the year ended December 31, 2006, our system of internal controls related to the consolidated financial statements is effective.

Management s evaluation of the effectiveness of our internal controls related to the consolidated financial statements, for the year ended December 31, 2006, was audited by Deloitte Touche Tohmatsu Auditores Independentes, an auditing firm independent from the Company, whose opinion is contained in the attached report.

The Ethics Committee

The Ethics Committee was established on August 12, 2004, and is made up of three permanent members and three alternate members. It is responsible for the management, interpretation, dissemination, application and updating of the Code of Professional Conduct.

The Committee receives and investigates all reports of violation of the ethical principles and standards of conduct, provided they are presented in a written document signed by the interested party and addressed to: CEMIG, Av. Barbacena 1200, SA/17th Floor/B2, and accompanied by evidentiary proof. The Committee may also be contacted by e-mail comissaodeetica@cemig.com.br or telephone at + 55 31 3299-4970.

In December 2006 we implemented the Anonymous Reporting Channel, available on our website. The purpose of this program is to receive, channel and process accusations of irregular practices, such as financial fraud, misappropriation of assets, receipt of unfair advantages, and the engagement of illegal contracts. This channel represents the Company aim of improving transparency, correcting unethical or illegal behavior and enhancing corporate governance, as well as being an instrument that meets the requirements of the Sarbanes-Oxley Act.

(c) Attestation report of the registered public accounting firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Management of

Companhia Energética de Minas Gerais - CEMIG

Belo Horizonte MG, Brazil

We have audited management s assessment, included in the accompanying Management s annual report on internal control over financial reporting, that Companhia Energética de Minas Gerais S.A. - CEMIG and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Companhia Energética de Minas Gerais CEMIG and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2006 and our report dated June 29, 2007, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company s adoption of new accounting standards.

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/s/ Deloitte Touche Tohmatsu Auditores Independentes

Belo Horizonte, Brazil

June 29, 2007

(d) **Changes in internal control over financial reporting**

There has been no change in our internal control over financial reporting during the year ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our Fiscal Council acts as our audit committee for purposes of the Sarbanes-Oxley Act of 2002. Under Section 10A-3 of the SEC rules on Audit Committees of listed companies, non-U.S. issuers are permitted not to have a separate Audit Committee made up of independent members if there is a Fiscal Council established and chosen in accordance with the legal rules of its origin country, expressly requiring or allowing that such council follow certain obligations. Also in accordance with this exemption, a Fiscal Council may exercise the obligations and responsibilities of an Audit Committee of the United States up to the limit permitted by Brazilian Law. The financial expert of our Fiscal Council is Luiz Otávio Nunes West.

Item 16B. Code of Ethics

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of ethics applies to our Chief Executive Officer, Chief Financial and Investor Relations Officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics was filed with the SEC as Exhibit 11 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003, and is also available on our website at www.cemig.com.br. If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our web site at www.cemig.com.br.

Item 16C. Principal Accountant Fees and Services

Audit and Non-Audit Fees

The following table summarizes the aggregate fees billed to us by Deloitte Touche Tohmatsu Auditores Independentes during the fiscal years ended December 31, 2006 and 2005:

	Year ended December 31,	
	2006	**2005**
	(thousands of *reais*)	
Audit fees	955	466
Tax fees	47	48
Audit-related fees	2,080	221
Total fees	3,082	735

Audit fees. Audit fees in the above table are the aggregate fees billed by Deloitte Touche Tohmatsu Auditores Independentes in connection with the audit of our annual financial statements prepared in accordance with the accounting practices adopted in Brazil and the United States and the review of our quarterly statutory financial statements.

Tax Fees. Tax fees are fees for professional services rendered by Deloitte Touche Tohmatsu Auditores Independentes for tax compliances services.

Audit-related fees. Audit-related fees for 2006 related to internal control review. The 2005 fees related to due diligence in connection with the acquisition of transmission lines.

Audit Committee Pre-Approval Policies and Procedures

Our Fiscal Council currently serves as our audit committee for purposes of the Sarbanes-Oxley Act of 2002. However, as required by Brazilian legislation, we have adopted pre-approval policies and procedures by which all audit and non-audit services provided by external auditors must be approved by the Board of Directors. Any service proposals submitted by external auditors need to be discussed and approved by the Board of Directors during its meetings. Once the proposed service is approved, we formalize the

engagement of services. The approval of any audit and non-audit services to be provided by our external auditors is specified in the minutes of our Board of Directors.

Item 16D. Not Applicable

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

None.

PART III

Item 17. **Financial Statements**

Not applicable.

Item 18. Financial Statements

Reference is made to pages F-1 through F-67 hereof.

The following financial statements are filed as part of this annual report on Form 20-F:

- Report of Deloitte Touche Tohmatsu Auditores Independentes
- Audited Consolidated Balance Sheets as of December 31, 2006 and 2005
- Audited Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2006, 2005 and 2004
- Audited Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2006, 2005 and 2004
- Audited Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004
- Notes to the Consolidated Financial Statements

Item 19. **Exhibits**

The following documents are included as exhibits to this annual report:

Exhibit Number	Document
1	Corporate by-laws of CEMIG, as amended and in effect since April 26, 2007.
2.1	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 (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs filed on August 20, 2001 (File No. 333-13826)).
2.2	Shareholders Agreement, dated June 18, 1997, between the State Government and Southern, relating to the rights and obligations of owners of our shares (incorporated by reference to Exhibit 2.1 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
2.3	Amendment No. 1 to the 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 (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs filed on June 11, 2007 (File No. 333-143636)).
2.4	Deposit Agreement, dated as of June 12, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the common share ADSs filed on May 7, 2007 (File No. 333-142654)).
4.1	Contract of Concession for Generating Electric Energy, dated June 10, 1997, between the Federal Government and us, relating to the provision of electric energy generation services to the public (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.2	Contract of Concession of Electric Energy Transmission Services, dated June 10, 1997, between the Federal Government and us, relating to the transmission of electric energy to the public (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).

4.3 First Amendment to the Electricity Transmission Concession Contract, dated September 16, 2005 (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).

4.4 Contracts of Concession of Public Service for Distribution of Electric Energy, dated June 10, 1997, between the Federal Government and us, relating to the provision of electric energy distribution services to the public (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).

4.5 First Amendment to the Electricity Distribution Concession Contract, dated March 31, 2005 (incorporated by reference to Exhibit 4.5 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).

4.6 Second Amendment to the Electricity Distribution Concession Contract, dated September 16, 2005 (incorporated by reference to Exhibit 4.6 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).

4.7 Contract for the Assignment of CRC Account, dated May 31, 1995, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.4 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).

4.8 First Amendment to the Contract for the Assignment of CRC Account, dated February 24, 2001, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.5 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).

4.9 Second Amendment to the Contract for the Assignment of CRC Account, dated October 14, 2002, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.6 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).

4.10 Third Amendment to the Contract for the Assignment of CRC Account, dated October 24, 2002, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.7 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).

4.11 Indenture Covering the First Public Issuance of Common Debentures, dated October 4, 2001, between Planner Corretora de Valores S.A. and us, relating to the first public issuance of R$625 million common debentures, divided into two series of the same class, without guarantee or preference (incorporated by reference to Exhibit 4.8 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).

4.12 Financing Agreement by Extension of Credit No. 02.2.962.3.1, dated February 7, 2003, between BNDES and CEMIG and Intervening Third Parties (incorporated by reference to Exhibit 4.9 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).

4.13 Summary of Indenture Covering the Third Public Issuance of Common Debentures, dated June 14, 2004, between CEMIG and Pavarini Distribuidora de Títulos e Valores Mobiliários (incorporated by reference to Exhibit 4.10 to our Annual Report on Form 20-F filed on May 25, 2005 (File No. 1-15224)).

4.14 Fourth Amendment to the Contract for the Assignment of CRC Account, dated January 23, 2006, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.14 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).

4.15 Announcement of Start of Public Distribution of Senior Units under CRC Account Securitization Fund, dated as of January 26, 2006 (incorporated by reference to Exhibit 4.15 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).

4.16 Summary of Indenture Covering the First Issuance of Commercial Paper Securities, dated July 27, 2006, between CEMIG Distribuição S.A. and Banco do Brasil Banco de Investimentos S.A.

4.17 Summary of Indenture Covering the First Issuance of Commercial Paper Securities, dated July 27, 2006, between CEMIG Geração e Transmissão S.A. and Banco do Brasil Banco de Investimentos S.A.

4.18 Summary of Indenture Covering Public Distribution of Non-Convertible Unsecured Debentures, dated August

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24, 2006, between CEMIG Distribuição S.A. and Unibanco União dos Bancos Brasileiros S.A.

4.19 Summary of Indenture Covering Public Distribution of Non-Convertible Unsecured Debentures, dated April 17, 2007, between CEMIG Geração e Transmissão S.A and Unibanco União dos Bancos Brasileiros S.A.

4.20 Summary of Indenture Covering Public Distribution of the Third Issuance of Commercial Paper Securities, dated June 12, 2007, between CEMIG Distribuição S.A. and CEF Caixa Econômica Federal.

8 List of Subsidiaries (incorporated by reference to Exhibit 8 to our Annual Report on Form 20-F filed on May 25, 2005 (File No. 1-15224)).

11 Code of Ethics (incorporated by reference to Exhibit 11 to our Annual Report on Form 20-F filed on July 1, 2004 (File No. 1-15224)).

12.1 Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated July 2, 2007.

12.2 Chief Financial and Investor Relations Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated July 2, 2007.

13.1 Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated July 2, 2007.

13.2 Chief Financial and Investor Relations Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated July 2, 2007.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG

By:	/s/ Djalma Bastos de Morais
Name:	Djalma Bastos de Morais
Title:	Chief Executive Officer

Date: July 23, 2007

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ANNEX A

THE BRAZILIAN POWER INDUSTRY

The Brazilian Electricity System Overview

Brazil s system of electricity production and transmission is a large-scale hydroelectric and thermal system made up predominantly of hydroelectric power stations, with multiple owners. The Sistema Interligado Nacional SIN (the National Interlinked System), or the Brazilian Grid, is comprised of companies in the southern, southeastern, center-west, and northeastern regions and part of the northern region of Brazil. Only 3.0% of the country s electricity production capacity is outside the National Grid, in small isolated systems located mainly in the Amazon region.

Since the electricity system has been growing at a high rate in terms of both generation and transmission, the process of integration is advancing fast, and its operational complexity is growing proportionately.

Brazil s abundant hydrological resources are managed through storage reservoirs. It is estimated that Brazil has a hydroelectric power generation potential close to 260,000 MW, of which only 27% has been developed, according to the Energy Research Company, or EPE.

The table below shows the installed capacity of electric power generation in the interconnected power system (excluding non-connected systems and self-production capacities), divided into hydroelectric and thermoelectric generation capacity, from 1991 through 2006 in MW.

Year	**Hydroelectric**	**Thermoelectric**	**Proinfa(*)**	
1991	45,808	3,789		
1992	46,995	3,672		
1993	47,834	3,514		
1994	49,136	3,490		
1995	50,582	3,490		
1996	52,266	3,724		
1997	53,664	3,730		
1998	55,519	3,903		
1999	57,724	4,135		
2000	59,452	6,217		
2001	61,044	7,096		
2002	63,739	10,223		
2003	66,321	11,000		
2004	67,012	12,090		
2005	69,760	12,363		
2006	71,411	12,701	612	(**)

Sources : National System Operator- ONS, Annual Energy Planning

(*) Proinfa the Program to Support Alternative Electricity Sources was created to work with the Mining and Energy Ministry (MME) by Law 10348 of April 26, 2002. Its purpose is to help diversify Brazil s sources of energy, and also to seek regional solutions through advantageous economic use of renewable sources, using available resources and applicable technologies. Initially the aim is to increase the proportional contribution to the National Grid System of electricity output produced from wind energy by Small Hydroelectric Plants (PCHs) and from biomass.

(**) Small Hydroelectric Plant - SHP, Small Thermal Plant - STP and Wind Power Plants

Brazil has an installed capacity in the interconnected power system of 84.74 GW, approximately 85% of which is hydroelectric. This installed capacity includes half of the installed capacity of Itaipu 12,600 MW owned equally by Brazil and Paraguay. According to data from the National System Operator ONS, Brazil s installed capacity is projected to increase to approximately 96.94 GW by 2011, of which 18% is projected to be thermoelectric and 82% is projected to be hydroelectric. There are approximately 49,723 miles of transmission lines with voltages equal to or higher than 230 kV in Brazil.

Approximately 35% of Brazil s installed generating capacity and 64% of Brazil s high voltage transmission lines are operated by Centrais Elétricas Brasileiras S.A., or Eletrobrás, a company owned by the federal government of Brazil, or the Federal Government. Eletrobrás has historically been responsible for implementing electric policy, conservation and environmental management programs. It controls five subsidiaries responsible for the generation, transmission and distribution of electricity in the

north, northeast and southeast of Brazil: Centrais Elétricas do Norte do Brasil S.A., or Eletronorte; Companhia Hidroelétrica do São Francisco, or CHESF; Furnas Centrais Elétricas S.A., or Furnas; Companhia de Geração Térmica de Energia Elétrica CGTEE and Empresa Transmissora de Energia Elétrica do Sul do Brasil S.A. Eletrosul; As a result of the restructuring of the Brazilian electric sector, however, these federally owned companies have been changing their roles from regional development utilities to generation and/or transmission companies acting in a competitive market. Eletrobrás also controls Eletrobrás Termonuclear S.A., or Eletronuclear, a company formed following a partial split-up of Furnas. The remaining high voltage transmission lines are owned by state-controlled electric power companies. Distribution is conducted by approximately 60 state or local utilities, a majority of which have been privatized by the Federal Government or state governments.

Electricity Supply and Demand

Between 1986 and 2006, the consumption of electricity in Brazil grew by approximately 3.7% per year (from 166.7 GWh to 352.9 GWh), the number of consumers increased by approximately 4.2% per year (from 25,900 thousand to 58,980 thousand) and the total installed capacity increased by more than 4.2% per year (from 43,264 MW to 98,207 MW). The following table sets forth the growth in Brazil s energy consumption, population and growth rate of the gross domestic product, or GDP, from 1986 through December 31, 2006.

Year	Energy Consumption (in GWh) (5)	Energy Consumption (% Growth) (5)	GDP Growth (%) (6)	Population (in millions) (6)
1986	166.7	10.6	7.5	137.7
1987	181.3	7.4	3.5	140.3
1988	191.8	5.8	(0.1)	142.8
1989	200.5	4.5	3.2	145.2
1990	204.4	2.0	(4.3)	147.6
1991	213.5	4.4	1.0	149.9
1992	217.4	1.8	(0.5)	152.2
1993	226.2	4.0	4.9	154.5
1994	231.6	2.4	5.9	156.8
1995	248.7	7.4	4.2	159.0
1996 (1)	259.3	4.3	2.2	161.2
1997	276.8	6.7	3.4	163.4
1998	287.5	3.9	0.0	165.7
1999	292.7	1.8	0.3	167.9
2000	307.5	5.1	4.3	170.1
2001	283.3	(7.9)	1.3	172.4
2002	290.5	2.5	2.7	174.6
2003	307.0	5.7	1.1	179.0
2004	320.8	4.5	5.7	181.6
2005 (2)	334.6	4.3	2.9	184.2 (2)
2006 (3)	352.9	5.5	3.7	187.0 (4)

(1) Figures were changed in the data series from 1996 to 2006, due to a new method of calculation for GDP introduced by the IBGE (Brazilian Statistics Institute).

(2) Electricity Market Statistics and Analysis (*Estatística e Análise do Mercado de Energia Elétrica*) Monthly Bulletin, published by EPE, December 2006).

(3) IBGE forecast

(4) Market Monitoring System Total consumption (May 2007) (EPE).

(5) *Energy s Forecasts* published by EPE (Energy Research Company), linked to the Mining and Energy Ministry (MME).

(6) *Population* and *GDP* published by IBGE (Brazilian Statistics Institute).

Between 1986 and the end of 2006, consumption of electricity in Brazil generally grew at a faster rate than Brazil s GDP, with the exception of 1993 and 1994, during which labor intensive industries lowered their output. Even in years in which the GDP had negative growth, electricity consumption increased. Overall electricity consumption growth averaged 5.6% per year from 1970 to 2006. According to the energy consumption forecast studies of EPE (Energy Research Company) for the 2006 Planning Cycle, the

Brazilian consumption growth rate should reach an average of 5.0% per year for the next -five-year period. The following table illustrates the forecasted breakdown of the consumption growth rate per region:

Period	North Integrated	Northeast Integrated	Southeast/ Midwest Integrated	South Integrated	Brazilian Average
2006-2011	6.2 %	5.2 %	4.8 %	4.7 %	5.0 %

Source: EPE Planning Cycle 2006

The following table provides information on the risks of an energy deficit of more than 5% of the market of each subsystem in the south, southeast-center-west, north and northeast regions in the coming years.

	Probability of Electricity Shortfalls (%)				
Region	2007	2008	2009	2010	2011
South	0.0	2.7	4.4	6.6	10.1
Southeast/Midwest	0.1	3.4	4.7	7.8	10.4
North	1.1	11.5	6.4	7.6	10.1
Northeast	0.9	5.1	4.5	8.0	10.2

Source: National System Operator ONS, Monthly Operation Planning, January 2007

The increase in the risk of an energy deficit to more than 5% in 2010 and 2011, shown in the above table, is due to exclusion from the study of part of the capacity of some natural gas thermal power plants that did not have sufficient fuel to generate energy, based on the test made by the National System Operator, in December 2006. In the forthcoming years, the Brazilian companies that supply oil and natural gas will have a challenge in building the supply of natural gas to meet the needs of the thermal power plants. In April 2007 Petrobras proposed a plan to increase the production of natural gas, and import LNG, to build the supply of natural gas to meet the needs of the consumption that is forecast. This plan aims to supply the entire needs of the thermal power plants until 2010.

Historical Background

The Brazilian Constitution provides that the development, use and sale of energy may be undertaken directly by the Federal Government or indirectly through the granting of concessions, permissions or authorizations. Historically, the Brazilian power industry has been dominated by generation, transmission and distribution concessionaires controlled by the Federal and State Governments. In recent years, the Federal Government has taken a number of measures to restructure the power industry. In general, these measures were aimed at increasing the role of private investment and eliminating foreign investment restrictions, thus increasing overall competition in the power industry.

In particular, the Federal Government has taken the following measures:

- In 1990, the Federal Government created the National Privatization Program aimed at transferring certain companies controlled by it to the private sector, including those from the power industry.

- The Brazilian Constitution was amended in 1995 to authorize foreign investment in power generation. Prior to this amendment, all generation concessions were held either by a Brazilian individual or an entity controlled by Brazilian individuals or by the Federal or State Governments.

- The Federal Government enacted Law No. 8,987 on February 13, 1995, or the Concessions Law, and Law No. 9,074 on July 7, 1995, or the Power Concessions Law, that together

- required that all concessions for the provision of energy-related services be granted through public bidding processes;

- gradually allowed certain electricity consumers with significant demand (generally greater than 3 MW), referred to as Free Consumers, to purchase electricity directly from suppliers holding a concession, permission or authorization;

- provided for the creation of generation entities, or Independent Power Producers, which, by means of a concession, permission or authorization, may generate and sell all or part of their electricity to Free Consumers, distribution concessionaires and trading agents, among others;

- granted Free Consumers and electricity suppliers open access to all distribution and transmission systems; and

- eliminated the need for a concession to construct and operate power projects with capacity from 1 MW to 30 MW, or Small Hydroelectric Power Plants.

- Beginning in 1995, a portion of the controlling interests held by Eletrobrás and various states in generation and distribution companies were sold to private investors. At the same time, certain state governments also sold their stakes in major distribution companies. While the majority of the distribution companies have been privatized, most generation capacity is still controlled by Eletrobrás, by means of its subsidiaries Chesf, Eletronorte and Furnas.

- In 1998, the Federal Government enacted Law No. 9,648, or the Power Industry Law, to overhaul the basic structure of the electricity industry. The Power Industry Law provided for the following:

- the establishment of a self-regulated body responsible for the operation of the short-term electricity market, or the Wholesale Energy Market, which replaced the prior system of regulated generation prices and supply contracts;

- a requirement that distribution and generation companies enter into initial energy supply agreements, or the Initial Contracts, generally take or pay commitments, at prices and volumes approved by the Brazilian National Electric Energy Agency ANEEL. The main purpose of the Initial Contracts was to ensure distribution companies have access to a stable electricity supply at prices that guarantee a fixed rate of return for the electricity generation companies during the transition period leading to the establishment of a free and competitive electricity market;

- the creation of the National Integrated System Operator (*Operador Nacional do Sistema*, or ONS), a non-profit, private entity responsible for the operational management of the generation and transmission activities of the interconnected power system; and

- the establishment of public bidding processes for concessions for the construction and operation of power plants and transmission facilities, in addition to the bidding process requirements under the Concessions Law and the Power Concessions Law.

- In 2001, Brazil faced a serious energy crisis that lasted until the end of the first quarter of 2002. As a result, the Federal Government implemented measures that included:

- a program for the rationing of electricity consumption in the most adversely affected regions, namely the southeast, central-west and northeast regions of Brazil; and

- the creation of the Electricity Crisis Management Chamber (*Câmara de Gestão da Crise de Energia Elétrica,* or GCE), which passed a series of emergency measures that provided for reduced electricity consumption targets for residential, commercial and industrial consumers in the affected regions by introducing special rate regimes that encouraged the reduction of electricity consumption.

- In March 2002, the GCE terminated the emergency measures and electricity rationing as a result of large increases in supply (due to a significant rise in reservoir levels) and a moderate reduction in demand.

Accordingly, the Federal Government enacted new measures in April 2002 that, among other things, stipulated an extraordinary rate readjustment, or RTE, to compensate financial losses incurred by the electricity suppliers as a result of the mandatory electricity rationing. For additional information regarding the rationing, see Rationing and Extraordinary Rate Increases .

- On December 17, 2002, with the enactment of Law 10,604, the Federal Government granted a subsidy for distribution companies in order to contribute to the moderation of the rates charged to low-income consumers.

- On March 15, 2004, the Federal Government enacted Law No. 10,848, or the New Industry Model Law, in an effort to further restructure the power industry with the ultimate goal of providing consumers with secure electricity

supplies combined with low rates. On July 30, 2004 the Federal Government published Decree 5,163, governing the purchase and sale of electricity under the New Industry Model Law, as well as the granting of authorizations and concessions for electricity generation projects. These include rules relating to auction procedures, the form of power purchase agreements and the method of passing costs through to final consumers.

Rationing and Extraordinary Rate Increases

Below average rainfall in the years preceding 2001 resulted in low reservoir levels and low hydroelectric capacity in the southeast, central west and northeast regions. Attempts to offset dependence on hydroelectric plants with gas-fired thermal generation plants delayed due to regulatory and other issues. In response to the energy shortage, on May 15, 2001, the Federal Government created the GCE to regulate and administer the program for reduction of energy consumption to avoid the interruption of electricity supply. This program, known as the Electricity Rationing Program, established limits for energy consumption for industrial, commercial and residential consumers, which ranged from a 15% to a 25% reduction in energy consumption, and lasted from June 2001 until February 2002.

As a result of the end of the rationing measures, the Federal Government, through Decree No. 4,261 of June 6, 2002, terminated the GCE and created the *Câmara de Gestão do Setor Elétrico* (the Electricity Sector Management Committee), or CGSE, to replace the GCE as coordinator of the electricity sector revitalization measures, and to lend support to the Federal Government with respect to related issues.

Law No. 10,438 of April 26, 2002 authorized the creation of the General Agreement of the Electricity Sector, which was designed to resolve issues related to the Electricity Rationing Plan by providing for compensation for rationing-related losses to generation and distribution companies in Brazil and restoring the economic equilibrium of the concession agreements, which was thrown out of balance during the rationing period.

Such Law authorized an extraordinary rate increase, or RTE, applicable to final consumers that would compensate both generators and distributors for such rationing-related losses. The increased rates will be in force for an average period of 72 months beginning January 2002. The RTE also covers financial losses resulting from those costs that are beyond the control of the distributor, referred to as Parcel A costs, from January 2001 to October 2001 as well as losses of generators incurred as a result of payment of free energy costs above the Initial Contract average price. The RTE percentage charged for residential consumers (excluding low-income consumers), rural consumers, public street lighting and high-tension industrial consumers whose costs related to electric energy represent at least 18% of average production cost and fulfill certain other criteria was 2.9% and the RTE percentage charged to all other consumers was 7.9%, producing a weighted average increase of 5.87%.

Pursuant to Law 10,438, the National Bank for Economic Development (*Banco Nacional de Desenvolvimento Econômico e Social*, or BNDES), created a special program to finance 90% of the amounts recoverable by means of the RTE. The loans are repayable over the rate increase collection period.

In April 2003, the Federal Government, fearing that rate increases may contribute to overall inflation in Brazil, decided to delay a rate increase to which distribution companies were entitled under ANEEL resolutions to recover intra-annual variation of Parcel A costs. On November 11, 2003, with the enactment of Law 10,792, the Federal Government implemented an emergency program designed to compensate distribution companies for the losses incurred due to the non-consideration of the intra-annual variation of Parcel A costs on occasion of the annual rate readjustments that took place from April 2003 to April 2004. Such program guaranteed to the applicable companies a loan from BNDES under special conditions.

Concessions

The companies or consortia that wish to build or operate facilities for generation, transmission or distribution of electricity in Brazil must apply to the MME or to ANEEL, by delegation of MME, as granting authority, for a concession, permission or authorization, as the case may be. Concessions grant rights to generate, transmit or distribute electricity in the relevant concession area for a specified period. This period is usually 35 years for new generation concessions, and 30 years for new transmission or distribution concessions. An existing concession may be renewed at the granting authority s discretion.

The Concession Law establishes, among other things, the conditions that the concessionaire must comply with in rendering electricity services, the consumer s rights and the obligations of the concessionaire and the granting authority. Furthermore, the concessionaire must comply with regulations in force governing the electricity sector. The main provisions of the Concession Law are summarized as follows:

- *Adequate service*. The concessionaire must render an adequate service to satisfy, among other things, regularity, continuity, efficiency, safety and accessibility of the service.

- *Use of Land.* The concessionaire may use public land or request the granting authority to declare the public interest of private real estate, so as to benefit the concessionaire. In such case the concessionaire shall compensate the affected owners.

- *Strict liability.* The concessionaire is strictly liable for all damages arising from the performance of its services and caused to consumers, to third parties or to the granting authority.

- *Changes in controlling interest*. The granting authority must approve any direct or indirect change in the concessionaire s controlling interest.

- *Intervention by the Granting Authority*. The granting authority may intervene in the concession, by means of a presidential decree, to ensure the concessionaire s adequate performance of services, as well as the full compliance with applicable contractual, regulatory and legal provisions in case the concessionaire fails to do so. Within 30 days after the decree date, the granting authority s representative is required to commence an administrative proceeding in which the concessionaire is entitled to due process of law. During the term of the administrative proceeding, a person appointed by the granting authority s decree becomes responsible for carrying on the concession. If the administrative proceeding is not completed within 180 days after the decree date, the intervention ceases and the concession is returned to the concessionaire. The concession is also returned to the concessionaire if the granting authority s representative decides not to terminate the concession and the concession term has not yet expired.

- *Termination of the concession*. The concession termination agreement may be terminated through expropriation and/or forfeiture. Expropriation is the early termination of a concession for reasons related to the public interest that must be expressly declared by law and based on public interest grounds. Following the expropriation, the concessionaire is entitled to receive an indemnification, which may or may not adequately compensate investments made by the concessionaire in expropriated assets that have not been fully amortized or depreciated by the time of the expropriation. Forfeiture must be declared by the granting authority after ANEEL, or MME, has made a final administrative ruling that the concessionaire has failed to adequately perform its obligations under the concession agreement. The concessionaire is entitled to due process of law in the administrative proceeding declaring the forfeiture of the concession and can resort to the courts . The concessionaire is entitled to receive an indemnification for the investments made by the concessionaire in expropriated assets that have not been fully amortized or depreciated, after deduction of any amounts corresponding to outstanding fines and damages due by the concessionaire.

- *Expiration.* When the concession expires, all assets, rights and privileges that are materially related to the rendering of the electricity services revert to the Brazilian government. Following the expiration, the concessionaire is entitled to receive an indemnification for the investments made by the concessionaire in expropriated assets that have not been fully amortized or depreciated by the time of the expiration.

Penalties

ANEEL s Resolution 63, enacted on May 12, 2004 (which revoked Resolution 318 enacted on October 6, 1998), governs the imposition of sanctions against the operators in the electricity sector, defines conduct constituting violations of the law and classifies the appropriate penalties based on the nature and gravity of the violation (including warnings, fines, temporary suspension from the right to participate in bidding procedures for new concessions, licenses or authorizations and forfeiture). Depending on the violation, the fines can be up to two per cent of the amount invoiced by the concessionaires in the 12-month period preceding any assessment notice. Some infractions that may result in fines relate to the failure of the operator to request ANEEL´s approval in case of:

- Execution of contracts with related parties in the cases provided by regulation;

- Sale or assignment of the assets or revenues related to the services rendered as well as the imposition of any encumbrances (including any security, bond, guarantee, pledge and mortgage) on them or any other assets related to the concession or the revenues of the electricity services; and

- Changes in controlling interest of the holder of the authorization or concession.

Principal Regulatory Authorities

National Energy Policy Council

In August 1997, the National Energy Policy Council (*Conselho Nacional de Política Energética*, or CNPE) was created to advise the Brazilian president regarding the development and creation of the national energy policy. The CNPE is presided over by the MME, and the majority of its members are officials of the Federal Government. The CNPE was created to optimize the use of Brazil s energy resources and to assure the supply of electricity to the country.

Ministry of Mines and Energy

The MME is the Federal Government s primary regulator of the power industry. Following the adoption of the New Industry Model Law, the Federal Government, acting primarily through the MME, undertook certain duties that were previously under the responsibility of ANEEL, including the drafting of guidelines governing the granting of concessions and the issuance of directives governing the bidding process for concessions relating to public services and public assets.

ANEEL

The Brazilian power industry is regulated by ANEEL, an independent federal regulatory agency. After enactment of the New Industry Model Law, 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,

- administering concessions for electricity generation, transmission and distribution activities, including the approval of electricity rates;
- enacting regulations for the electricity industry;
- implementing and regulating the exploitation of energy sources, including the use of hydroelectric energy;
- promoting the public bidding process for new concessions;
- settling administrative disputes among electricity generation entities and electricity purchasers; and
- defining the criteria and methodology for the determination of transmission rates.

ONS

The ONS was created in 1998 as a non-profit private entity comprised of Free Consumers and energy utilities engaged in the generation, transmission and distribution of electricity, in addition to other private participants such as importers and exporters. The New Industry Model Law, regulated by Decree 5,163 of July 2004, and Decree 5,081 of May 14, 2004, granted the Federal Government the power to appoint three directors of the ONS, including the Director-general. The primary role of the ONS is to coordinate and control the generation and transmission operations in the interconnected power system, subject to ANEEL s regulation and supervision. The objectives and principal responsibilities of the ONS include, among others:

- planning and scheduling of the operation and the centralized dispatching of the generation in order to optimize the interconnected power system;

- supervision and coordination of the electric system operation centers;

- supervision and control of the national interconnected electric and energetic systems and the international interconnections;

- retaining and managing of the electric energy transmission services and respective access conditions, as well as the ancillary services;

- proposing to ANEEL the expansion and reinforcement of the basic transmission network facilities; and

- submitting rules for the operation of the transmission system for ANEEL s approval. Generators must declare their availability to the ONS, which then attempts to establish an optimal electricity dispatch program.

The active participation of the ONS to ensure access to transmission grids occurs by means of contractual relationships established between the ONS, the owners of the basic transmission grid and the users of the transmission grid. Such contractual relationships comprise the following:

- the *Contrato de Prestação de Serviços de Transmissão* (Operating Agreement), a contract entered into by the ONS with the concessionaires which regulates the technical and financial terms for engaging in transmission activities;

- the *Contrato de Uso do Sistema de Transmissão* (Grid Utilization Contract), a contract entered into by the ONS and the transmission grid users that regulates the use of the Brazilian grid, as well as procedures for invoicing and payment);

- the *Contrato de Constituição de Garantia* (Guarantee Contract, or CCG), a contract which gives the ONS access to available funds in banks accounts designated by transmission grid users for the purpose of providing funds in case such users fail to make their monthly payments to the concessionaires;

- the *Contrato de Conexão à Rede Básica* (Connection Contract), a contract between the concessionaires and the transmission grid users which establishes the technical terms required to connect to the Brazilian grid; and

- the *Contrato de Compartilhamento de Instalações* (Infrastructure Sharing Agreement), a contract between the concessionaires for the sharing of the Brazilian grid facilities.

Wholesale Energy Market and its successor, the Energy Trading Chamber - CCEE

Originally a self-regulated entity, the Wholesale Energy Market became subject to the authorization, supervision and regulation of ANEEL in 2002. Participants in the Wholesale Energy Market include all of the large energy generating entities, distribution agents, importers and exporters of electricity and other entities authorized by ANEEL to trade electric energy, or Energy Traders. Smaller generation entities are also eligible to participate in the Wholesale Energy Market.

On August 12, 2004, the Federal Government enacted a decree setting forth the regulations applicable to the new Energy Trading Chamber (*Câmara de Comercialização de Energia Elétrica*), or CCEE and, accordingly, on November 10, 2004 the Wholesale Energy Market was substituted by CCEE and its activities and assets were absorbed by this new entity. One of the main roles of the CCEE is to conduct public auctions in the regulated market, including the auction of existing electricity and new electricity. Additionally, the CCEE is responsible, among other things, for (1) registering the volume of all the energy purchase agreements within the regulated market (*Contratos de Comercialização de Energia no Ambiente Regulado*), or CCEAR, and the agreements resulting from the free market, and (2) the accounting for and clearing of short-term transactions.

Under the New Industry Model Law, the price of electricity bought or sold in the spot market, known as the Price of Liquidation of Differences (*Preço de Liquidação de Diferenças*), or PLD, will take into account factors similar to the ones used to determine the Wholesale Energy Market spot prices prior to the New Industry Model Law. Among these factors, the variation of the PLD will be mainly linked to the equilibrium between the market supply and demand for electricity as well as the impact that any variation on this equilibrium may have on the optimal use of the electricity generation resources by the ONS.

The CCEE is comprised of power generation, distribution, trading agents and free consumers, and its board of directors is comprised of four members appointed by these agents and one by the MME, who is the Chairman of the board of directors.

Energy Research Company - EPE

On August 16, 2004, the Federal Government enacted the decree that created the Electricity Research Company, or EPE, a state-owned company, which is responsible for conducting strategic research on the energy industry, including, among others, electric energy, oil, gas, coal and renewable energy sources. EPE is responsible for (i) studying projections of the Brazilian energy matrix, (ii) preparing and publishing the national energy balance, (iii) identifying and quantifying energy resources and (iv) obtaining the required environmental licenses for new generation concessionaires. The research carried out by EPE will be used to subsidize MME in its policymaking role in the domestic energy industry. EPE is also responsible for approving the technical qualification of new electric energy projects to be included in the related auctions.

The Electricity Sector Monitoring Committee (CMSE)

Decree 5,175 dated August 9, 2004 established the Electricity Sector Monitoring Committee, or CMSE, which acts under the direction of the MME. The CMSE is responsible for monitoring and permanently evaluating the continuity and security of the electricity supply conditions and for indicating necessary steps to correct identified problems.

Independent Power Producer

An Independent Power Producer, or IPP, is a legal entity or a consortium which is granted an authorization or concession to generate electric energy at its own account and risk.

An IPP may sell energy to (i) distribution companies by means of public auctions held by ANEEL or CCEE upon termination of the existing contracts, (ii) consumers with a demand of at least 3MW supplied at a voltage level equal to or greater than 69 kV, (iii) new consumers with a demand of at least 3MW supplied at any voltage, (iv) consumers who are part of an industrial or commercial complex to which the IPP also supplies steam or some other by-product resulting from the co-generation process, (v) any group of consumers subject to agreement with the local distribution concessionaire, and (vi) any consumer to which the local distribution concessionaire is unable to supply energy prior to 180 days after an initial request.

Free Consumers

Law No. 9,074 of July 7, 1995, as amended by Law Nos. 9,648/98 and 10,848/04, partially abolished the exclusivity of supply of electricity that distribution concession holders had previously enjoyed within their concession areas. Consumers that qualify as Free Consumers may choose their energy supply between generators and traders of electricity. Currently, such consumers are the ones (i) connected prior to July 1995 with a demand equal to or greater than 3 MW, supplied at a voltage level equal to or greater than 69 kV or (ii) connected after July 1995 with a demand equal to or greater than 3 MW, supplied at any voltage level or (iii) that consume between 500kW and 3MW if they choose to purchase their energy from renewable energy sources, such as small hydroelectric facilities or biomass, also referred to as special consumers . On December 21, 2006, ANEEL issued Resolution 247, which regulates activities related to special consumers.

Law No. 10,848 prevents distribution companies from selling power to Free Consumers at freely negotiated prices. Supply to captive consumers must be made only at regulated rates. In order to exercise the option to be a Free Consumer, a consumer that complies with the legal requirements and does not have a previously agreed term in the contract with the local distributor must deliver a prior notice to such concessionaire, not exceeding 36 months, unless the distribution concessionaire, at its discretion, agrees to a shorter term. Law No. 10,848 exceptionally allows that, until December 31, 2009, those consumers that intend to become self-producers of power or even IPPs may do so upon delivery of a written notice to the supplier, at least 180 days in advance.

Additionally, those who choose to be Free Consumers may only return to the status of captive consumers, i.e., to be once again subject to regulated rates, upon a five-year prior communication to the local distribution company, unless such company, at its discretion, agrees to a shorter term. With the publication of Decree 5,163, of July 30, 2004, Free Consumers became subject to penalties if they do not contract all of their demand under the so-called bilateral contracts. Also, under the new market rules, Free Consumers are obliged to join and subscribe to the CCEE. Presidential Decree 4,413 and ANEEL s Resolution 665, of November of 2002, set directives for the separation of the wholesale supply contracts of large electricity consumers whose supply voltage is 2.3 kV or higher. Such legislation determined that these large electricity consumers split their current supply contracts into three types: (i) a supply agreement, (ii) a main transmission grid connection and use agreement and (iii) a distribution grid connection and use agreement. The deadlines established for compliance with this resolution are (i) July 1, 2003, for those consumers whose purchased demand is higher than 3 MW, (ii) July 1, 2004, for those consumers whose purchased demand is higher than 1 MW and (iii) July 1, 2005, for all other consumers.

Ownership Limitations

In 2000, ANEEL established new limits on the concentration of certain services and activities within the power industry. Under these limits, with the exception of companies participating in the National Privatization Program (which need only comply with such limits once their final corporate restructuring is accomplished) no power company (including both its controlling and controlled companies) may (1) own more than 20% of Brazil s installed capacity, 25% of the installed capacity of the South/Southeast/Central-West region or 35% of the installed capacity of the North/Northeast region, except if such percentage corresponds to the installed capacity of a single generation plant, (2) own more than 20% of Brazil s distribution market, 25% of the South/Southeast/Central-West distribution market or 35% of the North/Northeast distribution market, except in the event of an increase in the distribution of electricity exceeding the national or regional growth rates or (3) own more than 20% of Brazil s trading market with final consumers, 20% of Brazil s trading market with non-final consumers or 25% of the sum of the above percentages.

On February 6, 2007 ANEEL issued Resolution No. 252, which revoked some of the above mentioned limits on the concentration of certain services and activities within the power industry. Resolution No. 252 revoked the limits applicable to power companies owning installed capacity in Brazil, as described in item (1) above. The limits applicable to the distribution and trading markets pursuant to (2) and (3) above remain in force.

Incentives for Alternatives Sources of Power

In 2000, a federal decree created the Thermoelectric Priority Program (*Programa Prioritário de Termeletricidade*, or PPT), for purposes of diversifying the Brazilian energy matrix and decreasing its strong dependency on hydroelectric plants. The benefits granted to thermoelectric plants under the PPT include (1) guaranteed gas supply for 20 years, (2) assurance of the application of the normative value by distribution companies who purchase their electricity for 20 years, according to regulation from ANEEL, thereby assuring that costs related to the acquisition of the electricity produced by thermoelectric plants will be transferred to rates and (3) guaranteed access to a BNDES special financing program for the power industry.

In 2002, the Proinfa Program was established by the Federal Government to create certain incentives for the development of alternative sources of energy, such as wind energy projects, Small Hydroelectric Power Plants and biomass projects. Under the Proinfa Program, Eletrobrás will purchase the electricity generated by these alternative sources for a period of 20 years and will pass it on to distributors. In its initial phase, the Proinfa Program is limited to a total contracted capacity of 3,300 MW. Projects seeking to qualify for the benefits offered by the Proinfa Program must be fully operational by December 31, 2008.

Law 9,427/96, as amended by Law 10,762/03, further established that hydroelectric plants with installed capacity of 1,000 kW or less, generation plants classified as small hydroelectric plants, and those with qualifying solar, wind, biomass or cogeneration sources with installed capacity of 30,000 kW or less, used for independent production or self-production, will have the right to a discount of 50% on the rates for use of the transmission and distribution systems, charged on production and consumption of the energy sold. This article of the law was regulated by ANEEL through its Resolution 077/2004.

Regulatory Charges

In certain circumstances, power companies are compensated for assets used in connection with a concession if the concession is eventually revoked or is not renewed. In 1971, the Brazilian Congress created a Global Reversion Fund (*Reserva Global de Reversão*, or RGR Fund) designed to provide funds for such compensation. In February 1999, ANEEL revised the assessment of a fee requiring all distributors and certain generators operating under public service regimes to make monthly contributions to the RGR Fund at an annual rate equal to 2.5% of the company s fixed assets in service, but not to exceed 3.0% of total operating revenues in any year. In recent years, the RGR Fund has been used principally to finance generation and distribution projects. The RGR Fund is scheduled to be phased out by 2010, and ANEEL is required to revise the rate so that the consumer will receive some benefit from the termination of the RGR Fund.

The Federal Government has imposed a fee on IPPs reliant on hydrological resources, except for small Hydroelectric Power Plants and generators under the public services regime, similar to the fee levied on public-industry companies in connection with the RGR Fund. IPPs are required to make contributions to the Public Use Fund (*Fundo de Uso de Bem Público*, or UBP Fund) according to the rules of the corresponding public bidding process for the granting of concessions. Eletrobrás received the UBP Fund payments until December 31, 2002. All payments to the UBP Fund since December 31, 2002 are paid directly to the Federal Government.

Distribution companies must contribute to the Fuel Consumption Account (*Conta de Consumo de Combustível*, or CCC Account). The CCC Account was created in 1973 to generate financial reserves to cover elevated costs associated with the increased use of thermoelectric energy plants, in the event of a rainfall shortage, given the higher marginal operating costs of thermoelectric energy plants compared to hydroelectric energy plants. Each energy company is required to contribute annually to the CCC Account. The annual contributions are calculated on the basis of estimates of the cost of fuel needed by the thermoelectric energy plants in the following year. The CCC Account, in turn, reimburses energy companies for a substantial portion of the fuel costs of their thermoelectric energy plants. The CCC Account is administered by Eletrobrás.

In February 1998, the Federal Government provided for the phasing out of the CCC Account. Subsidies from the CCC Account will be phased out over a three-year period beginning in 2003 for thermoelectric energy plants constructed prior to February 1998 and currently belonging to the Interconnected Power System. Thermoelectric energy plants constructed after that date will not be entitled to subsidies from the CCC Account. In April 2002, the Federal Government established that subsidies from the CCC Account would continue to be paid to those thermoelectric plants located in isolated systems for a period of 20 years in order to promote generation of electricity in these regions.

With the exception of Small Hydroelectric Power Plants, all hydroelectric utilities in Brazil must pay fees to Brazilian states and municipalities for the use of hydrological resources. Such amounts are based on the amount of electricity generated by each utility and are paid to the states and municipalities where the plant or the plant s reservoir is located.

In 2002, the Federal Government instituted the Energy Development Account (*Conta de Desenvolvimento Energético*, or CDE), which is funded through annual payments made by concessionaires for the use of public assets, penalties and fines imposed by ANEEL and, since 2003, the annual fees to be paid by agents offering electricity to final consumers, by means of a charge to be added

to the rates for the use of the transmission and distribution systems. These fees are adjusted annually. The CDE was created to support the (1) development of electricity production throughout the country, (2) production of electricity by alternative energy sources and (3) universalization of energy services throughout Brazil. The CDE shall be in effect for 25 years and shall be managed by Eletrobrás.

The New Industry Model Law establishes that the failure to pay the contribution to RGR, Proinfa Program, the CDE, the CCC Account, or payments due by virtue of purchase of electricity in the regulated market will prevent the non-paying party from receiving a rate readjustment (except for an extraordinary revision) or receiving resources arising from the RGR, CDE or CCC Accounts.

Energy Reallocation Mechanism

Under the Wholesale Energy Market, protection from hydrological risks for centrally dispatched hydrogenerators is provided through an Energy Reallocation Mechanism, or ERM, which attempts to mitigate the risks involved in the generation of hydrological electricity by mandating that hydrogenerators share the hydrological risks of the Interconnected Power System. According to Brazilian Law, the revenue arising from the sale of energy by generators does not depend on the energy effectively generated by them, but rather on the Assured Energy (the Effective Power, a reference amount of electricity established by the MME in accordance with studies conducted by the ONS) of each new plant, which is determined by the government in each relevant concession agreement. Any imbalances between the energy actually generated and the Assured Energy is covered by the ERM. The purpose of the ERM is to mitigate hydrological risks, guaranteeing that all participant plants in the ERM receive revenue related to their Assured Energy, irrespectively of the volume of energy generated by them. In other words, the ERM reallocated the energy, transferring surplus energy from those who generated in excess of their Assured Energy to those who generated less than their Assured Energy. However, it is possible that this reallocation may correspond to an amount less than 100% of the Assured Energy of the participant plant and, if all the Assured Energy has been sold through long-term contracts, the participant plants would then be exposed to the short-term market, paying for the balance at the PLD Price (the Differences Settlement Price). Such a situation may happen, as periods of drought could lead to a reduction of the hydro generating capacity of the Brazilian system as a whole. In this case, the ERM mechanism will not be able to guarantee the Assured Energy to all hydro producers. As a result, we would be forced to buy energy in the wholesale market to meet the selling contracts we have made.

Rates for the Use of the Distribution and Transmission Systems

ANEEL oversees rate regulations that govern access to the distribution and transmission systems and establish rates (i) for the use of the local distribution grid, or Distribution Usage Rates (TUSD), and (ii) for the use of the interconnected transmission grid, or Transmission Usage Rates (TUST). Additionally, distribution companies of the South/South-East interconnected system pay specific charges for the transmission of electricity generated at Itaipu. In recent years, the Federal Government has had a goal of improving the national transmission system, and as a result, certain transmission companies have engaged in significant expansion programs, which have been paid for by increases in transmission rates and charges. The increase in transmission rates and charges paid by distribution concessionaires are passed on to their respective consumers through Annual Rate Adjustments. The following is a summary of each rate or charge:

TUSD

The TUSD is paid by generation companies, distribution concessionaires which use the distribution grid of others and Free Consumers for the use of the distribution system of the distribution concessionaire to which they are connected and are revised annually according to an inflation index and investments made by the distributors in the preceding year for the maintenance and expansion of the grid. The amount to be paid by the user connected to the distribution system is calculated by multiplying the amount of electricity contracted with the distribution concessionaire for each connection point, in kW, by the rate in R$/kW which is set by ANEEL.

TUST

The TUST is paid by generation companies and Free Consumers for the use of the basic transmission grid to which they are connected and are readjusted annually according to an inflation index and the annual revenue of the transmission companies adjustment. According to criteria established by ANEEL, owners of the different parts of the transmission grid have transferred the coordination of their facilities to the ONS in return for receiving regulated payments from the transmission system users. Network users, including generation companies, distribution companies and Free Consumers, have signed contracts with the ONS entitling them to use the transmission grid in return for the payment of published rates. Other parts of the grid that are owned by transmission companies but which are not considered part of the transmission grid are made available directly to the interested users who pay a specified fee.

The TUST is currently based on the nodal costs calculated according to the long-range incremental costs methodology. Regulation by ANEEL changed the current criteria for determination of the TUST so that the physical location of the users of the transmission grid (near or far from the center of load) was taken into consideration. This change did not affect CEMIG Generation and Transmission.

In accordance with Law 9,648/98 power purchase contracts, known as Initial Contracts, have being reduced 25% since 2002. As of January, 2006, CEMIG does not have the amount of power contracted under the Initial Contracts. With this reduction the responsibility for payment of the TUST, which was previously paid by the distribution companies, has been transferred to generation companies. Generation companies are paying transmission charges on the basis of the amount of power demand sold to consumers. Charges for load will be determined on the basis of maximum use of the transmission system during periods of peak usage.

ANEEL Inspection Charge

Energy Services Inspection Charge (TFSEE) was instituted by Law No. 9,427/96 and is regulated by Decree No. 2,410/97. TFSEE is an annual tax calculated based on the type of service (including independent production), and is proportional to the size of the concession, permission or authorization. The TFSEE is limited to 0.5% of the annual economic benefit earned by the concessionaire, permit holder or authorized party and must be paid directly to ANEEL in twelve monthly installments.

Distribution

Until early 1993, two important principles dominated the rate-setting process in Brazil: (i) that electric utilities should be guaranteed an annual real rate of return of between 10% and 12%, known as the guaranteed return, on service-related assets included in the rate base and (ii) that the rates charged to each class of consumer for electricity should be uniform throughout Brazil, notwithstanding the high costs of distribution to remote areas of the country. In cases where the rates set by the Federal Government resulted in returns below 10% or above 12%, shortfalls or excesses were credited or debited to each company s CRC Account. In general, until 1975, rates were set at levels that afforded the guaranteed return to companies in the sector. From 1975 through early 1993, however, rates were fixed at levels that in nearly all cases did not permit electric utilities to achieve the guaranteed return because the Federal Government sought to use lower rates to combat inflation. The practical effects of this rate-setting and compensation system were significant fluctuations in real terms in the level of rates during the period and a substantial increase in the CRC Account balances of most utilities.

Legislative changes in 1993 abolished the guaranteed return concept and the requirement that electricity rates be uniform throughout Brazil. Instead, each utility was to propose a rate structure based on its particular circumstances for approval by federal regulatory authorities. The proposed rate was to be calculated taking into account the concessionaire s desired level of remuneration as well as, among other things, operating expenditures, including personnel costs, the costs of electricity purchased from other concession companies, certain construction costs, depreciation and amortization charges, taxes other than income taxes and other charges. This legislation abolished the CRC Accounts and permitted concessionaires with positive CRC Account balances to offset such balances against obligations of such concessionaires to the Federal Government, to federal financial institutions and to other concessionaires in the electricity sector. In connection with these regulatory reforms, the authorities granted electric utilities significant real rate increases and established a mechanism for automatic adjustments in rates to take account of inflation.

The concession agreements for distribution services executed with the Federal Government establish the maximum rates distribution concessionaires are allowed to charge their consumers.

Distribution rates are subject to review by ANEEL, which has the authority to adjust and review rates in response to changes in electricity purchase costs and market conditions. When adjusting distribution rates, ANEEL divides the costs of distribution companies between (1) costs that are beyond the control of the distributor, or Parcel A costs, and (2) costs that are under the control of the distributor, or Parcel B costs. The rate adjustment is based on a formula that takes into account the division of costs between the two categories.

Parcel A costs include, among others, the following:

- costs of electricity purchased for resale pursuant to Initial Contracts;
- costs of electricity purchased pursuant to bilateral agreements that are freely negotiated between parties; and
- certain other charges for the transmission and distribution systems.

The pass-through of electricity purchase costs under supply agreements negotiated before the enactment of the New Industry Model Law is subject to a ceiling based on a normative value established by ANEEL for each different source of energy (such as

hydroelectric, thermoelectric and alternative sources of energy). The normative value applied to the supply contracts is adjusted annually in order to reflect increases in costs incurred by generators. Such adjustment takes into account (1) inflation, (2) costs incurred in hard currency and (3) fuel related costs (such as supply of natural gas). Costs incurred in IGP-M shall correspond to at least 25% of all costs incurred by generators.

Parcel B costs are those that are within our control and include, among others:

- return on investment related to the concession area and its expansion;
- taxes on revenue;
- depreciation costs; and
- operation and maintenance costs of the distribution system.

Each distribution company s concession agreement provides for an annual rate adjustment (*reajuste anual*). In general, Parcel A costs are fully passed through to consumers. Parcel B costs, however, are restated for inflation in accordance with General Market Price Index (Indice Geral de Preços do Mercado), or IGP-M index, adjusted by an X Factor.Electricity distribution companies, according to their concession contracts, are also entitled to periodic revisions (*revisão periódica*) every few years. These revisions are aimed at (1) 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 (2) determining the X factor, which is based on three components:(i) Xc, which is a factor based on our consumer satisfaction as surveyed by ANEEL and is set each year; (ii) Xa, which is a factor based on the difference between the IPCA and IGP-M inflation indexes multiplied by our total personnel costs (since our labor increases are based on the IPCA and our tariff increases are based on the IGP-M) and is set each year; and (iii) Xe, which is a factor based on our productivity gains over a five-year period and is set every five years.

The X factor is used to adjust the proportion of the change in the IGP-M index that is used in the annual adjustments. Accordingly, upon the completion of each periodic revision, application of the X factor requires distribution companies to share their productivity gains with final consumers.

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.

Low-income consumers benefit from a special rate established by the Federal Government (through ANEEL), subsidized by regular consumers. Since 2002, the deficit generated by the application of this special rate for new low-income consumers has been financed by Eletrobrás with funds from the RGR (Global Reversion Reserve) and the CDE (the Energy Development Account). In 2002, Decree 4336/02 determined that the distribution companies would be compensated for the revenue loss resulting from the Special rate, with funds from Eletrobrás.

The New Industry Model Law

The New Industry Model Law introduced material changes to the regulation of the power industry with a view to providing incentives to private and public entities to build and maintain generation capacity that will assure the supply of electricity within Brazil at low rates through competitive electricity public bidding processes. The key features of the New Industry Model Law include:

- Creation of two environments for the sale of energy with (i) a more stable market in terms of supply of energy, so as to provide an additional guarantee of supply to captive consumers, referred to as the Regulated Contracting Environment (ACR) or regulated market; and (ii) a market especially destined for certain participants (that is to say, Free Consumers and selling companies) which will permit a certain degree of competition in the context of the regulated market, known as the Free Contracting Environment (ACL), or free market.

- Restrictions on certain activities of distributors, so as to permit them to focus on their core business to promote more efficient and reliable services to captive consumers.

- Elimination of self-dealing, in order to provide an incentive to distributors to purchase electricity at the lowest available prices rather then buying electricity from related parties.

- Respect for contracts executed prior to the New Industry Model Law, in order to provide regulatory stability to transactions carried out before its enactment.

The New Industry Model Law also excluded Eletrobrás and its subsidiaries from the National Privatization Program, which is a program originally created by the Federal Government in 1990 with a view to promote the privatization process of state-owned companies.

Challenges to the Constitutionality of the New Industry Model Law

The New Industry Model Law is currently being challenged on constitutional grounds before the Brazilian Supreme Court. The Federal Government moved to dismiss the actions arguing that the constitutional challenges were moot because they related to a provisional measure that had already been converted into law. However, on August 4, 2004, the Brazilian Supreme Court denied the government s motion and decided to hear the actions and rule on their merits. On March 30th, 2005, after the vote by two (2) Justices in favor of a preliminary injunction to suspend the effects of the New Industry Model Law, five (5) other Justices voted against such suspension and the New Industry Model is currently in full force and effect. In such vote, the Justices appreciated the main challenge of the lawsuit, which is based on the fact that the New Industry Model Law was established by a Provisional Measure, instead of a Law, approved by National Congress. Thus a trend for the vote of the constitutionality of the New Industry Model Law has been demonstrated. Notwithstanding such trend, the merits of the lawsuit has not yet been appreciated and a final decision upon the matter is subject to the favorable vote of the majority of the 11 Justices, provided that a quorum of at least eight Justices must be present. To date, the Brazilian Supreme Court has not reached a final decision upon the merits of such lawsuit and we do not know when such a decision may be reached. Therefore, the New Industry Model Law is currently in force. Regardless of the Supreme Court s final decision, certain portions of the New Industry Model Law relating to restrictions on distributors performing activities unrelated to the distribution of electricity, including sales of energy by distributors to Free Consumers and the elimination of contracts between related parties are expected to remain in full force and effect.

If all or a portion of the New Industry Model Law is determined unconstitutional by the Brazilian Supreme Court, the regulatory scheme introduced by the New Industry Model Law may not come into effect, generating uncertainty as to how and when the Federal Government will be able to introduce changes to the electric energy sector. We have already contracted a significant portion of our electricity capacity and needs until 2013, and the pass-through to rates of such electricity is expected to continue to be governed by the regulation in effect on the date of the contract. As such, irrespective of the outcome of the Supreme Court s decision, we believe that in the short term, the effects of any such decision on our activities will be limited. Nevertheless, the exact effect of an unfavorable outcome of the legal proceedings on us is difficult to predict and it could have an adverse impact on our business and results of operations.

Coexistence of Two Electricity Trading Environments. Under the New Industry Model Law, electricity purchase and sale transactions will be carried out in two different market segments: (1) the regulated market, or the Pool, which contemplates the purchase by distribution companies through public bids of all electricity necessary to supply their consumers and (2) the free market, which encompasses purchase of electricity by non-regulated entities (such as the Free Consumers and energy traders).

The electricity arising from (1) low capacity generation projects located near the consumption points (such as certain co-generation plants and the Small Hydroelectric Power Plants), (2) plants qualified under the Proinfa program, as defined below,(3) Itaipu and (4) purchase and sale agreements entered into before the New Industry Model Law, will not be subject to the public bidding process for the supply of electricity to the Pool. The electricity generated by Itaipu, located on the border of Brazil and Paraguay, is traded by Eletrobrás and the Federal Government, by means of ANEEL, and determines the volumes that shall be mandatorily purchased by each distribution concessionaire. The rates at which the Itaipu-generated electricity is traded are denominated in U.S. dollars and established by ANEEL pursuant to a treaty between Brazil and Paraguay. As a consequence, Itaipu rates rise or fall in accordance with the variation of the U.S. Dollar/real exchange rate. Changes in the price of Itaipu-generated electricity are, however, subject to the Parcel A cost recovery mechanism.

The Regulated Market (the ACR)

In the regulated market, distribution companies will buy purchase electricity for their captive consumers through public bids regulated by ANEEL and conducted by CCEE.

Energy purchases, will take place through two types of bilateral contract: (i) Energy Agreements (*Contrato de Quantidade de Energia*) to be executed with hidroelectric generating units and (ii) Capacity Agreements (*Contratos de Disponibilidade de Energia*). Under an Energy Agreement, a generator commits to supply a certain amount of electricity and assumes the risk that electricity supply could be adversely affected by hydrological conditions and low reservoir levels, among other conditions, that could interrupt the supply of electricity, in which case the generator will be required to purchase the electricity elsewhere in order to comply with its supply commitments. Under a Capacity Agreement, a generator commits to make a certain amount of capacity available to the ACR.

In this case, the revenue of the generator is guaranteed and the hydrological risk is passed on to distributors. However potential additional costs of the distributors are passed on to consumers. Together, these agreements comprise the energy purchase agreements in the ACR (*Contratos de Comercialização de Energia no Ambiente Regulado*), or CCEAR).

Under the New Industry Model Law, the estimate of demand from distributors is the principal factor in determining how much electricity the system as a whole will contract. Under the new system, distributors are obligated to contract 100% of their projected electricity needs, as opposed to 95% under the previous regime.

The regulation under the New Industry Model Law stipulates that distribution companies that contract less than 100% of their total captive consumption may be subject to fines. There are mechanisms to reduce this possibility, such as the purchase of energy from other distribution companies whose energy purchases exceeded forecasted demand, or the purchase of energy in auctions during the year. Any remaining shortfall from 100% of total captive consumption can be bought at the spot market price and the concessionaire would be subject to a penalty payment equivalent to the shortfall multiplied by the reference value rate established by ANEEL. If a company contracts more than 103% of its captive consumption, it would be subject to price risk if it sells this energy in the spot market in the future. To reduce such price risk, a company may reduce the purchase contracts in the existing energy auction by up to 4% each year, and reduce those contracts due to loss of consumers that became free and are supplied by generators directly. Any surplus may be negotiated in the spot market.

According to the New Industry Model Law, electricity distribution concessionaires will be entitled to pass on to their respective consumers, in costs related to electricity purchased through public bids, limited to the equivalent of 103% of their verified annual load, as well as any taxes and industry charges related to the public bids.

The Free Market (the ACL)

In the free market electricity is traded between generation concessionaires, IPPs, self-generators, energy traders, importers of energy and Free Consumers. The free market will also include existing bilateral contracts between generators and distributors until they expire. Upon expiration, such contracts must be executed under the New Industry Model Law guidelines.

A consumer that is eligible to choose its supplier, known as potentially free consumer , and that has a contract with a distribution company for an undetermined duration, may only be able to purchase electricity from other suppliers in the year following the declaration of its intention to terminate such contract, which declaration is required to be sent to the distributor at least 15 days before the day such distributor is required to state its electricity needs for the next auction, except as otherwise provided in the contract.

Potentially free consumers are those whose demand exceeds 3 MW at a voltage equal to or higher than 69kV or at any voltage level, so long as the supply began after July 1995. In addition, consumers with contracted demand equal to or higher than 500kW or more may be serviced by suppliers other than their local distribution company if they move to energy from alternative energy sources, such as wind, biomass or small hydroelectric plants.

Once a consumer has opted for the free market, it may only return to the regulated system once it has given the distributor of its region five years notice, provided that the distributor may reduce such term at its discretion, except for special consumers, which may provide 180 days notice. This extended notice period seeks to assure that, if necessary, the construction of cost efficient new generation could be finalized in order to supply the re-entry of Free Consumers into the regulated market. In addition, distributors may also reduce the amount of energy purchased according to the volume of energy that they will no longer distribute to free consumers. State-owned generators may sell electricity to Free Consumers, but as opposed to private generators, they are obliged to do so through an auction process.

Currently, high tension consumers who purchase their electricity from distributors in the regulated market do so at a subsidized price. This subsidy, known as the cross-subsidy, is being gradually eliminated by ANEEL, and its full termination is scheduled for 2007. The potentially free consumers are required to enter into separate contracts for the connection and use of the transmission or distribution lines and for the purchase of power.

Restricted Activities of Distributors

Distributors in the interconnected Brazilian grid are not permitted to (1) develop activities related to the generation or transmission of electricity, (2) sell electricity to Free Consumers, except for those in their concession area and under the same conditions and rates maintained with respect to captive consumers in the ACR, (3) hold, directly or indirectly, any interest in any other company, except interest in entities incorporated for raising, investment and management of funds necessary for the distributor or its controlled, controlling or under common control companies, corporation or partnership or (4) develop activities that are unrelated to their respective concessions, except for those permitted by law or in the relevant concession agreement. Such requirement is also not

applicable for distributors with respect to services rendered for isolated power systems and for its own market when demand is up to 500 GWh per year. The rationale of this requirement is to (1) preserve each concession s identity, enabling specific analysis of generation, transmission and distribution activities and (2) stimulate competition in generation and trading activities and, at the same time, to improve regulation in transmission and distribution activities. The New Industry Model Law has granted a transition period of 18 months for companies to adjust to these rules, and ANEEL can extend such term for another 18 months in the event that companies are unable to comply with such requirements within the prescribed timeframe.

Elimination of Self-Dealing

Since the purchase of electricity for captive consumers will be performed through the ACR, so-called self-dealing, when distributors were permitted to meet up to 30% of their electricity needs through electricity that was acquired from affiliated companies, is no longer permitted, except in the context of agreements that were duly approved by ANEEL before the enactment of the New Industry Model Law. Distributors may, however, make purchases from affiliated companies if the distributor participates in the public bidding process through the ACR, and the generator that bids the lowest price is an affiliated party.

Contracts Executed prior to the New Industry Model Law

The New Industry Model Law provides that the contracts executed by electricity distribution companies and approved by ANEEL before the enactment of the New Industry Model Law will not be amended to reflect any extension in their terms or modification in prices or volumes of electricity already contracted, with the exception of Initial Contracts, as described below.

During the transition period to a free and competitive energy market (1998-2006) that was established by the Power Industry Law, purchases and sales of electricity between generation and distribution concessionaires must occur pursuant to Initial Contracts. The purpose of the transition period was to permit the gradual introduction of competition in the industry and to protect market participants against exposure to potentially volatile spot market prices.

Under the Power Industry Law, electricity committed to Initial Contracts is reduced by 25% each year from 2002 to 2005. Generation companies will be allowed to trade their excess, non-contracted electricity in the ACR or in the free electricity market and may conduct public auctions to trade any non-contracted volumes with Free Consumers or energy traders The Initial Contracts expired in December 2005, and all the released energy was renegotiated in the ACR or in the ACL.

Electricity Purchases under the New Industry Model Law

Decree 5,163/04 provides that distributors must contract all of their electricity demand necessary to serve 100% of their markets under the guidelines of the New Industry Model Law. Electricity-selling agents *(agentes vendedores)* must provide evidentiary support linking the allotted energy to be sold to existing or planned power generation facilities. Agents that do not comply with such requirements are subject to penalties imposed by ANEEL.

Beginning in 2005, all electricity distribution companies are required to notify MME, by August 1 of each year, of their estimated electricity demand for each of the subsequent five years. In addition, distribution companies will be required to specify the portion of the amount they intend to contract to supply its Potentially Free Consumers.

The MME will establish the total amount of energy to be traded in the regulated market and the list of generation facilities that will be allowed to participate in the auctions in each year.

The new regulations provide for electricity distribution companies to fulfill their electricity supply obligations primarily through public auctions, in accordance with the procedures described below.

In addition to these auctions, a distribution company may purchase electricity: (1) from generation companies that are connected directly to the distribution company other than hydrogeneration companies with capacity higher than 30MW and certain thermogeneration companies, (2) from electricity generation projects participating in the Proinfa Program, and (3) power purchase agreement entered into before the New Industry Model Law was enacted.

Energy Auctions in the Regulated Contracting Environment

Since August 2005, all electricity distribution companies and free consumers are required to notify MME, by August 1 of each year, of their estimated electricity demand or estimated electricity generation, as the case may be, for each of the subsequent ten years. Each distribution company will be required to notify MME, within the 60 day period preceding each electricity auction, of the amounts of electricity that it intends to contract in the auction. In addition, distribution companies will be required to specify the portion of the contracted amount they intend to use to supply potentially free consumers.

On December 7, 2004, CCEE, under the coordination of ANEEL, conducted the first existing energy auction, under the procedures and conditions established by the New Industry Model Law.

Distributors delivered by December 2, 2004 their declaration of estimated contracting demand for the next five years (including a portion related to the Potentially Free Consumers). Based on these declarations, the MME established the total amount of energy to be traded in the 2004 auction. The auction was held in two phases, through an electronic system.

Following the conclusion of the 2004 auction, the distribution companies and sellers signed CCEARs setting forth the terms, conditions, prices and contracted amounts of electricity. The distributor was also required to provide security interests in connection with the CCEARs. Generally, the seller will be granted an interest in receivables in an amount equal to 110.0% of the average amount of the last three invoices under the CCEAR.

During the auction, a total of 17,008 MW were sold, corresponding to 96.0% of the distribution companies total demand, of which 9,054 MW were sold at an average price of R$57.51/MWh for eight-year contracts beginning in 2005; 6,782 MW were sold at an average price of R$67.33/MWh for eight-year contracts beginning in 2006; and 1,172 MW were sold at an average price of R$75.46/MWh for eight-year contracts beginning in 2007- all prices refer to December, 2004.

We sold 65,008,656 MWh through our generation company at an average price of R$69.58/MWh for eight-year contracts beginning in 2006 and acquired 37,180,042 MWh at an average price of R$57.51/MWh for eight-year contract beginning in 2005; and 64,457,335 MWh at an average price of R$67.33/MWh for eight-year contracts beginning in 2006.

The security interests offered by the distributors to the generators in connection with the CCEARs are usually in the form of receivables or bank certificates of deposit. In a few cases, bank guarantees have been used.

The second existing energy auction under the New Industry Model Law was held in April 2005. CemigDistribution and Cemig Generation and Transmission entered into electricity purchase and sale contracts in this auction.During the auction, a total of 1,325 MW were sold, corresponding to only 42% of the energy initially foreseen by the MME for 2008, at an average price of R$83.13/MWh for eight-year contracts beginning in 2008. The energy to be sold with delivery initiating in 2009 was automatically excluded from the auction in accordance with the rules determined by MME, as the price for this product during the auction reached a value that was below the market expectations.

Cemig Distribution purchased, to serve its market, 105 average MW in contracts with eight-year terms, with the supply starting on January 1, 2008, at an average price of R$83.13/MWh. The contracts were signed with 10 companies holding generation concessions, including Cemig Generation and Transmission.

In the same auction, Cemig Generation and Transmission sold 105 average MW in contracts with eight-year terms, with the supply beginning on January 1, 2008. The sale price of the electricity is R$83.50/MWh. The contracts were signed with 34 distributors, including Cemig Distribution, which serve consumers in all the regions of the Brazilian national grid system.

The third auction took place on October 11, 2005. It was designed for distributors to buy the energy they were not able to buy in the previous auctions. Two products were offered: (i) a three year contract for the period 2006-2008 and (ii) a eight year contract beginning in 2009. The demand of 102 MW for the three year contract was fully served, and the average price was R$ 62.95/MWh. For the contract beginning in 2009, 1,166 MW (59% of the total demand for that year) were sold at an average price of R$ 94.91/MWh. Our companies did not sell or purchase energy in this auction.

New Energy Auctions will be held (1) five years before the initial delivery date (referred to as A-5 auctions), and (2) three years before the initial delivery date (referred to as A-3 auctions). There will also be electricity auctions from existing power generation facilities (1) held one year before the initial delivery date (referred to as A-1 auctions) and (2) held no longer than four months before the delivery date (referred to as market adjustments), in which the total amount contracted may not exceed 1% of the distribution concessionaire s total demand. The invitations to bid in the auctions will be prepared by ANEEL, in compliance with guidelines established by the MME.

Each generation company that participates in the auctions will execute a power purchase agreement with each distribution company, in proportion to the distribution companies respective estimated demand for electricity. The only exception to these rules relates to the market adjustment auction, where the contracts will be between specific selling and distribution companies. The CCEAR of both A-5 and A-3 auctions will have terms between 15 and 30 years, and the CCEAR of A-1 auctions will have a term between five and 15 years. Contracts arising from market adjustment auctions will be limited to a two-year term.

The first auction for the expansion of the generation capacity, also referred to as the New Energy Auction , under the New Industry Model Law was held in December 2005. A total of 3,286 average MW was sold, corresponding to 49 plants, 20 of which are

yet to be built, 11 hydroelectric plants and 9 thermal plants. The term of these contracts is 30 years for hydroelectric plants and 15 years for thermal plants, with supply to begin in 2008, 2009 and 2010.

As a result of the First New Energy Auction, Cemig Generation and Transmission has been granted the right to construct a new 140MW hydroelectric plant, in the State of Minas Gerais, named UHE Baguari, in a consortium with Furnas Centrais Elétricas S.A and Neoenergia. S.A.

Cemig Distribution participated in this auction, purchasing an amount of 39.8 average MW for initial supply in 2008, 62 average MW for initial supply in 2009, and 181 average MW for initial supply in 2010, at respective average prices of R$ 127.15/MWh, R$ 127.77/MWh and R$ 117.11/MWh.

Only 855 average MW, that is to say 26% of the volume sold in the first New Energy Auction, actually refers to new power plants that did not have any concession or authorization previously granted. Of these new projects, 53% are hydroelectric. Only 70% of the purchasing needs declared by the distributors were sold at the auction.

At the auction 64% of the participants were public-sector companies, Petrobras representing 38%, and Eletrobrás 20%. Of the 855 average MW of new concessions and authorizations, only 29% of the investments are from the private sector.

One of the factors that contributed to the low participation by private investors in the total amount sold at the First New Energy Auction was the maximum price stipulated by the government for contracting of hydroelectric energy, R$ 116.00/MWh. Investors considered this amount to be insufficient for the return on investment in almost all the hydroelectric plants. At the same time, all the new projects tendered for were contracted, basically by public-sector companies.

Brazil needs significant investments for expansion of the supply of electricity compatible with the demand growth. For these investments to be feasible, participation by private-sector capital is essential. In this context the results of the first New Energy Auction are not yet enough to represent attractiveness for the new model for the electricity sector. However, the new sector regulations put in place important mechanisms necessary for expansion of generation capacity including long-term energy purchase contracts.

In 2006, CCEE, under the coordination of ANEEL, conducted two new energy auctions. In the second new energy auction the total amount of energy sold was on average 1,682 MWs. The start date for the supply of this energy is in 2009 and recorded in 15-year (thermal plants) and 30-year (hydro plants) contracts according to the source of the energy. Only 49% of the energy sold in this auction was from new power plants, which are still not operating. The other 51% was from existing plants, which participated in the auction like botox plants. The average price of the energy sold at the auction was R$128.95/MWh. The average price for hydro was R$126.77/MWh and the average price for thermal was R$132.39/MWh. These prices were the result of the auction s rules which give a maximum price for hydroelectric plants that is less than the maximum price for thermal plants. Cemig Generation and Transmission sold an average of 355 MWs in a 30-year contract at an average price of R$125.48/MWh. The energy sold is from botox hydro plants like Irapé, Queimado, Porto Estrela and Aimorés. Cemig Distribution bought an average of 98 MWs at an average price of R$128.12 from different sellers and different sources (hydro and thermal plants).

In the third new energy auction, CEMIG sold an average of 1,104 MWs in 15-year (thermal) and 30-year (hydro) contracts each beginning in 2011. The average price of this auction was R$128.90/MWh. The average hydroelectric price was R$120.86/MWh and an average of 569 MWs were sold from this source. The average thermal price was R$ 137.44/MWh and with an average of 535 MWs sold from this source. Cemig Generation and Transmission did not sell energy in this auction. Cemig Distribution bought an average of 48 MW at the average price of the auction.

CCEE also conducted two existing energy auctions in 2006. In the fifth existing energy auction the total amount of energy sold was 204 MW in eight-year contracts beginning in 2007. The average price of this auction was R$ 104.74/MWh. According to the commercial strategy of the Company, Cemig Generation and Transmission and Cemig Distribution did not participate in this auction.

The other existing auction was only a market adjustment auction with three-month contracts with average sales of 10 MW. Cemig Generation and Transmission and Cemig Distribution did not participate in this auction, according to the commercial strategy.

In June 2007, the Electricity Trading Chamber (CCEE), under the coordination of ANEEL, conducted the first Alternative-Sources Electricity Auction, under procedures and conditions set by the Federal Government through the Mining and Energy Ministry (MME). The auction placed a total of 186 average MW all for supply starting in 2010, under contracts for 30 years (for Small Hydro Plants) and 15 years (for biomass, wind, and other sources). Of the total contracted, 75% was for supply from alternative sources (biomass) and 25% from Small Hydro Plants. The average price of the energy sold at this auction was R$137.90/MWh (R$134.99/MWh for the hydroelectric product and R$138.85/MWh for alternative-sources product).

The total amount of power offered was about 515 average MW, of which only 36% was contracted. CEMIG Generation and Transmission did not participate in this auction as a seller, but CEMIG Distribution bought 81.35 average MW, at the average price of the auction.

We are planning to participate in the 5th and 6th Public Auction for New Energy to be held by ANEEL on July 26, 2007.

Reduction of the Level of Contracted Electricity

Decree No. 5,163/04, which regulates the trade of electricity under the New Industry Model Law, allows distribution companies to reduce their CCEARs: (1) to compensate for the exit of Potentially Free Consumers from the regulated market, pursuant to a specific declaration delivered to MME, (2) by up to 4.0% per year of the initial contracted amount due to market deviations from the estimated market projections, at the distribution companies discretion, beginning two years after the initial electricity demand was declared and (3) in the event of increases in the amounts of electricity acquired pursuant to contracts entered into before March 17, 2004.

The circumstances in which the reduction of the level of contracted electricity will occur will be duly set forth in the CCEARs, and may be exercised at the sole discretion of the distribution company and in compliance with the provisions described above and ANEEL regulations.

Pursuant to ANEEL s regulations, the reduction of the level of contracted energy under the CCEARs of existing energy shall be preceded by the so-called Mechanism of Compensation of Surplus and Deficits, or MCSD, by means of which distribution companies which have contracted energy in excess of their demand may assign a portion of their CCEARs to distribution companies which have contracted less energy than needed to meet their consumer s demand.

Limitation on Pass-Through

The rules also limit the pass-through of costs of electricity to final consumers. The Annual Reference Value corresponds to the weighted average of the electricity prices in the A-5 and A-3 auctions, calculated for all distribution companies, and creates an incentive for distribution companies to contract for their expected electricity demands in the A-5 auctions, where the prices are expected to be lower than in A-3 auctions. The Annual Reference Value will be applied in the first three years of the power purchase agreements from new power generation projects. After the fourth year, the electricity acquisition costs from these projects will be allowed to be fully passed-through. The decree establishes the following limitations on the ability of distribution companies to pass through costs to consumers:

- no pass-through of costs for electricity purchases that exceed 103% of regulatory demand;

- limited pass-through of costs for electricity purchases made in an A-3 auction, if the volume of the acquired electricity exceeds 2.0% of the demand verified in A-5 auctions;

- limited pass-through of electricity acquisition costs from new electricity generation projects if the volume re-contracted through CCEARs of existing generation facilities is below a Contracting Limit defined by Decree No. 5,163;

- from 2005 to 2009, electricity purchases from existing facilities in the A-1 auction is limited to 1.0% of distribution companies demand. If the acquired electricity in the A-1 auction exceeds 1.0%, pass-through of costs of the exceeding portion to final consumers is limited to 70.0% of the average value of such acquisition costs of electricity generated by existing generation facilities. The MME will establish the maximum acquisition price for electricity generated by existing projects;

- electricity purchases in market adjustment auctions are limited to 1% of a distribution concessionaire s total demand and passthrough of costs is limited to annual reference value; and

- if distributors fail to comply with the obligation to fully contract their demand, the pass-through of the costs from energy acquired in the short-term market will be the equivalent to the lower of the PLD or the Annual Reference Value.

Rationing under the New Industry Model Law

The New Industry Model Law establishes that, in a situation where the Federal Government decrees a compulsory reduction in the consumption of electricity in a certain region, all energy amount agreements in the regulated market, registered within the CCEE in which the buyer is located, shall have their volumes adjusted in the same proportion to the consumption reduction.

Environmental Regulations

Brazilian environmental legislation requires that environmental licenses must be obtained wherever there is construction, installation, expansion or operation of any undertaking that uses natural resources, causes environment degradation, pollutes or has the potential to cause degradation or pollution to the environment.

New generation, transmission or distribution projects or activities that expand the electricity sector require a series of environmental procedures to be complied with. Environmental impact studies are prepared by multi-disciplinary teams, which analyze the environmental impact and propose solutions to minimize the effects of these projects on the environment.

The environmental impact studies are then submitted to the federal or state authorities for examination, and also, in public hearings, to the population of the communities affected by the project.

The process of licensing of undertakings with significant environmental impact follows a three-phase procedure, in which the following licenses have to be acquired:

- *prior license*, attesting that the project is environmentally viable;
- *installation license*, enabling the work to be built; and
- *operation license*, for actual startup of the project.

For the following undertakings, the application must be made to the federal environmental body:

- those located on international borders or developed in conjunction with an adjoining country, or in territorial waters, on the continental shelf, in an exclusive economic zone, on indigenous lands or in federal protected areas;
- locations or developments in more than one Brazilian state;
- where the direct environmental impacts surpass the country s territorial limits or the limit of one or more Brazilian state; or
- where radioactive material is involved, or nuclear energy used.

Applications for the following types of project have to be made to the environmental bodies of the relevant Brazilian state:

- those located or developed in more than one municipality, or in state or Federal District conservation areas;
- those located or developed in forests or other forms of natural vegetation subject to permanent preservation;
- those whose direct environmental impacts exceed the territorial limits of one or more municipalities; or
- when delegated, by legal instrument or agreement, by the union to the states or to the Federal District.

The municipal environmental body, after acquiring a position statement from the competent bodies of the federal government, and the states or Federal District, as applicable, gives the environmental license for projects and activities with local environmental impact, and for any which are delegated by the state, by legal instrument or agreement.

Exhibit Index

Exhibit Number	Document
1	Corporate by-laws of CEMIG, as amended and in effect since April 26, 2007.
2.1	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 (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs filed on August 20, 2001 (File No. 333-13826)).
2.2	Shareholders Agreement, dated June 18, 1997, between the State Government and Southern, relating to the rights and obligations of owners of our shares (incorporated by reference to Exhibit 2.1 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
2.3	Amendment No. 1 to the 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 (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs filed on June 11, 2007 (File No. 333-143636)).
2.4	Deposit Agreement, dated as of June 12, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the common share ADSs filed on May 7, 2007 (File No. 333-142654)).
4.1	Contract of Concession for Generating Electric Energy, dated June 10, 1997, between the Federal Government and us, relating to the provision of electric energy generation services to the public (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.2	Contract of Concession of Electric Energy Transmission Services, dated June 10, 1997, between the Federal Government and us, relating to the transmission of electric energy to the public (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.3	First Amendment to the Electricity Transmission Concession Contract, dated September 16, 2005 (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
4.4	Contracts of Concession of Public Service for Distribution of Electric Energy, dated June 10, 1997, between the Federal Government and us, relating to the provision of electric energy distribution services to the public (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.5	First Amendment to the Electricity Distribution Concession Contract, dated March 31, 2005 (incorporated by reference to Exhibit 4.5 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
4.6	Second Amendment to the Electricity Distribution Concession Contract, dated September 16, 2005 (incorporated by reference to Exhibit 4.6 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
4.7	Contract for the Assignment of CRC Account, dated May 31, 1995, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.4 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.8	First Amendment to the Contract for the Assignment of CRC Account, dated February 24, 2001, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.5 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).
4.9	Second Amendment to the Contract for the Assignment of CRC Account, dated October 14, 2002, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.6 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).

4.10 Third Amendment to the Contract for the Assignment of CRC Account, dated October 24, 2002, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.7 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).

4.11 Indenture Covering the First Public Issuance of Common Debentures, dated October 4, 2001, between Planner Corretora de Valores S.A. and us, relating to the first public issuance of R$625 million common debentures, divided into two series of the same class, without guarantee or preference (incorporated by reference to Exhibit 4.8 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).

4.12 Financing Agreement by Extension of Credit No. 02.2.962.3.1, dated February 7, 2003, between BNDES and CEMIG and Intervening Third Parties (incorporated by reference to Exhibit 4.9 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).

4.13 Summary of Indenture Covering the Third Public Issuance of Common Debentures, dated June 14, 2004, between CEMIG and Pavarini Distribuidora de Títulos e Valores Mobiliários (incorporated by reference to Exhibit 4.10 to our Annual Report on Form 20-F filed on May 25, 2005 (File No. 1-15224)).

4.14 Fourth Amendment to the Contract for the Assignment of CRC Account, dated January 23, 2006, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.14 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).

4.15 Announcement of Start of Public Distribution of Senior Units under CRC Account Securitization Fund, dated as of January 26, 2006 (incorporated by reference to Exhibit 4.15 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).

4.16 Summary of Indenture Covering the First Issuance of Commercial Paper Securities, dated July 27, 2006, between CEMIG Distribuição S.A. and Banco do Brasil Banco de Investimentos S.A.

4.17 Summary of Indenture Covering the First Issuance of Commercial Paper Securities, dated July 27, 2006, between CEMIG Geração e Transmissão S.A. and Banco do Brasil Banco de Investimentos S.A.

4.18 Summary of Indenture Covering Public Distribution of Non-Convertible Unsecured Debentures, dated August 24, 2006, between CEMIG Distribuição S.A. and Unibanco União dos Bancos Brasileiros S.A.

4.19 Summary of Indenture Covering Public Distribution of Non-Convertible Unsecured Debentures, dated April 17, 2007, between CEMIG Geração e Transmissão S.A. and Unibanco União dos Bancos Brasileiros S.A.

4.20 Summary of Indenture Covering Public Distribution of the Third Issuance of Commercial Paper Securities, dated June 12, 2007, between CEMIG Distribuição S.A. and CEF Caixa Econômica Federal.

8 List of Subsidiaries (incorporated by reference to Exhibit 8 to our Annual Report on Form 20-F filed on May 25, 2005 (File No. 1-15224)).

11 Code of Ethics (incorporated by reference to Exhibit 11 to our Annual Report on Form 20-F filed on July 1, 2004 (File No. 1-15224)).

12.1 Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated July 2, 2007.

12.2 Chief Financial and Investor Relations Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated July 2, 2007.

13.1 Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated July 2, 2007.

13.2 Chief Financial and Investor Relations Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated July 2, 2007.

Companhia Energética de Minas Gerais CEMIG

Financial Statements as of December 31, 2006 and 2005 and for the Years Ended December 31, 2006, 2005 and 2004 and Report of Independent Registered Public Accounting Firm

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Management of

Companhia Energética de Minas Gerais - CEMIG

Belo Horizonte MG, Brazil

We have audited the accompanying consolidated balance sheets of Companhia Energética de Minas Gerais CEMIG and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Companhia Energética de Minas Gerais CEMIG as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 15 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) , effective December 31, 2006. Also, as discussed in Note 2 to the consolidated financial statements, the Company adopted the Securities and Exchange Commission s Staff Accounting Bulletin 108 Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements , effective January 1, 2006.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 29, 2007, expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu Auditores Independentes

Belo Horizonte, Brazil

June 29, 2007

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COMPANHIA ENERGÉTICA DE MINAS GERAIS - CEMIG

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

(Expressed in millions of Brazilian *reais*)

ASSETS

	December 31, 2006	**2005**
CURRENT ASSETS:		
Cash and cash equivalents (note 6)	1,108	1,349
Accounts receivable, net (note 7)	1,692	1,316
Accounts receivable - use of basic transmission network	350	303
Deferred regulatory assets (note 4)	1,149	1,150
Deferred income taxes benefits (note 5)	89	43
Recoverable taxes (note 8)	205	350
Materials and supplies	29	25
Other	231	242
	4,853	4,778
INVESTMENTS (note 9)	523	136
PROPERTY, PLANT AND EQUIPMENT, NET (note 10)	13,665	11,971
OTHER ASSETS:		
Deferred regulatory assets (note 4)	1,548	2,315
Account receivable from Minas Gerais State Government (note 3)	1,726	1,519
Recoverable taxes (note 8)	559	216
Accounts receivable, net (note 7)	50	64
Deferred income taxes benefits (note 5)	269	192
Escrow deposits	273	83
Other	22	72
	4,447	4,461
Total assets	23,488	21,346

The accompanying notes are an integral part of the consolidated financial statements.

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COMPANHIA ENERGÉTICA DE MINAS GERAIS - CEMIG

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

(Expressed in millions of Brazilian *reais*, except share amounts)

LIABILITIES AND SHAREHOLDERS EQUITY

	December 31, 2006	2005
CURRENT LIABILITIES:		
Accounts payable to suppliers (note 11)	768	734
Payroll and related charges	174	174
Taxes payable (note 12)	501	401
Deferred income taxes (note 5)	392	184
Dividends and interest on capital	877	1,602
Current portion of long-term financing (note 13)	691	985
Regulatory charges payable (note 14)	420	266
Employee post-retirement benefits (note 15)	120	161
Employee profit sharing (note 19)	74	77
Derivative contracts (note 22)	187	143
Other	187	211
	4,391	4,938
LONG-TERM LIABILITIES:		
Long-term financing (note 13)	5,833	3,841
Employee post-retirement benefits (note 15)	1,666	1,535
Deferred income taxes (note 5)	238	730
Accrued liability for contingencies (note 16)	280	377
Accounts payable to suppliers (note 11)	264	337
Taxes payable (note 12)	41	124
Deferred regulatory liability special obligations (note 4)	2,194	
Other	192	193
	10,708	7,137
MINORITY INTEREST	19	19
SHAREHOLDERS EQUITY: (note 17)		
Capital stock -		
Preferred 273,838,953 thousand shares authorized and issued and 273,631,569 outstanding as of December 31, 2006 and 2005	804	804
Common 212,622,504 thousand shares authorized, issued and outstanding as of December 31, 2006 and 2005	624	624
	1,428	1,428
Additional paid-in capital	3,170	3,170
Appropriated retained earnings	2,879	2,793
Unappropriated retained earnings	1,503	2,367
Accumulated other comprehensive loss	(610)	(506)
	8,370	9,252
Total liabilities and shareholders equity	23,488	21,346

The accompanying notes are an integral part of the consolidated financial statements.

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COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(Expressed in millions of Brazilian *reais*, except share and per share amounts)

	Years ended December 31,		
	2006	**2005**	**2004**
NET OPERATING REVENUES:			
Electricity sales to final customers (note 18)	9,319	8,708	8,541
Regulatory extraordinary rate adjustment (note 4)	1	8	89
Deferred rate adjustment (note 4)		110	640
Electricity sales to the interconnected power system (note 18)	884	237	36
Use of basic transmission network (note 18)	1,780	1,523	245
Other operating revenues (note 18)	199	168	536
Taxes on revenues (note 18)	(3,543)	(3,241)	(2,608)
Total net operating revenues	8,640	7,513	7,479
OPERATING COSTS AND EXPENSES:			
Electricity purchased for resale (note 19)	(1,907)	(1,455)	(1,370)
Natural gas purchased for resale			(268)
Use of basic transmission network	(687)	(709)	(538)
Depreciation and amortization	(810)	(669)	(677)
Personnel (note 19)	(1,046)	(779)	(788)
Regulatory charges (note 19)	(1,031)	(983)	(861)
Regulatory liability Special obligations (note 4)	(1,057)		
Third-party services (note 19)	(475)	(420)	(329)
Employee post-retirement benefits (note 15)	(245)	(257)	(153)
Materials and supplies	(116)	(95)	(83)
Provision for loss on deferred regulatory assets (note 4)	(49)	(183)	(9)
Employees profit sharing (note 19)	(210)	(260)	(110)
Other (note 19)	(234)	(379)	(280)
Total operating costs and expenses	(7,867)	(6,189)	(5,466)
Operating income	773	1,324	2,013
FINANCIAL INCOME, NET (note 20)	335	754	350
NON-OPERATING INCOME			
Equity in results of Investments	91	29	3
Gain on GASMIG shares Sale			102
	91	29	105
Income before income taxes and minority interests	1,199	2,107	2,468
INCOME TAXES (note 5)			
Current	(575)	(271)	(543)
Deferred	78	(29)	(188)
	(497)	(300)	(731)
MINORITY INTERESTS		2	2
NET INCOME	702	1,809	1,739
OTHER COMPREHENSIVE INCOME (LOSS):			
Minimum pension liability adjustment (note 15)	212	38	(717)
Deferred income taxes (expense) benefits	(72)	(13)	243
	140	25	(474)
COMPREHENSIVE INCOME	842	1,834	1,265
Weighted average number of common and preferred shares outstanding during the year (thousand) for purposes of calculating basic earnings	486,254,073	486,254,073	486,254,073
Weighted average number of common and preferred shares outstanding during the year (thousand) for purposes of calculating diluted earnings	496,837,488	490,434,261	486,254,073
Basic earnings per thousand common and preferred shares - In Brazilian reais	1.44	3.72	3.58

Diluted earnings per thousand common and preferred shares - In Brazilian reais	1.41	3.69	3.58

The accompanying notes are an integral part of the consolidated financial statements.

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COMPANHIA ENERGÉTICA DE MINAS GERAIS - CEMIG

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(Expressed in millions of Brazilian *reais*)

	Years ended December 31,		
	2006	**2005**	**2004**
CAPITAL STOCK:			
Preferred -	804	804	804
Common -	624	624	624
	1,428	1,428	1,428
ADDITIONAL PAID-IN CAPITAL	3,170	3,170	3,170
APPROPRIATED RETAINED EARNINGS:			
Fiscal incentive investment reserve-	45	45	45
Rate shortfall reserve-	2,648	2,648	2,648
Legal reserve-			
Balance, beginning of year	100		
Transfer from unappropriated retained earnings	86	100	
Balance, end of year	186	100	
	2,879	2,793	2,693
UNAPPROPRIATED RETAINED EARNINGS:			
Balance, beginning of year	2,367	2,449	1,290
Cumulative effect adjustment for adoption of SAB 108, net of tax	(133)		
Net income	702	1,809	1,739
Transfer to appropriated retaining earnings	(86)	(100)	
Dividends and interest on capital	(1,347)	(1,791)	(580)
Balance, end of year	1,503	2,367	2,449
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Balance, beginning of year	(506)	(531)	(57)
Adjustment to initial adoption SFAS nº 158, net of tax	(244)		
Other comprehensive income (loss)	140	25	(474)
Balance, end of year	(610)	(506)	(531)
Shareholders equity at end of year	8,370	9,252	9,209

The accompanying notes are an integral part of the consolidated financial statements.

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COMPANHIA ENERGÉTICA DE MINAS GERAIS - CEMIG

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(Expressed in millions of Brazilian *reais*)

	Years ended December 31,		
	2006	**2005**	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	702	1,809	1,739
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	810	669	677
Deferred regulatory assets and liabilities	912	626	(598)
Monetary variation and exchange rate variation gain	(309)	(866)	(953)
Loss on disposal of property, plant and equipment	21	52	29
Employee post-retirement benefits	(68)	(72)	(118)
Provision for contingencies and doubtful accounts receivable	(97)	19	146
Regulatory liability special obligations	1,057		
Provision (reversal) for loss on account receivables from Minas Gerais State Government	(99)	(223)	326
Provision for loss on deferred regulatory assets	49	183	9
Deferred income taxes	(78)	29	188
Gain on sale of GASMIG shares			(102)
Equity in results of investments	(91)	(29)	(3)
Other	(2)	1	(28)
Decrease (increase) in operating assets-			
Accounts receivable	(263)	(188)	(196)
Recoverable taxes	(229)	(311)	(25)
Accounts receivable use of basic transmission network	(47)	(275)	
Other	71	61	126
Increase (decrease) in operating liabilities-			
Accounts payable to suppliers	(102)	89	(101)
Payroll and related charges		(15)	(25)
Taxes payable	(236)	(259)	240
Regulatory charges payable	79	153	21
Accrued interest on long-term financing and short-term loans	(38)	78	3
Other	244	244	143
Net cash provided by operating activities	2,286	1,775	1,498

	Years ended December 31,		
	2006	2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES			
Escrow deposits	(190)	(5)	7
Proceeds from sale of GASMIG			154
Acquisition of investments	(568)	(32)	(10)
Acquisition of property, plant and equipment	(1,328)	(1,511)	(1,061)
Net cash used in investing activities	(2,086)	(1,548)	(910)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term financing	2,248	1,515	1,207
Repayment of long-term financing and short-term loans	(1,817)	(818)	(1,424)
Proceeds from short-term loans	1,200		316
Dividends and interest on capital paid	(2,072)	(491)	(237)
Net cash provided by (used in) financing activities	(441)	206	(138)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(241)	433	450
CASH AND CASH EQUIVALENTS:			
Beginning of the year	1,349	916	466
End of the year	1,108	1,349	916
	(241)	433	450
SUPPLEMENTARY CASH FLOWS DISCLOSURE:			
Taxes paid - income taxes	696	735	225
Interest paid, net of interest capitalized	756	500	383
Accounts receivables from State Government offset by dividends	79	77	49
Debentures issued related to Irapé power plant offset by dividends	30	23	23
Disclosure of non-cash investing activity			
Property, plant and equipment increase on the special obligation recognition	1,137		

The accompanying notes are an integral part of the consolidated financial statements.

COMPANHIA ENERGÉTICA DE MINAS GERAIS - CEMIG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006, 2005 AND 2004

(Amounts expressed in millions of Brazilian *reais*, unless otherwise indicated)

1. THE COMPANY AND ITS OPERATIONS

(a) The Company

Companhia Energética de Minas Gerais, CEMIG or the Company , a listed company, has operated solely and exclusively as a holding company as from January 1, 2005, with shareholder participations in individually and jointly controlled subsidiaries. The principal objectives of its subsidiaries are the construction and operation of systems used in production, transformation, transmission, distribution and sales of electric energy, as well as the development of activities in the different fields of energy, with a view to the their economic exploitation.

As the most part of its subsidiaries are concessionaires of electric utility services, they are subject to regulations set by the Agência Nacional de Energia Elétrica (the Brazilian National Electric Energy Agency or ANEEL), an agency of the Brazilian Federal Government (the Federal Government).

The Company s consolidated operating subsidiaries as of December 31, 2006 are as follows:

- Cemig Geração e Transmissão S.A. (Cemig Geração e Transmissão) (100.00% interest) Electric power generation and transmission, through 46 plants of which 43 hydroelectric, 1 wind and 2 thermoelectric plants and transmission lines mostly belonging to the basic grid of the Brazilian generation and transmission system;

- Cemig Distribuição S.A. (Cemig Distribuição) (100.00% interest) Electric power distribution through distribution grids and lines covering approximately 97.00% of the State of Minas Gerais;

- Sá Carvalho S.A. (Sá Carvalho) (100.00% interest) - Generation and sale of electric energy from the Sá Carvalho hydroelectric power plant, as an electric energy public service concessionaire;

- Usina Térmica Ipatinga S.A. (Ipatinga) (100.00% interest) - Generation and sale of electric energy, as an independent power producer, at the Ipatinga thermoelectric power plant located at the facilities of Usinas Siderúrgicas de Minas Gerais S.A. USIMINAS;

- Empresa de Infovias S.A. (Infovias) (100.00% interest) - Rendering telecommunications services and developing activities related thereto, through multiservice networks using optical fiber cable, coaxial cable and other electronic equipment;

- Efficientia S.A. (Efficientia) (100.00% interest) - Rendering efficiency, optimization and energy solutions services through studies and carrying out of projects, as well as providing operating and maintenance services, to energy supply facilities;

- Horizontes Energia S.A. (Horizontes) (100.00% interest) - Generation and sale of electric energy, as an independent power producer, at the Machado Mineiro and Salto do Paraopeba hydroelectric power plants, located in the State of Minas Gerais, and the Salto Voltão and Salto do Passo Velho hydroelectric power plants, located in the State of Santa Catarina;

- Central Termelétrica de Cogeração S.A. (Cogeração) (100% interest) Generation and sale of electric energy, as an independent power producer, through the construction and operation of the Barreiro thermoelectric power plant, located on Vallourec & Mannesmann Tubes s facilities, in Minas Gerais State. The concession was transferred to UTE Barreiro S.A. in the first quarter of 2006;

- Rosal Energia S.A. (Rosal) (100.00% interest) Generation and sale of electric energy as an electric energy public service concessionaire through Rosal hydroelectric plant, located on the border between Rio de Janeiro and Espírito Santo States;

- Central Hidrelétrica Pai Joaquim S.A.(Pai Joaquim) (100.00% interest) Generation and sale of electric energy, as an independent power producer. The concession of generation was transferred to Cemig PCH S.A. in the first quarter of 2006;

- Cemig PCH S.A. (100.00% interest) - Generation and sale of electric energy, as an independent power producer, at the Pai Joaquim hydroelectric power plant, located in the state of Minas Gerais;

- Cemig Capim Branco Energia S.A. (100.00% interest) - Generation and sale of electric energy, as an independent power producer, at the Capim Branco I and II hydroelectric power plants, located in the state of Minas Gerais, built through a consortium with private-sector partners;

- UTE Barreiro S.A. (100.00% interest) - Generation and sale of electric energy, as an independent thermoelectric power producer, at the Central Termelétrica Barreiro (UTE Barreiro) located at the facilities of Vallourec & Mannesmann Tubes s, in Minas Gerais State. The concession was received from Central Termelétrica de Cogeração S.A. in the first quarter of 2006;

- Cemig Trading S.A. (100.00% interest) a development stage enterprise engaged in the purchase and sale of energy;

The Company also has the following equity interests:

- Rio Minas Energia Participações S.A .(RME) (jointly controlled - 25.00% interest) holding company with 79.39% (see note 9 and note 31) interest of Light Serviços de Eletricidade S.A. (electric power distribution) with 3.8 million of consumers and Light Energia S.A.(electric power generation) with 852MW;

- Companhia de Gás de Minas Gerais - GASMIG (GASMIG) (jointly controlled - 55.19% interest) - Acquisition, transportation and distribution of natural gas and related products. GASMIG was granted a concession by the State Government to distribute gas in the State of Minas Gerais. GASMIG s bylaws also permit the performance of activities related to the exploration, production and storage of natural gas; these activities, however, are not currently being performed.

- Companhia Transleste de Transmissão (Transleste) (jointly controlled - 25.00% interest) Operation of the 345 KV transmission line (TL) connecting the substation located in Montes Claros and the substation of the Irapé Hydroelectric Power Plant;

- Empresa Paraense de Transmissão de Energia S.A.(ETEP) (jointly controlled - 17.51% interest) Electric energy public service concessionaire with 500KV transmission line (TL) from Tucuruí substation to Vila do Conde substation, located in the state of Pará. The process of acquisition of 17.51% of the capital stock of ETEP was completed in August 2006 (see note 9);

- Empresa Norte de Transmissão de Energia S.A.(ENTE) (jointly controlled - 18.35% interest) Electric energy public service concessionaire with two transmission line (TL) of 500KV, one from Tucuruí substation to Vila do Conde substation, located in the state of Pará and the other from Marabá substation to Açailândia substation, located in the state of Maranhão. The process of acquisition of 18.35% of the capital stock of ENTE was completed in August 2006 (see note 9);

- Empresa Regional de Transmissão de Energia S.A. (ERTE) (jointly controlled 18.35%) - Electric energy public service concessionaire with 230KV transmission line (TL) from Vila do Conde substation to Santa Maria, located in the state of Pará. The process of acquisition of 18.35% of the capital stock of ERTE was completed in August 2006 (see note 9);

- Empresa Amazonense de Transmissão de Energia S.A. (EATE) (jointly controlled 14.94%) - Electric energy public service concessionaire with 500KV transmission line (TL) between its substation of Tucuruí, Marabá, Imperatriz, Presidente Dutra and Açailândia. The process of acquisition of 14.94% of the capital stock of EATE was completed in August 2006 (see note 9);

- Empresa Catarinense de Transmissão de Energia S.A. (ECTE) (jointly controlled 7.50%) - Electric energy public service concessionaire with 525KV transmission line (TL) from Campos Novos substation to Blumenau substation, both located in the state of Santa Catarina. The process of acquisition of 7.50% of the capital stock of ECTE was completed in August 2006 (see note 9).

CEMIG also has interests in the following development-stage companies as of December 31, 2006:

- Companhia de Transmissão Centroeste de Minas (Centroeste) (jointly controlled - 51.00% interest) Construction and operation of the 345 KV TL Furnas Pimenta;

- Companhia Transudeste de Transmissão (Transudeste) (jointly controlled - 24.00% interest) Construction and operation of the 345 KV TL Itutinga Juiz de Fora;

- Companhia Transirapé de Transmissão (Transirapé) (jointly controlled - 24.50% interest) Construction and operation of the 230 KV TL Irapé Araçuaí;

- Transchile Charrúa Transmisión S.A. (Transchile) (jointly controlled 49.00%) Installation, operation and maintenance of the Charrúa Nueva Temuco 220 kV transmission line and two transmission line sections in the Charrúa and Nueva Temuco sub-stations, in the central region of Chile.

Where Cemig exercises joint control it does so through stockholders´ agreements with the other stockholders of the investee company that gives CEMIG participating rights in such investees.

(b) The electricity sector in Brazil:

The electricity sector in Brazil is regulated by the Federal Government, acting through its Ministry of Mines and Energy, which has exclusive authority over the electricity sector. Regulatory policy for the sector is implemented by ANEEL.

Retail electricity sales by the Company are made pursuant to provisions of its long-term electricity sales concession agreements. Under the terms of the concession agreements, the Company is authorized to charge its customers a rate for electricity supply that consists of two components: (1) a non-controllable energy generation, transmission and distribution cost pass-through component (Parcel A costs); and (2) an operating cost component (Parcel B costs). Both components are established as part of the original concession for certain initial periods. Subsequent to the initial periods, and at regular intervals thereafter, ANEEL has the authority to review the costs of the Company to determine the inflation adjustment (or other similar adjustment factor), if any, to the Parcel B costs (the Adjustment Escalator) for the subsequent period. This review can result in an Adjustment Escalator that has a positive, zero or negative value.

In addition to the adjustments of Parcel A costs and Parcel B costs mentioned above, the electricity sales concessions provide for an annual rate adjustment based on several factors, including inflation. In addition, as a result of regulatory changes in December 2001, the Company may now request rate adjustments arising from significant events which disrupt the economic and financial equilibrium of its business. Other normal or recurring factors (such as increases in purchased power costs, taxes on revenue generated or local inflation) are also allowed to be offset through specific rate increases. When making a request for such rate increase, the Company is required to prove the financial impact of the cited events in its operations. See notes 2 and 4.

Under the law creating the new model for the industry, a generation company is not allowed to sell energy directly to the distribution company. As a result, the Company has to sell its electricity in a regulated market through public auctions conducted by ANEEL, or in the Free Contracting Environment (the ACL). Legislation allows distributors that contract with the generation company under the Regulated Contracting Environment (the ACR) to reduce the quantity of energy contracted under these contracts up to a certain limit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In preparing financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), management is required to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could vary from these estimates. The Company s financial statements therefore include various estimates concerning (i) the recoverability of deferred regulatory assets, (ii) valuation allowances for accounts receivable, deferred tax assets and the account receivable from the State Government, (iii) the useful lives of property, plant and equipment and consortia, (iv) provisions necessary for contingent losses, and (v) estimates of employee post-retirement benefit obligations and other similar estimates.

(a) Basis of presentation - The financial statements have been prepared in accordance with U.S. GAAP, which differ in certain respects from the Company s statutory financial statements prepared in accordance with accounting practices adopted in Brazil (Brazilian GAAP), which are prepared and filed in accordance with the specific rules of the *Comissão de Valores Mobiliários* (the Brazilian Securities Commission, or CVM) and ANEEL.

(b) Constant currency remeasurement - Up to December 31, 1997, Brazil was considered a highly inflationary economy (cumulative inflation exceeding a total of 100% over a consecutive three-year period) and, for U.S. GAAP purposes, the Company prepared its financial statements under the constant currency method up to that date. CEMIG adopted the IGP-DI (General Price Index - Internal Availability) to restate its financial statements for inflation.

Under the constant currency method, all relevant non-monetary assets and liabilities, shareholders equity accounts and components of the statements of operations, cash flows and changes in shareholders equity were expressed in the constant purchasing power of the currency as of the most recent balance sheet date.

Beginning on January 1, 1998, Brazil ceased to be considered a highly inflationary economy under U.S. GAAP and, accordingly, the Company ceased to restate its financial statements in constant *reais* for the effects of inflation as from that date. The restated balances of non-monetary assets and liabilities as of December 31, 1997 thus constitute the historical amounts of such assets and liabilities as from that date.

Shareholders equity presented in these financial statements differs from that included in the statutory accounting records prepared in accordance with Brazilian GAAP as a result of the following: (i) as of January 1, 1996, indexation of Brazilian financial statements prepared for Brazilian Corporate Law purposes was abolished, whereas for U.S. GAAP purposes such indexation was applied up to December 31, 1997; (ii) differences between the IGP-DI and the official indices mandated for indexation of the financial statements prepared in accordance with Brazillian GAAP; and (iii) adjustments made to reflect the requirements of U.S. GAAP. Current income taxes and dividend distribution capacity are determined based on the financial statements prepared in accordance with Brazilian GAAP.

(c) Principles of consolidation - The consolidated financial statements include the accounts of all majority-owned subsidiaries, except jointly controlled companies. As discussed in note 9, in December 2004, 40% of GASMIG s capital stock was sold and entered into a shareholders agreement giving the minority shareholder in GASMIG substantive participating rights. These rights preclude the Company from consolidating GASMIG. Consequently, the Company s investment in GASMIG is accounted for using the equity method of accounting as of the date of the shareholders agreement.

In consolidation, all significant intercompany balances and transactions were eliminated. The company also eliminates intercompany gains and losses on transactions with investments accounted for using the equity method. The minority interest in the positive equity in subsidiaries is shown as a separate caption on the face of the balance sheet.

(d) Foreign currencies - Assets and liabilities denominated in foreign currencies are related principally to financing and are translated into *reais* at the official exchange rates reported by the Brazilian Central Bank at each balance sheet date. The resulting gains and losses are recognized currently and included in the statements of operations for the appropriate period.

(e) Cash and cash equivalents - The Company considers unrestricted cash on hand, deposits in banks and short-term investments with original maturities of three months or less, when purchased, and readily convertible to cash to be cash and cash equivalents.

(f) Accounts receivable - Includes both amounts billed to customers and accrued revenues relating to unbilled energy supplied to customers as of the balance sheet date. Late fees arising from overdue electricity bills are accounted for on a cash basis.

The allowance for doubtful accounts is recorded at an amount estimated by management as sufficient to cover probable losses, according to the ANEEL criteria, as follows: (i) for consumers with significant debits, an individual analysis of the balance is made, taking into account the history of default, negotiations in progress and the existence of real guarantees; (ii) for other consumers, the debits that are more than 90 days past due for residential consumers, or more than 180 days past due for commercial consumers, or more than 360 days past due for the other consumer types, are provisioned at 100%.

(g) Investments - The Company s investments in affiliated companies in which the company has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting.

(h) Property, plant and equipment These assets are recorded at acquisition or construction cost, restated to reflect price-level changes through December 31, 1997. Interest and other financing charges, excluding foreign exchange losses, incurred during the construction period on third-party financing are capitalized, in accordance with Statement of Financial Accounting Standards (SFAS) 34 Capitalization of Interest Cost . Depreciation is computed on the straight-line method, at annual rates determined by ANEEL, which represent the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to operating costs as incurred. Materials to be used in construction are included in electric generation, distribution and transmission assets. The net results of disposals of fixed assets are recorded as part of operating income.

The Company s investments in consortia (groups of organizations participating in joint ventures formed to promote common objectives or engage in projects to benefit all the members without the creation of a legal entity), are recorded at acquisition or construction cost less allowance for loss, when applicable. Interest and other financing charges, excluding foreign exchange losses, incurred during the construction period on third-party financing are capitalized, in accordance with SFAS Nº 34. The consortium depreciation is computed on the straight-line method, at annual rates determined by ANEEL, which represent the estimated useful lives of the consortia s underlying assets. The consortium expenditures for maintenance and repairs are charged proportionally to operating costs by the Company as incurred.

(i) Impairment of long-lived assets - CEMIG follows SFAS Nº 144, Accounting for the Impairment or Disposal of Long-Lived Assets . Whenever events or changes in circumstances indicate that the carrying value of long-lived assets may not be recoverable, CEMIG performs calculations of undiscounted cash flows expected to be derived from assets in service to determine whether impairment has occurred. In the event such cash flows are not expected to be sufficient to recover the recorded value of the assets, such assets are written down to their estimated fair values based on discounted cash flow analyses. The Company has not recognized any impairment as a result of the application of this accounting policy for all periods presented.

(j) Revenues, costs and expenses - Revenues, costs and expenses are recognized on an accrual basis, i.e., when persuasive evidence of an arrangement exists, delivery of goods has occurred or services have been rendered, our rates have been fixed or are determinable, and collectibility is reasonably assured regardless of when cash is received.

Revenues from the sale of electricity generation are recorded based upon the output delivered provided at rates as specified under contract terms or prevailing regulatory rates. Electricity distribution sales to final customers are recognized when power is provided. Billings for these sales are made on a monthly basis. Unbilled revenues from the billing cycle up to the end of each month are estimated based on the prior month s billing and are accrued at the end of the month. Differences between estimated and actual unbilled revenues, which have not been significant, are recognized in the following month.

Use of basic transmission network revenues are recorded when earned and billed monthly, according to the revenue established through the concession contracts. In certain contracts, revenues to be earned in the final 15 years are 50.0% lower than those in the first 15 years of the concession. The Company recognizes revenue on these contract on a straight-line basis, in accordance with the nature of the services provided.

Revenues received by the Company from other concessionaires and free consumers using its basic transmission and distribution network are recognized in the month that the network services are provided.

Services rendered include connection fees and other related services and the revenues are recognized when the services are provided.

Taxes on revenue consist of: (i) value-added tax (VAT), which is a state tax due on the sales to final customers, is billed to the consumers and recorded as part of gross revenue; (ii) COFINS revenue tax; (iii) PIS-PASEP social contribution tax on revenues; and (iv) Emergency capacity charge. It is the Company s policy to deduct these taxes from gross revenues.

(k) Income taxes - CEMIG accounts for income taxes in accordance with SFAS Nº 109 Accounting for Income Taxes , which requires an asset and liability approach to recording deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases.

(l) Contingencies - The Company records provisions for contingencies when the loss is considered to be probable based on the opinion of internal and external legal counsel and is reasonably estimable, in accordance with SFAS Nº 5 Accounting for Contingencies .

(m) Employees benefit plans - The Company sponsors a defined-benefit pension plan and a defined-contribution plan covering substantially all of its employees. The Company has also established post-retirement health care plans and dental plans and pays life insurance premiums for its retirees. The Company applies SFAS Nº 87, Employers Accounting for Pensions , SFAS Nº 106, Employers Accounting for Post-retirement Benefits Other Than Pensions . On December 31, 2006, the Company adopted the SFAS 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans provisions related to recognition and disclosures, which requires an employer to recognize the over- or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. The impact of the adoption of SFAS 158 was as a charge of R$244, net of income taxes, recorded directly in accumulated other comprehensive income (AOCI) at year end. The Company has disclosed information about pension plans and other postretirement benefit plans as required by SFAS Nº 132(R) Employers Disclosures about Pensions and Other Postretirement Benefits.

Under Brazilian law, employees are entitled to a minimum of one-month vacation upon conclusion of each year of service. CEMIG fully accrues this liability based on the vested entitlement of the employees at each period end, plus related social security costs.

(n) Environmental and remediation costs - CEMIG, in accordance with its environmental policy, has established various damage control and prevention programs in order to help limit its risks with respect to major environmental-related liabilities. The cost of these programs is expensed as incurred. CEMIG s policy is to provide remediation costs when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. No provision in respect of these matters has been required to date.

(o) Comprehensive income (loss) - CEMIG reports comprehensive income (loss) in accordance with SFAS Nº 130 Reporting Comprehensive Income and has elected to present it in the statement of operations. Comprehensive income (loss) comprises the minimum pension liability adjustments made pursuant to SFAS Nº 87. The components of accumulated other comprehensive income are as follows:

	As of December 31,	
	2006	2005
Additional minimum liability		767
Under-funded status of postretirement benefit plans	925	
Income tax	(315)	(261)
Total accumulated other comprehensive loss	610	506

(p) Regulation and deferred regulatory assets and liabilities - As a result of various actions taken by the Federal Government and ANEEL in 2001, the Company is subject to the provisions of SFAS Nº 71 Accounting for the Effects of Certain Types of Regulation . The rate-setting structure in Brazil is now designed to provide for recovery of the Company s allowable costs, including those incurred as a result of Federal Government-mandated power rationing measures imposed in 2001, as described further below. Accordingly, the Company capitalizes incurred allowable costs as deferred regulatory assets when instructed by ANEEL and there is a probable expectation that future revenue equal to the costs incurred will be billed and collected as a direct result of the inclusion of the costs in an increased rate set by the regulator. The deferred regulatory asset is eliminated when the Company collects the related costs through billings to customers at the increased rate. ANEEL performs a rate review on an annual basis. If ANEEL excludes all or part of a cost from recovery, that portion of the deferred regulatory asset is impaired and is accordingly reduced to the extent of the excluded cost. The Company has recorded net deferred regulatory assets that it expects to pass through to its customers in accordance with and subject to regulatory provisions.

During 2001, the Federal Government instituted an electricity rationing plan in response to an energy shortage caused by low rainfall, reduced reservoir levels and Brazil s significant dependence on electricity generated from hydrological resources. The rationing resulted in losses for the Company and other electricity distribution companies in Brazil. In December 2001, electricity concessionaires including the Company reached an industry-wide agreement (the General Agreement of the Electricity Sector or the General Agreement) with the Federal Government that provided resolution to rationing-related issues as well as to certain other electricity rate-related issues. The General Agreement provided for a rate increase intended to reimburse revenues lost as a result of the rationing program in 2001 and 2002. The increased rates will be in force in the electricity industry for an average period of 74 months as from January 2002. As of December 31, 2006, the asset of R$209 (note 4) recognized by the Company represents the amount expected to be recovered until February, 2008, in accordance with Emerging Issues Task Force (EITF) Nº. 92-7 Accounting by Rate Regulated Utilities for the Effects of Certain Alternative Revenue Programs . The balances of the deferred regulatory assets are periodically compared with the Company s recoverability projections, which are reviewed by Management depending on market events, changes in regulation and related circumstances. The respective provision for losses is adjusted accordingly.

The General Agreement also addressed Parcel A costs, which are certain costs that each distribution company is permitted to defer and pass through to its customers via a future rate adjustment. Parcel A costs are limited by the concession contracts to the cost of purchased power and certain other costs and taxes not controlled by the Company. ANEEL had granted rate increases to recover a portion of previously deferred Parcel A costs. The General Agreement provided a tracking account mechanism, created in October 2001 through Executive Order No. 296, to record the variation in the Parcel A costs for rate adjustment calculation purposes. Parcel A costs incurred previous to January 1, 2001 are not recoverable through the tracking account. As a result, the Company has not recognized any regulatory asset for Parcel A costs incurred prior to 2001, except for the system services charges from September 2000 (as allowed by ANEEL). See note 4.

Special obligations represent contributions received by concessionaires from customers for the purpose of expanding the electric distribution system. These contributions are incorporated into the Company s distribution assets. For regulatory purposes, the depreciation of these assets were included in the tariff rate setting process and the corresponding liability was recorded for the amount of the total contributions. Under U.S. GAAP, the contributions were considered reimbursements of construction costs and credited against the cost of the related fixed assets.

On October 31, 2006, ANEEL issued a new regulation which changed the treatment of special obligations with respect to the tariff setting process. The regulation establishes, among other items, that beginning on the date of the next respective tariff revision, the special obligations will be amortized as a reduction of net allowable costs over future periods, therefore reducing tariffs. Consequently, in accordance with SFAS No. 71, the special obligations became a regulatory liability as a result of this new regulation.

(q) Earnings per share - Since each class of shares participates equally in earnings in the years presented, earnings per share was computed by dividing net income by the weighted average number of common and preferred shares outstanding during the year. Consistent with many other Brazilian corporations, CEMIG discloses earnings per one thousand shares, as this is the minimum number that can be traded on the Bolsa de Valores de São Paulo (the São Paulo Stock Exchange, or BOVESPA). As mentioned in note 3, the Company has a contingent obligation to issue capital stock in connection with payments received on the account receivable from the State Government. This accounts receivable is currently being paid with dividends due to the State Government. Shares to be issued in connection with this obligation are considered dilutive for purposes of calculating earnings per share only when all necessary conditions for their issuance have been satisfied. At December 31, 2006 and 2005, the Company has obligation to issue shares in connection with dividends destined to offset the related receivable that are included in the weighted average shares outstanding. The following share information has been retroactively restated to reflect the stock split disclosed in Note 31:

	2006	2005
Basic weighted average shares outstanding	486,254,073	486,254,073
Dilutive effect shares to be issued in connection with the account receivable from the State Government.	10,583,415	4,180,188
Diluted weighted average shares outstanding	496,837,488	490,434,261

(r) Segment information - The Company currently operates in the power generation and transmission, and distribution of energy segments. Until December 31, 2004, the Company s electric energy business was managed centrally on the basis of the consolidated results of the generation, transmission and distribution operations and, accordingly, the electric energy business represented a single segment per the criteria described in SFAS Nº 131- Disclosures about Segments of an Enterprise and Related Information at that time. As described in note 28, the Company restructured its operations on January 1, 2005 to separate its generation and transmission and distribution activities.

(s) Derivatives and hedging activities - As required by SFAS Nº 133 - Accounting for Derivative Instruments and Hedging Activities derivative financial instruments are being recorded based on their fair values as assets or liabilities in the accompanying balance sheet, and corresponding changes in fair value are being recognized in earnings. Hedge accounting has not been applied to any of the Company s derivative financial instruments. The Company calculates the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available, the Company uses standard pricing models with market-based inputs, which take into account the present value of estimated future cash flows.

(t) Effects of correcting prior year misstatements - In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (Topic 1N) Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides guidance on how to evaluate prior period financial statement misstatements for purposes of assessing their materiality in the current period. There are two widely recognized methods for quantifying the effects of financial statement misstatements: the rollover or income statement method and the iron curtain or balance sheet method. Historically, the Company used the rollover method. Under this method the Company quantified its financial statement misstatements based on the amount of errors originating in the current-year income statement, and as a result did not consider the effects of prior-year misstatements to be material to the Company s financial statements. SAB 108 now requires that the Company must consider both the rollover and iron curtain methods (dual method) when quantifying misstatements in the financial statements.

The iron curtain method quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement s origination. Upon adoption, SAB 108 permits the Company to adjust for the cumulative effect of errors that were previously considered immaterial under the rollover method that are now considered material under the dual method.

The SAB 108 adjustment affects the carrying amount of assets and liabilities as of the beginning of the current fiscal year, with an offsetting adjustment to the opening balance of retained earnings in the year of adoption. The adoption of SAB 108 resulted in a cumulative effect adjustment of $133, net of taxes, to the opening balance of unappropriated retained earnings.

The cumulative effect adjustment was required to correct an error relating to the accounting for certain administrative costs which were improperly capitalized as Property, plant and equipment in periods prior to 2005. This adjustment was not deemed to be material, both quantitatively and qualitatively, prior to the adoption of SAB 108, using the rollover method.

3. ACCOUNT RECEIVABLE FROM MINAS GERAIS STATE GOVERNMENT

On March 4, 1993, the Company recorded a receivable with a corresponding credit in the statement of operations, from the Federal Government relating to the remaining balance of the amount of return guaranteed by the regulatory agency and the actual return recorded by the Company prior to that date. During 1993 and 1994, the Company recovered part of the rate shortfall by offsetting amounts due to Federal Government-owned entities arising from purchased power and financing. On May 2, 1995, the obligation to pay the remaining balance of this receivable amounting to R$602, was transferred from the Federal Government to the State Government, the Company s controlling shareholder, through a credit assignment contract (the CRC Agreement). In connection with this assignment, the State Government agreed to pay the amount due to the Company over 20 years, with an initial three-year grace period, as restated based on the UFIR (Tax Reference Unit Index) plus interest of 6% per year. In the event that the Company receives payments or retains declared dividends to offset amounts receivable, the Company is obligated to issue shares to all shareholders in proportion to their shareholdings, transferring the principal amount of the related paid installments from Appropriated retained earnings - Rate shortfall reserve to Capital Stock.

The CRC Agreement was modified by certain amendments commencing in 2001 that addressed issued relating remuneration of the receivable and certain guarantees relating to dividend retention by the State government. Prior to the Fourth Amendment described below, a portion of the receivable was not guaranteed by the State Government. Consequently, had recognized a provision amounting to the full unguaranteed amount which was R$1,845 as of December 31, 2004.

a) Fourth Amendment to the CRC Agreement

The Extraordinary Shareholders Meeting which commenced on December 30, 2005, and ended on January 12, 2006, approved the Fourth Amendment to the CRC agreement which extended the guarantee relating to dividends payable to the State Government to the full balance receivable and changed the remuneration to IGP-DI plus annual interest of 8.18% per year. The balance is payable in 61 semi-annual installments which are due on June 30 and December 31 of each year, retroactively as from December 2004. The payments will be made by withholding 65.00% of the regular dividends and interest on capital due to the State Government. The dividends withheld will be used in the following order: (i) the settlement of past due installments, (ii) the settlement of the semi-annual installments, (iii) the pre-payment of up to 2 installments; and (iv) the payment of the remaining principal.

On December 31, 2006, the installments of the contract coming due on June 30, and December 30, 2007 had been received in advance.

Following are the balances of the CRC Agreement and related provision for losses for the periods presented:

CRC Agreement balance on December 31, 2006	3,252
Provision	(1,526)
Net	1,726
Balance, net of provision for losses, on December 31, 2005	1,519
Balance, net of provision for losses, on December 31, 2004	1,097
Balance, net of provision for losses, on December 31, 2003	891

The dividends and Interest on Equity to be distributed to stockholders arising from net income recorded for the year ended December 31, 2006, proposed by the Executive Board and the Board of Directors, and approved by the General Stockholders Meeting on April 26, 2007 are recorded as Current liabilities. Of the dividends to be distributed, R$308 is payable to the government of the State of Minas Gerais, and R$128 will be retained for settlement of part of the CRC Agreement. The remaining amount of R$180 will be paid in cash to the government of the State of Minas Gerais.

In connection with the Fourth Amendment, the Company committed to comply with the following financial covenants which are calculated based on the financial statements prepared in accordance with Brazilian GAAP:

Target Description According to Brazilian Gaap	**Index Required**
Indebtedness (1)/EBTIDA (2)	Less than 2
Indebtedness(1) / Indebtedness plus Shareholders Equity	Less than or equal to 40.00%
Capital expenditures	Less than or equal to 40.00% of EBTIDA (3)

(1) Indebtedness = total consolidated short-term and long-term financing

(2) EBTIDA = Earnings before interest, income taxes, depreciation and amortization.

(3) For the years of 2006 and 2007 the indexes required will be of 65.00% and 55.00% respectively.

In the event of the Company does not comply with the above covenants, the non-compliance is reported and addressed by the Company s Board of Directors. As of December 31, the Company is in compliance with the above covenants.

b) Creation of Cemig CRC Account Securitization Fund

In January 2006, the Company created the CEMIG CRC Account Securitization Fund (FIDC) and assigned the accounts receivable under the CRC Account Agreement to the fund. The book value of the CRC Account receivables that were transferred to the FIDC in January 2006 was R$1,659. A portion of the FIDC was used by the Company to obtain R$900 in financing in the form of senior quotas issued by the FIDC. The senior quotas accrue interest based CDI plus 1.7% per year and are being amortized in 20 half-yearly installments. The senior quotas were acquired by financial institutions and are guaranteed by CEMIG. Consequently, the FIDC is fully consolidated by the Company and the senior quotas are recorded as Long-term financing.

4. DEFERRED REGULATORY ASSETS AND LIABILITIES

The components of the deferred regulatory assets are as follows:

	December 31, 2006	2005
Energy Rationing Plan Extraordinary rate adjustment:		
Revenue losses (expected to be recovered within the next 24 months) incurred during the rationing period	209	331
Amounts to be transferred to generators	337	367
	546	698
Energy transactions on CCEE/MAE during the rationing plan	403	518
(-) Provision for loss on Transactions on the CCEE/MAE	(245)	(196)
	158	322
Additional Parcel A costs:		
- Period from January 1, 2001 to October 25, 2001	632	549
- Period from October 26, 2001 and thereafter	143	277
Deferred rate adjustment	919	1,175
PIS-PASEP/COFINS	299	444
Special obligations	(2,194)	
	503	3,465
Current assets	1,149	1,150
Other assets	1,548	2,315
Long-term liabilities	2,194	

The Company has not recorded VAT related to the above items. The VAT, amounting to R$406 as of December 31, 2006 (R$549 as of December 31, 2005), will be assessed when these amounts are invoiced to the customers as a gross-up to the revenue invoiced. The VAT collected will then be passed on to the state tax authorities, resulting in no affect on net operating revenues. VAT is not assessed on Parcel A costs and PIS-PASEP/COFINS.

(a) Energy Rationing Plan Extraordinary rate adjustment

An emergency energy-rationing program (the Energy Rationing Plan) was created by the Federal Government on May 22, 2001, to reduce energy consumption and avoid unplanned interruption in power supply. Average reduction in monthly consumption of electricity during the rationing period was estimated at 20% of the actual consumption for the months of May, June and July 2000. The energy rationing became effective on June 1, 2001 and ended February 28, 2002, when the Federal Government determined that the water levels in the reservoirs serving Brazil s hydroelectric facilities had returned to normal. As a result of the Energy Rationing Plan, many electric generation and distribution companies in Brazil, including CEMIG, experienced significant reductions in their profit margins. In December 2001, the Federal Government and the electric utilities in Brazil affected by the Energy Rationing Plan signed a General Agreement to re-establish the financial-economic equilibrium of the existing concession contracts and recover revenues relating to the period during which the Energy Rationing Plan was in effect.

The General Agreement addressed margin losses incurred by the electric distribution and generation companies during the period of the Energy Rationing Plan and the costs of energy purchased in the spot market through the *Mercado Atacadista de Energia* (the Wholesale Energy Market or MAE), succeeded by the *Câmara de Comercialização de Energia Elétrica* CCEE (CCEE/MAE), up to December 2002. These items will be recovered by an extraordinary rate adjustment as follows:

I. an increase of 2.90% for rural and residential consumers (excluding low-income consumers), lighting streets and high-tension industrial consumers whose costs related to electric energy represent at least 18.00% of average production cost and fulfill certain criteria, related to charge and demand energy factors which were determined by ANEEL s Resolution No. 130, dated April 30, 2002; and
II. an increase of 7.90% for all other consumers.

These assets, which will be reimbursed through the special rate adjustment are monetarily restated based on SELIC from January 1, 2002. The extraordinary rate adjustment regulatory asset had its maximum recovery period, initially established as being 82 months, reduced to 74 months, from January 2002 to February 2008, pursuant to ANEEL s Resolution No. 1 dated January 12, 2004. During the years ended December 31, 2006, 2005, and 2004, the Company collected R$257, R$261, and R$310, respectively, as a result of application of the extraordinary rate adjustment. Management periodically reviews its projections and, in the event that the estimates change in the future, the allowance will be adjusted as appropriate.

The recovery of the credits through the extraordinary rate adjustment regulatory asset, in accordance with ANEEL´s Resolution 45, from March 3, 2004, is carried out in the ratio of 64,29% and 35,71% for the credits relating to revenue losses and amounts to be transfer to generators, respectively.

(a.1) Recovery of revenue losses incurred during the period of the Energy Rationing Plan:

CEMIG recorded a regulatory asset under U.S. GAAP amounting to of R$209 as of December 31, 2006 (R$331 as of December 31, 2005), in accordance with the consensus reached by the FASB s - EITF Issue Nº 92-07, Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs .

(a.2) Amounts to be collected from consumers and transferred to generators:

Amounts represent losses incurred by the generation companies that bought power in the MAE, held in 2004 by the Electric Power Sales Chamber (CCEE/MAE), in the period from June 1st, 2001 until February 28, 2002, with prices exceeding the amount of R$49.26/MWh (free power). These amounts will be collected by the Company and passed on the generation companies (see note 11). This asset includes taxes on revenues and regulatory charges. When the amounts are received by the consumers, the amounts relating to taxes on revenue and regulatory charges will be paid directly to the Federal Government.

(b) Energy transactions on CCEE/MAE during the rationing plan

The amounts receivable refer to the difference between the prices paid by CEMIG in the CCEE/MAE energy transactions, during the energy rationing period and the amount of R$49.26/MWh that is recovered through the extraordinary rate adjustment (RTE), as defined in the General Agreement. Distribution concessionaires collect and transfer, on a monthly basis, the special rate adjustment amounts to generators and distributors, including CEMIG, that have amounts receivable, starting in March 2003.

The conclusion of certain lawsuits filed by other generators that are still in progress may result in future changes in the amounts recorded.

Provision for losses

As described above, the Company receives RTE amounts from other distribution companies. ANEEL established a time limit for these distribution companies to collect RTE from their respective consumers. In the event that these companies do not collect the full amount, the Company will not receive the recorded asset. During 2006, the Company prepared an analysis to estimate whether these amounts will be collected by the respective distribution companies and based on this analysis, a provision for losses was recorded amounting to R$245 as of December 31, 2006.

(c) Recovery of additional Parcel A costs:

(c.1) Additional Parcel A Costs from January 1, 2001 to October 25, 2001

The base amount of Parcel A costs to be reimbursed is equal to the difference between the Parcel A costs actually incurred and the estimated Parcel A costs used for purposes of computing the last annual rate adjustment prior to the Energy Rationing Plan. This amount bears interest at the SELIC rate from the day that the actual cost was paid until the date of recovery. In January 2004, ANEEL declared that the variations in Parcel A costs are not subject to a maximum recovery period. Recovery of Parcel A costs will start immediately after the end of special rate adjustment recovery period, using the same recovery criteria. Thus, the extraordinary rate adjustment applied to recover billing losses and free power will also be used to recover the Parcel A costs.

(c.2) Additional Parcel A Costs from October 26, 2001 and thereafter

On October 25, 2001, the Federal Government, through Executive Act Nº 296, created a tracking account mechanism to control the variation of Parcel A costs for rate adjustment calculation purposes. This account is comprised of the amounts resulting from the difference between the Parcel A costs actually incurred, from October 26, 2001 and thereafter, and the estimated Parcel A costs used for purposes of computing the annual rate adjustment as from April 8, 2001.

The amounts determined for the Parcel A costs for the period from October 26, 2001 and thereafter are recorded as deferred regulatory assets, as follows:

Parcel A Items	December 31, 2006	December 31, 2005
System service charges	44	89
Electricity purchase rate	100	158
Itaipu Binacional electricity transport rate	4	12
Fuel usage quota CCC	(10)	(40)
Rate for use of basic transmission network	(21)	27
Energy development account quota CDE	8	10
Charges for use of water resources	7	17
Incentive program for Alternative Electric Power Sources PROINFA	11	4
	143	277

The above-mentioned amounts are restated based on the SELIC through annual rate adjustments.

The recoverable amounts recorded in current assets refer to variations of uncontrollable costs that are being recovered based on the annual rate adjustment on April 8, 2006, according to management s estimates.

(d) Deferred rate adjustment

ANEEL Resolution No. 71, dated April 4, 2004, determined that the rate adjustment that should have been applied to the Company s rates on April 8, 2003 was 44.41%, instead of 31.53% which was originally applied. The difference will be included by ANEEL in the future rate adjustments. The percentage difference of 12.88% will be offset through an increase of R$301, in April 2003 values, in each one of the tariff adjustments scheduled to take place in 2004 through 2007, including monetary restatement calculated based on IGP-M variation plus 11.26% of interest. The adjustment applied to the tariffs which came into effect on April 8, 2004 included an additional percentage of 2.91%, which corresponds to R$159. Since the amount of the first portion should have been R$301, the difference of R$142 is being recovering in the rate adjustments since 2005.

	December 31, 2006	2005
Deferred rate adjustment since April 8, 2003	950	950

Interest (defined by Aneel 11.26% per year)	351	206
Monetary restatement IGP-M Index	137	99
(-) Amounts collected	(519)	(80)
	919	1,175

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(e) PIS-PASEP/COFINS

The Federal Laws No. 10,637 and 10,833, increased the rates and changed the basis of calculation of PIS/PASEP and COFINS taxes on revenues. As a result of those changes, there was an increase in expense relating to PIS/PASEP and COFINS, from December 2002 to June 2005 and from February of 2004 to June 2005, respectively.

In view of the fact that this increase in the expense should be repaid to the Company through tariffs, the credits were registered, in accordance with a criteria defined by ANEEL, as a regulatory asset and there was a counterpart reduction in the expense on PIS/PASEP and COFINS taxes.

(f) Special obligations

Special obligations are resources obtained by the concessionaire from consumer contributions, federal budget allocations, as well as federal, state and municipal funds, and special credits relating to investments made in projects linked to the concession. The resources represent either infrastructure assets or cash to fund the acquisition and/or construction of such assets usually to obtain connection to the Company s distribution network or to extend the existing network. For regulatory purposes, the depreciation of these assets was included in the tariff rate setting process and the corresponding liability was recorded for the amount of the total contributions. Under U.S. GAAP, the contributions were considered reimbursements of construction costs and credited against the cost of the related fixed assets.

On October 31, 2006, ANEEL issued a new regulation which changed the treatment of special obligations with respect to the tariff setting process. The regulation establishes, among other items, that beginning on the date of the next respective tariff revision, the special obligations will be amortized as a reduction of net allowable costs over future periods, thereby reducing tariffs. Consequently, in accordance with SFAS No. 71, the special obligations became a regulatory liability as a result of this new regulation.

Accordingly, the Company recorded a regulatory liability amounting to R$2,194 as of December 31, 2006, as follows:

(i) The gross-up of the net book value of the Company s assets recorded through consumer contributions for regulatory purposes amounting to R$1,137 recorded as Property, plant and equipment; and,

(ii) The recognition of the remaining portion of the regulatory liability amounting to R$1,057, with a corresponding operating expense during the year ended December 31, 2006. This amount represents the depreciation that was previously included in historical tariff increases prior to the new regulation.

5. DEFERRED INCOME TAXES

Income taxes in Brazil include federal income tax and social contribution on income (which is an additional federal income tax). The statutory annual rates applicable are 25% for federal income tax and 9% for social contribution tax.

The income taxes are calculated on individual basis for each subsidiary and according to the Brazilian tax law can not be consolidated.

(a) Income tax reconciliation:

The amounts reported as income tax expense in the financial statements are reconciled to the statutory rates as follows:

	Year ended December 31,		
	2006	**2005**	**2004**
Income before income taxes and minority interests	1,199	2,107	2,468
Income taxes (34%)	(407)	(716)	(839)
Effects of:			
Tax benefit (expense)-			
Interest on capital	57	216	173
Reversal (provision) on account receivable from State Government	143	76	(111)
Social Contribution on Complementary Monetary Restatement	(3)	51	(9)
Adjustment on Deferred regulatory liabilities special obligations	(359)	38	35
Others	72	35	20
Income tax expense	(497)	(300)	(731)

Brazilian companies are permitted to pay interest on capital. The calculation is based on the shareholders equity amounts prepared in accordance with Brazilian GAAP. The interest rate applied may not exceed the long-term interest rate determined by the Brazilian Central Bank and interest paid may not exceed the greater of 50% of net income for the year or 50% of retained earnings plus profit reserves.

The amount of interest on capital is deductible for income taxes purposes. Accordingly, as opposed to a payment of dividends, the benefit to CEMIG is a reduction in its income taxes payable equivalent to the statutory tax rate applied to such amount. Income tax is withheld from the payment of such amount to shareholders at the rate of 15%. The interest on capital are registered in fiscal and accounting books as financial income, when declared by subsidiaries, and as financial expense when declared to be paid to stockholders. However, for financial statements presentation, the Company considers the transaction essence. As such, interest on capital is considered as dividends received or paid, with no effect on statements on income. In the financial statements, the records mentioned above are reclassified, which means received interest on capital is credited to investments and interest on capital paid is debited to retained earnings, and the income tax effects remain in statement of operations.

Due to the transfer of CRC Agreement receivables to the FIDC, described on note 3, the provision for losses arising from the difference between the gross asset and the recorded amount of CRC agreement became deductible for income taxes purposes according to the Brazilian Corporate and Taxes Laws. Therefore, CEMIG recorded a tax benefit in the 2006 year in the amount of R$143, net of a provision for losses of R$423. Such provision was calculated considering the weight of positive and negative evidence for the foreseeable future, pursuant to the guidance provided by SFAS Nº 109 Accounting for Income Taxes .

As a consequence of changes in ANEEL s regulations in 2006, mentioned on Note 4, item f , the Company recorded an expense in 2006 Statement of operations in the amount of R$1,057 related to the portion of special obligations previously charged against property, plant and equipment and which were previously depreciated by the Company for regulatory purposes.

(b) Analysis of deferred tax balances:

As of December 31, 2006 and 2005, the deferred tax balances have been computed using a 34% rate, which is the rate expected to be in force upon realization. The major components of the deferred income taxes account in the balance sheet are as follows:

	December 31, 2006	2005
Tax loss carryforwards	571	62
Employee post-retirement benefits	199	85
Provision for contingencies	75	116
Provision for doubtful accounts	108	81
Other temporary differences	9	35
Temporary difference on regulatory assets	(477)	(654)
Effects of differences between book and tax basis of property, plant and equipment.	(334)	(404)
	151	(679)
Provision for losses on realization of deferred tax balances	(423)	
	(272)	(679)
Current Assets	89	43
Other Assets	269	192
Current Liabilities	(392)	(184)
Long-term Liabilities	(238)	(730)

Income Tax Loss Carryforwards may be offset against a maximum of 30% of annual taxable income. Tax loss carryforwards do not expire under Brazilian tax law.

6. CASH AND CASH EQUIVALENTS

The following table sets forth amounts of cash and cash equivalents for the dates indicated:

	December 31, 2006	2005
Cash on hand and in banks	100	50
Short-term investments, principally certificates of deposit	1,008	1,299
	1,108	1,349

7. ACCOUNTS RECEIVABLE, NET

The following table sets forth information concerning accounts receivable by type of consumers for the dates indicated:

	Current	Past-due Up to 90 days	Over 90 days	Total December 31, 2006	2005
Residential	387	148	91	626	509
Industrial	224	53	254	531	480
Commercial	199	57	82	338	273
Rural	57	16	18	91	73
Governmental entities	111	15	65	191	197
Public services	72	2	3	77	44
Subtotal	1,050	291	513	1,854	1,576
Distributors	185			185	18
	1,235	291	513	2,039	1,594
Allowance for doubtful accounts			(297)	(297)	(214)
	1,235	291	216	1,742	1,380
Current assets				1,692	1,316
Other non-current assets				50	64

No single customer represented more than 10% of total receivables as of December 31, 2006 and 2005 and electricity sales to final customers for the years ended December 31, 2006, 2005 and 2004.

The accounts receivable, other non-current asset, of R$50 as of December 31,2006 (R$64 on December 31, 2005), refers to renegotiated payment of the debts with COPASA (Minas Gerais Water Company- a company controlled by the Minas Gerais State Government), up to September 2012, and PBH (the Municipality of Belo Horizonte), up to March 2010.

The provision for doubtful accounts, by class of consumer, is as follows:

	Year ended December 31 2006	2005
Residential	102	81
Industrial	106	64
Commercial	62	47
Rural	13	9
Governmental entities	11	10
Public services	3	3
	297	214

The changes in allowance for doubtful accounts were as follows:

	Year ended December 31	
	2006	2005
Balance at beginning of the year	214	165
Accounts written off	(11)	(5)
Provision for the year recorded as other operating costs	94	54
Balance at end of the year	297	214

8. RECOVERABLE TAXES

The following table sets forth amounts of taxes recoverable for the dates indicated:

	December 31, 2006	2005
Current assets -		
Income tax	96	293
Social contribution tax	27	38
VAT	9	6
Other	73	13
	205	350
Other non-current assets -		
Income tax	260	
Social contribution tax	29	
VAT	270	216
	559	216

The income tax and Social Contribution Taxes credits basically refer to advance payments for the year 2006 and retentions of subsidiaries interest on Equity. There are also amounts calculated in the companies previous years tax returns which may be compensated in the following years with other federal taxes.

The credits of ICMS recoverable, recorded as Other Non-Current Assets, arise from acquisitions of fixed assets and are offset in 48 months. The Company is in the process of adaptation to the new requirements for electronic information demanded by the Minas Gerais State Government, which will enable the credits to be offset starting in the second quarter of 2007.

9. INVESTMENTS

The following table describes the Company equity investments:

	December 31, 2006	2005
Equity Investments in Rio Minas Energia	213	
Equity investments in GASMIG	153	94
Equity Investments in EATE	49	
Equity Investments in ENTE	25	
Equity Investments in Transleste	14	13
Equity Investments in ETEP	14	
Equity Investments in Transchile	13	4
Equity Investments in Centroeste de Minas	7	3
Equity Investments in Transudeste	7	6
Equity Investments in ERTE	6	
Equity Investments in ECTE	5	
Equity Investments in Transirape	5	5
Other investments	12	11
	523	136

a) Acquisition of capital interest of Light

On March 28, 2006, CEMIG, Andrade Gutierrez Concessões S.A., J.L.A. Participações S.A. and Pactual Energia Participações S.A. created Rio Minas Energia Participações S.A. (RME), a newly formed holding company, in which each partner holds a stake of 25%. On the same date, RME entered into a Share Purchase Contract (the Contract) with EDF International S.A. (EDFI) for the acquisition of the interest held by EDFI, directly and indirectly, in LIGHT S.A. (LIGHT), corresponding to 79.39% of the total registered capital of LIGHT, a holding company which owns several electricity companies, including the distribution concessionaire Light Serviços de Eletricidade S.A., which has 3.8 million consumers (unaudited) (6.4% of the Brazilian market-unaudited) in 31 municipalities in the State of Rio de Janeiro, and the generator Light Energia S.A., which has installed capacity in hydroelectric power 852 MW (unaudited). The purchase was funded equally through capital contributions by each of RME s shareholders. On May 17, 2007 there was a reduction in the Company s interest in LIGHT S.A. (see note 31). Following is the purchase price allocation recorded by the Company:

	LIGHT
Current assets	2,683
Property, plant and equipment	3,863
Other assets	1,983
Total assets acquired	8,529
Current liabilities	(1,624)
Long-term financing	(3,063)
Other long-term liabilities	(2,963)
Total liabilities	(7,650)
Net consolidated assets	879
Interest acquired	19.85 %
Net assets acquired	174
Price paid	174

b) Acquisition of interest in transmission companies

On August 16, 2006, CEMIG, in partnership with MDU Brasil Ltda. (MDU) and Brascan Brasil Ltda. (Brascan), entered into agreements (the Agreements) with Schahin Holding S.A. to purchase interests in the 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, Empresa Regional de Transmissão de Energia S.A. ERTE and Empresa Catarinense de Transmissão de Energia S.A. ECTE.

The net consolidated assets acquired of the transmission companies at July 31, 2006 are as follows:

	ETEP	ENTE	ERTE	EATE	ECTE
Current assets	39	58	10	195	33
Property, plant and equipment	290	633	126	1,623	239
Other assets	20	15	2	111	
Total assets acquired	349	706	138	1,929	272
Current liabilities	(18)	(57)	(8)	(88)	(14)
Long-term financing	(67)	(243)	(41)	(391)	(61)
Other long-term liabilities	(19)	(25)	(2)	(65)	(24)
Total liabilities	(104)	(325)	(51)	(544)	(99)
Net consolidated assets	245	381	87	1,385	173
Interest acquired	17.51 %	18.35 %	18.35 %	14.94 %	7.50 %
Net consolidated assets acquired	43	70	16	207	13
Price paid	43	70	16	207	13

a) Fourth Amendment to the CRC Agreement

c) GASMIG - Sale of 40% of CEMIG s interest in GASMIG to PETROBRAS

On December 15, 2004, CEMIG sold 40% of the capital stock of GASMIG to PETROBRAS for R$154, resulting in a gain of R$102. The price of the sale was determined based on GASMIG s discounted cash flows.

The sale is part of the Association Agreement signed on August 25, 2004 among CEMIG, GASMIG, and PETROBRAS to develop the natural gas market. The Agreement includes an investment plan to expand the gas distribution networks serviced by GASMIG. According to the plan, these capital investments were increase GASMIG s daily natural gas volume distribution from 3.5 million m3/day to 4.5 million m3/day at the end of 2006, ultimately reaching 11.1 million m3/day in 2023.

In connection with the sale, the Company signed a shareholders agreement, pursuant to which the prior approval of PETROBRAS is required in matters related, among others, to new investments to be conducted by GASMIG, distribution of dividends, nomination of members to the Board of Directors, the issuance of new shares or debentures, annual budget investment plans and any transaction involving more than R$2. Under the terms of the GASMIG Shareholders Agreement, the Company s ability to transfer its shares in GASMIG is limited, and PETROBRAS shall have a right of first refusal in any future transfer of shares. As a result of this Shareholders Agreement, the Company s ability to manage GASMIG was considerably reduced and it is not a consolidated subsidiary in the financial statements, in accordance with the FASB s EITF Issue No. 96-16, Investor s Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights.

(d) Sale of Way TV subsidiary

During 2005, the Company s Board of Directors authorized the sale, through a public auction, of all of Empresa de Infovias S.A. s equity interest in WAY TV. At an auction held on July 27, 2006, Way TV Belo Horizonte S.A. was sold in its entirety to TNL PCS Participações S.A., a subsidiary of Tele Norte Leste Participações S.A., for R$132. The conclusion of the sale depends on the authorization by the National Telecommunications Agency, ANATEL.

Considering that the sale is still pending, the Company did not recognize the sale as of December 31, 2006.

On March 19, 2007, during an extraordinary meeting, ANATEL´s Board of Directors did not authorized the sale of WAY TV. Administrative and legal actions are being evaluated to overturn the decision of the Board.

The net income (loss) of WAY TV for the years ended in 2006, 2005 and 2004 is R$1, (R$2) and (R$8), respectively.

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a) Fourth Amendment to the CRC Agreement

10. PROPERTY, PLANT AND EQUIPMENT, NET

The following table describes the consolidated property, plant and equipment:

	Annual average rate of depreciation %	December 31, 2006	2005
In service			
Generation-			
Hydroelectric	2.40	9,187	7,903
Hydroelectric- Consortia	2.51	1,156	472
Thermoelectric	1.44	260	260
		10,603	8,635
Transmission	2.98	1,871	1,613
Distribution	5.06	10,259	7,693
Administration	9.23	576	564
Telecom	7.94	390	370
		23,699	18,875
Accumulated depreciation and amortization			
Generation		(4,593)	(4,373)
Generation Consortia		(63)	(34)
Transmission		(928)	(894)
Distribution		(5,867)	(4,068)
Administration		(452)	(423)
Telecom		(146)	(110)
		(12,049)	(9,902)
Total in service		11,650	8,973
Construction in progress			
Generation		156	1,327
Generation Consortia		40	640
Transmission		169	49
Distribution		1,532	883
Administration		112	95
Telecom		6	4
Total in construction in progress		2,015	2,998
Total		13,665	11,971

Interest cost capitalized during the years ended December 31, 2006, 2005 and 2004 was R$293, R$237, and R$194, respectively.

Under Brazilian law, CEMIG s power generation, transmission and distribution assets may not be retired, disposed of, transferred, sold or mortgaged without the prior authorization of ANEEL. The proceeds received from the disposal of assets must be deposited in an earmarked bank account and used in the purchase of other concession assets. In accordance with normal practice in Brazil for electric utilities, from time to time, CEMIG constructs distribution systems for the benefit of consumers for which the consumer reimburses the cost. These reimbursements are accounted for as a reduction to the cost basis of the related assets as they are received.

The Company has recorded R$931 as Construction in progress - Distribution on December 31, 2006 (R$451 on December 31 2005) related to the Light for All program. The initial target for the Light for All Program was to connect 176,000 consumers (unaudited), basically in the rural area, with a total estimated cost of R$1,641.

In the fourth quarter of 2006, due to the startup of the Irapé Plant, the costs referring to the construction of that project, in the amount of R$1,200 were transferred to fixed assets in service. The depreciation expense in relation to this project for the year 2006, in the amount of R$14, was recognized in the Income Statement.

The Company owns land and buildings recorded as fixed assets Administration, which were given in guarantee for legal proceedings involving tax, labor-law and civil lawsuits and other contingencies in the amount, net of depreciation, of R$10 on December 31, 2006.

Consortia

CEMIG is a partner in certain consortia for electricity generation projects. Each partner has the right to take energy generated by the power plant in an amount proportionate to the partner s investment. These projects are governed by executory contracts which establish the rights and obligations of each party.

CEMIG s participation in consortia, represented by amounts invested in the projects and which are included in the previous table, is as follows:

	CEMIG s Participation %	December 31, 2006	2005
In service-			
Queimado Hydroelectric Power Plant	82.50	207	207
Funil Hydroelectric Power Plant	49.00	154	154
Igarapava Hydroelectric Power Plant	14.50	56	56
Porto Estrela Hydroelectric Power Plant	33.33	55	55
Aimorés Hydroelectric Power Plant	49.00	659	
Cemig Capim Branco Hydroelectric Power Plant	21.05	25	
(-) Accumulated depreciation		(63)	(34)
		1,093	438
Construction in progress-			
Aimorés Hydroelectric Power Plant	49.00	9	601
Cemig Capim Branco Hydroelectric Power Plant	21.05	18	31
Funil Hydroelectric Power Plant	49.00	8	8
Baguari Hydroelectric Power Plant	34.00	5	
		40	640
		1,133	1,078

In May 8, 2006, due to the startup of the Aimorés Hydroelectric Power Plant, the costs referring to the construction of that project, in the amount of R$659 were transferred to consortia in service.

The participation of the other partners in energy generation from consortia is as follows:

Consortium	Consortium participants, other then CEMIG	Participation (%)
Porto Estrela Hydroelectric Power Plant	Companhia de Tecidos Nortes de Minas Gerais COTEMINAS	33.34
	Companhia Vale do Rio Doce CVRD	33.33
Igarapava Hydroelectric Power Plant	Companhia Vale do Rio Doce CVRD	38.15
	Companhia Mineira de Metais CMN	23.93
	Compahia Siderúrgica Nacional - CSN	17.92
	Mineração Morro Velho - MMV	5.50
Funil Hydroelectric Power Plant	Companhia Vale do Rio Doce - CVRD	51.00
Queimado Hydroelectric Power Plant	Companhia Energética de Brasília	17.50
Aimorés Hydroelectric Power Plant	Companhia Vale do Rio Doce - CVRD	51.00
Cemig Capim Branco Hydroelectric Power Plant	Companhia Vale do Rio Doce - CVRD	48.43
	Comercial e Agrícola Paineiras Ltda.	17.89
	Companhia Mineira de Metais - CMN	12.63
Baguari Hydroelectric Power Plant	Furnas Centrais Elétrica S.A	15.00
	Baguari I Geração de Energia Elétrica S.A	51.00

11. ACCOUNTS PAYABLE TO SUPPLIERS

	December 31 2006	2005
Electricity suppliers-		
Eletrobrás Energy from Itaipu	191	210
Furnas Centrais Elétricas S.A.	61	39
Spot market CCEE/MAE	79	119
Payments to generators for energy purchased on CCEE/MAE during the rationing period	328	362
Others	137	99
	796	829
Supplies and services	236	242
	1,032	1,071
Current liabilities	768	734
Long-term liabilities	264	337

Due to the agreement established between CEMIG, ANEEL and market agents, the amounts due to CCEE/MAE shall be paid until September 2009 and are adjusted using the SELIC rate plus annual interest of 1%. See note 4.

12. TAXES PAYABLE

The following table describes accrued taxes payable:

	December 31 2006	2005
Short-term -		
Income tax	20	31
Social contribution tax	8	3
VAT	256	229
Tax on revenue COFINS	143	92
Others	74	46
	501	401
Long-term -		
Tax on revenue COFINS	34	103
Tax on revenue PASEP	7	21
	41	124
	542	525

The federal taxes classified in long-term liabilities refer to taxes on the assets recorded as a result of the General Agreement of the Electricity Sector and the deferred rate adjustment, which are due when these assets are realized. These taxes are recorded based on the rates expected to be in force upon realization.

13. FINANCING

(a) The following tables describe financings:

				December 31, 2006			2005
LENDERS	**Payments of Principal**	**Annual Interest Rates (%)**	**Currency**	**Short Term**	**Long Term**	**Total**	**Total**
IN FOREIGN CURRENCY							
ABN AMRO Bank N. II	Annually through 2013	6.00	US$		107	107	117
ABN AMRO Real S.A. III, IV and V	Semi-annually through 2009	6.35	US$	16	31	47	69
Banco do Brasil S.A. Various (1)	Semi-annually through 2024	Various	US$	15	117	132	157
Banco do Brasil S.A. II	Single payment in 2009	3.90	JPY		70	70	77
Banco Paribas II	Semi-annually through 2012	5.89	EURO	3	14	17	21
Banco Paribas I and III	Semi-annually through 2010	Libor + 1.87	US$	1	62	63	69
Banco Interamericano de Desenvolvimento BID I and II	Semi-annually through 2006	7.67	US$+ CB (3)				5
KFW	Semi-annually through 2016	4.50	EURO	2	17	19	20
UNIBANCO I, III e VIII	Various	6.50	US$	143	10	153	168
UNIBANCO III and V	Single payment in 2009	5.50	US$		4	4	5
UNIBANCO IV and IX	Single payment in 2009	5.00	US$		18	18	20
MBK Furukawa Sistemas S.A. / UNIBANCO	Semi-annually through 2008	Libor + 5.45	US$	13	7	20	37
Toshiba do Brasil S.A.	Quarterly through 2009	Libor + 6.00	US$	3	5	8	11
Other	Various	Various	Various	3		3	3
Total foreign currency financing				**199**	**462**	**661**	**779**

IN LOCAL CURRENCY							
Banco Credit Suisse First Boston S.A. I and III	Single payment in 2006	100.00% of CDI	R$				66
Banco Credit Suisse First Boston S.A. II	Single payment in 2010	106.00% of CDI	R$		75	75	75
Banco do Brasil S.A. III and VII	Single payment in 2009	111.00% of CDI	R$	2	119	121	122
Banco do Brasil S.A. IV and VIII	Annually through 2013	CDI + 1.70	R$	5	109	114	116
Banco do Brasil S.A. V and IX	Single payment in 2013	107.60% of CDI	R$	13	126	139	141
Banco do Brasil S.A.	Annually through 2014	104.10% of CDI	R$	28	1,200	1,228	
Banco Itaú BBA V	Single payment in 2008	IGP-M + 10.48	R$	9	165	174	161
Banco Itaú BBA III e VI	Single payment in 2008	CDI + 2.00	R$	1	40	41	103
Banco Itaú BBA IV and VII	Annually through 2013	CDI + 1.70	R$	16	301	317	321
Banco Itaú BBA	Annually through 2014	CDI + 1.70	R$	1	3	4	
HSBC Bank Brasil S.A.	Single payment in 2008	CDI + 2.00	R$	1	60	61	
Banco Votorantim S.A. I and III	Single payment in 2010	113.50% of CDI	R$	3	54	57	59
Banco Votorantim S.A. II,III, IV	Annually through 2013	CDI + 1.70	R$	6	101	107	109
Banco WESTL do Brasil	Single payment in 2008	IGP-M + 10.48	R$	2	41	43	42
Banco Nacional de Desenvolvimento Econômico e Social - BNDES	Monthly through 2008	SELIC + 1.00	R$	144	26	170	292
Bradesco S.A. II, III	Annually through 2013	CDI + 1.70	R$	22	377	399	407
Bradesco S.A.	Annually through 2014	CDI + 1.70	R$		2	2	
Debentures I	Annually through 2006	IGP-M + 12.70	R$				501
Debentures II	Single payment in 2009	CDI + 1.20	R$	8	350	358	360
Debentures II	Single payment in 2011	104% of CDI	R$	5	239	244	
Debentures III Minas Gerais State Government	Various	IGP-M	R$		14	14	12
Debêntures IV	Single payment in 2014	IGP-M + 10.50	R$	15	258	273	264
ELETROBRÁS I and III	Monthly through 2013	FINEL + 7.50 and 8.50	R$	19	76	95	111
ELETROBRÁS II	Monthly through 2005	IGP-M + 12.00	R$				5
ELETROBRÁS IV	Quarterly thorough 2023	UFIR + 6.00 to 8.00	R$	35	178	213	137
Large consumers C.V.R.D.	Semi-annually through 2011	Various	R$	5	2	7	8
Banco Santander Brasil S.A. I and II	Annually through 2013	CDI + 1.70	R$	5	80	85	81
UNIBANCO V	Single payment in 2009	CDI + 2.98	R$	3	104	107	108
UNIBANCO VI and X	Annually through 2013	CDI + 1.70	R$	12	309	321	318
UNIBANCO I	Annually through 2013	CDI + 1.70	R$	7	74	81	82
Banco Itaú and Bradesco (2)	Semi-annually through2015	CDI + 1.70	R$	104	878	982	
Others	Various	Various	R$	21	10	31	46
Total local currency				**492**	**5,371**	**5,863**	**4,047**
TOTAL				**691**	**5,833**	**6,524**	**4,826**

(1) These interest rates vary from 2.00 to 8.00% per year;

(2) Refers to senior quotas of the FIDC;

(3) CB Currency baskets Index established by BID which includes some currencies in its composition as U.S. Dollar, Euro and Yen.

In addition to the financings described above, the Company has unused credit lines with financial institutions in the amount of R$148 (unaudited) on December 31, 2006.

A substantial part of these financings is guaranteed by the Federal and State Governments, and the funds are usually used as working capital and to finance expansion of the electricity generation, transmission and distribution systems. As of December 31, 2006, CEMIG has pledged its future revenue from the sale of electricity in the amount of R$638, as guarantee of some financings.

On November 1, 2006, Cemig Geração e Transmissão S.A. offered the debenture holders of the second series of non-convertible debentures the opportunity to change the remuneration, from the IGP-M inflation Index plus 12.7% p.a. to 104% of the CDI per year, establishing maturity in November 2011. As a result, 47.37% of the debentures in circulation, equivalent to R$239, had their terms modified under the new conditions.

The remaining 52.63% of the debentures issued in 2006, corresponding to R$265, were redeemed. The Company had already redeemed, in 2005, the amount of R$142 arising from the re-negotiation of the debentures of the first series. Thus, the total value held in treasury of R$407 may be placed again in the market, at the Company s option at some future date.

(b) Composition of foreign financings by currency and domestic currency indices:

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014 and thereafter**	**Total**
Currency -									
United States Dollars	193	62	87	49	37	34	32	60	554
Euro	5	5	5	5	5	3	2	6	36
Japanese yen			70						70
Others	1								1
	199	**67**	**162**	**54**	**42**	**37**	**34**	**66**	**661**
Index -									
Certificado de Depósito Interbancário *CDI* (Interbank deposit rate)	242	197	671	569	680	843	970	671	4,843
Índice Geral de Preços de Mercado IGP-M (General Market Price Index)	30	206						272	508
Sistema Especial de Liquidação e Custódia SELIC (Brazilian benchmark interest rate)	144	26							170
Unidade Fiscal de Referência UFIR (Tax Reference Unit)	35	23	24	23	22	19	15	52	213
Índice Interno da Eletrobrás FINEL (Eletrobrás Internal Index)	19	17	12	12	12	12	11		95
Others	22	11						1	34
	492	**480**	**707**	**604**	**714**	**874**	**996**	**996**	**5,863**
	691	**547**	**869**	**658**	**756**	**911**	**1,030**	**1,062**	**6,524**

(c) The following table sets forth the variations for the periods indicated in the foreign currency / Brazilian *real* exchange rates for the principal foreign currencies used to restate financing, expressed as a percentage:

	Year ended December 31,		
	2006	2005	2004
Currency-			
United States Dollars	(8.66)	(11.82)	(8.74)
Japanese Yen	(9.47)	(23.43)	(7.02)
Euro	1.85	(23.50)	(0.85)
Currency baskets		(17.44)	2.81

(d) The following table sets forth the variations for the periods indicated of the principal indices applied to domestic currency financing, in percentages:

	Year ended December 31,		
	2006	2005	2004
Index-			
CDI	15.05	18.15	17.46
IGP-M	3.83	1.21	12.41
SELIC	15.10	18.24	17.50
FINEL	0.76	0.24	2.38

(e) Restrictive Covenants

Certain of CEMIG s loans, financing agreements and debentures contain certain financial covenants which are calculated using financial statements prepared in accordance with Brazilian GAAP. The subsidiary Cemig Distribuição S.A. has not complied with one of them as of December 31, 2006 as described below:

Description of the Restrictive Clause	Required Index	Position on December 31, 2006 according to the financial statements prepared in accordance with Brazilian GAAP
Cemig Distribuição		
Capital Expenditures/EBITDA	Less than or equal to 60%	73.59

EBITDA = Earnings Before Interest, Income Taxes, Depreciation and Amortization

Some contracts established specific criteria to define adjustments to the EBITDA to be used in the covenants compliance.

Cemig Distribuição S.A has obtained waivers from the related creditors that affirm that such creditors will not exercise their rights to demand accelerated or immediate payment of the total amount due until after December 31, 2007. Consequently, these financings are classified in current and long-term liabilities according to the original terms of respective contracts and amendments, in accordance with the respective waivers obtained.

14. REGULATORY CHARGES PAYABLE

The following table describes the Company s accrued regulatory charges payable:

	December, 31	
	2006	2005
Global reserve for reversion quota	10	33
Fuel usage quota	74	6
Emergency capacity charge	40	56
Energy development account	32	24
Energy efficiency and R&D program	259	185
Other	5	4
	420	308

Current liabilities	420	266
Non current liabilities other		42

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(a) Global reserve for reversion quota:

The global reserve for reversion quota was established as a fund managed by ELETROBRÁS (*Centrais Elétricas Brasileiras S.A.*, the Federal Government-owned holding company for investments in the Brazilian power sector) for the purpose of reimbursement of electricity companies investments when their concessions expire and assets subject to the concession revert to the Federal Government. It is funded through assessments on power companies and is based on 2.5% of assets in service, limited to 3% of total annual operating revenues, net of value-added tax on sales to final customers.

(b) Fuel usage quota:

The fuel usage quota represents contributions made by the electricity company concessionaires to subsidize the cost of fuel used in the thermoelectric energy generating process in the Brazilian power system.

(c) Emergency capacity charge:

The emergency capacity charge represents a charge established in 2002, which is prorated among final consumers of electric energy, and relates to the acquisition of energy and contracted generation capacity by the *Comercializadora Brasileira de Energia Elétrica* (The Brazilian Emergency Energy Trader or CBEE).

(d) Energy development account:

The energy development account was created by Law No. 10.438/02 to foster energy development in the states and to promote competition regarding energy produced through wind farms, small hydroelectric power plants, biomass, natural gas and coal. The amounts to be paid by CEMIG were defined by ANEEL Resolution No. 42 dated January 31, 2003.

(e) Energy efficiency and R&D program

In compliance with the regulation of the electric power sector, the electric power distributors and generators are required to spend 1% of their net revenues in energy efficiency and research and development programs. The percentage is included annually in CEMIG s revenues through a rate adjustment stipulated by ANEEL, which should be destined to this program.

15. EMPLOYEE POST-RETIREMENT BENEFITS

The Company sponsors a pension plan, administered by *Fundação Forluminas de Seguridade Social* - FORLUZ (Forluminas Social Security Foundation, or FORLUZ) covering substantially all of its employees. The Company has applied SFAS Nº 87 Employers Accounting for Pensions as from January 1,1995. However, amortization of the net transition obligation existing at January 1, 1995 has been computed retroactively as if it had been established on January 1, 1989, which is the date that SFAS Nº 87 first became applicable for non-U.S. pension funds.

Until October 1997, the Company sponsored only a defined benefit pension plan. From September 29, 1997 to May 1, 1998, participants were permitted to elect to migrate to a new defined contribution plan. Those participants who elected to join the new plan had two options. The first was to maintain the benefit earned up to the date of migration in the defined benefit plan, with no further increases for salary increases or future services, and future contributions would be made to the new plan to the individual account. The second option for those participants who migrated to the defined contribution plan was to transfer the accumulated benefit as of that date to their individual account in the defined contribution plan. In both alternatives, the participants became fully vested in the benefits accumulated as of the migration date.

Under the defined contribution plan the Company will match the employees contributions from 3% to 12% of each employee s salary, depending on certain factors. The total assets in the defined contribution plan (which is also administered by FORLUZ) as of December 31, 2006 and 2005 was R$1,663 and R$1,316, respectively, and the contribution expense for the years ended December 31, 2006, 2005 and 2004 was R$53, R$68 and R$37, respectively.

The dental care plan was implemented in the third quarter of 2006 and the costs related to the participants who are retired was fully recognized in the income statement, in the amount of R$10.

CEMIG has also established post-retirement health care and dental plans and pays life insurance premiums for retirees. The accounting for these benefits is in accordance with SFAS Nº 106 Employers Accounting for Post-retirement Benefits other than Pensions .

CEMIG uses a December 31 measurement date for its employee post-retirement benefits.

Amortization of deficit in actuarial reserves

Part of the post-retirement benefit liabilities, in the amount of R$1,317, as of December 31, 2006 (R$1,524 as of December 31, 2005), was recognized as obligations payable by the Company. These obligations are being amortized through monthly installments, through June 2024, calculated under the fixed-installment system (Price Table). Part of these amounts is restated annually according to the salary adjustment index for the Company s employees (not including productivity) included in the defined benefit plan, and part is adjusted according to the IPCA IPEAD (consumer price index calculated by the Minas Gerais Accounting Management and Economic Research Institute of Minas Gerais Federal University), plus 6% per year.

In case FORLUZ reports a surplus for three consecutive years, such surplus may be used to reduce CEMIG s obligations mentioned in the previous paragraph, as contractually agreed. Therefore, the surplus presented by FORLUZ in 2006, in the amount of R$207, was used to reduce the Company s debt mentioned above and therefore the annual payments of contributions from CEMIG to Forluz. Such compensation does not represent a reduction on CEMIG s benefit obligation, which is measured according to actuarial criteria.

The change in benefit obligations for the years ended December 31, 2006 and 2005 is as follows:

	Defined benefit pension plan Year ended December 31,		**Post-retirement health care, insurance and dental benefits Year ended December 31,**	
	2006	**2005**	**2006**	**2005**
Projected Benefit obligation beginning of year	4,988	4,498	721	706
Service cost	6	7	31	31
Interest cost	545	491	78	78
Actuarial (gain) loss	(173)	253	(16)	(37)
Plan amendment		81	39	
Benefits paid to participants	(357)	(342)	(63)	(57)
Projected Benefit obligation end of year	5,009	4,988	790	721

As of December 31, 2005, the Company changed the terms of its plan to convert the account balance accumulated under this plan into a monthly life annuity at the date of retirement, which was previously based on AT-49 mortality table that was changed to AT-83. This change resulted in a plan amendment in the amount of R$81 in 2005. The effect will be amortized on a straight-line basis over twelve years, representing the estimated remaining service period of the related employees.

The implementation of the dental care plan resulted in a plan amendment in the amount of R$39 in 2006.

The change in plan assets for the years ended December 31, 2006 and 2005 is as follows:

	Defined benefit pension plan Year ended December 31,		Post-retirement health care, insurance and dental benefits Year ended December 31,	
	2006	2005	2006	2005
Fair market value of plan assets beginning of year	3,572	3,065	30	32
Employer contributions	223	230	38	31
Employee contributions			22	18
Actual return on plan assets	545	619	3	6
Benefits paid to participants	(357)	(342)	(63)	(57)
Fair market value of plan assets end of year	3,983	3,572	30	30

The funded status of the defined benefit pension plan, post-retirement health care, insurance and dental is as follows:

	Defined benefit pension plan December 31,		Post-retirement health care, insurance and dental benefits December 31,	
	2006	2005	2006	2005
Projected benefit obligation in excess of plan assets	1,026	1,416	760	691
Unrecognized net transition obligation, being recognized from January 1, 1995				(22)
Unrecognized prior service cost		(120)		(30)
Unrecognized net actuarial loss		(871)		(135)
Accrued pension liability	1,026	425	760	504
Additional minimum liability Other comprehensive income		767		
Total accrued pension liability	1,026	1,192	760	504
Current liabilities	120	161		
Long-term liabilities	906	1,031	760	504

The changes in benefit obligations recognized in Accumulated other comprehensive income for the years ended December 31, 2006, 2005 and 2004, net of taxes, are as follows:

	2006	2005	2004
Accumulated other comprehensive income at beginning of year	506	531	57
Initial adoption of SFAS 158, net of taxes of R$126	244		
Increase (decrease) in additional miminum liability	(140)	(25)	474
Accumulated other comprehensive income at the end of year	610	506	531

The components of net periodic benefit costs for the years ended December 31, 2006, 2005 and 2004 are as follows:

	Defined benefit pension plan Year ended December 31,			Post-retirement health care, insurance and dental benefits Year ended December 31,		
	2006	2005	2004	2006	2005	2004
Service cost	6	7	6	31	31	24
Interest cost	545	491	449	78	78	66
Expected return on plan assets	(506)	(437)	(422)	(4)	(5)	(3)
Amortization of transition obligation				6	5	5
Amortization of loss (gain)	33	27		11	10	3
Expected Employee contribution				(22)	(23)	(19)
Amortization of prior service cost	10	3	3	2	2	2
Net periodic benefit cost	88	91	36	102	98	78

The components of the projected net periodic post-retirement benefit costs for 2007 are as follows:

	Defined benefit pension plan	Post-retirement health care, insurance and dental
Service cost	5	36
Interest cost	546	85
Expected return on plan assets	(566)	(4)
Amortization of prior service cost	10	6
Amortization of transition obligation		5
Amortization of loss		9
Expected Employee contribution		(26)
	(5)	111

Effect of initial recognition provision of SFAS 158

The FASB issued SFAS nº 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans in September 2006. As required, the Company adopted this statement effective on December 31, 2006.

The following table illustrates the adjustments of the incremental effect of applying this statement in the consolidated balance sheet as of December 31, 2006:

	Defined benefit pension plan		
	Before application of SFAS 158	Incremental effect of applying SFAS 158	After application of SFAS 158
Total accrued pension liability	845	181	1,026
Deferred Income taxes	(23)	(62)	(85)
Accumulated other comprehensive income	366	119	485

	Post-retirement health care, insurance and dental benefits		
	Before application of SFAS 158	Incremental effect of applying SFAS 158	After application of SFAS 158
Total accrued pension liability	571	189	760
Deferred Income taxes	(50)	(64)	(114)

Accumulated other comprehensive income	125	125

The weighted-average asset allocations by asset category is as follows:

	Defined benefit pension plan, Post-retirement health care and Dental				
Type of investment	**Asset allocation at December 31, 2006**		**2005**		**Target asset allocation as per FORLUZ Investment Committee percentage or range of percentage s**
Debt Securities	84.15	%	83.68	%	From 70% to 100%
Equity Securities	10.61	%	10.10	%	Up to 20%
Real Estate	2.48	%	3.41	%	Up to 7%
Participant loans	2.76	%	2.81	%	Up to 10%
Total	100.00	%	100.00	%	

Investment strategies:

- FORLUZ Investment Committee determines investment guidelines;
- Investment objectives: achieve the minimum actuarial yield (IPCA/IPEAD plus 6% per year), in both long and short terms;
- Types of allowed investments: Fixed income low credit risk assets, stocks, real estate and loans to participants;
- Types of investments not allowed: medium and high credit risk assets, foreign currencies and others according to the Brazilian legislation;
- Use of derivatives: with the purpose of hedging exposures.

Benchmarks for investing plan assets:

- Debt securities: CDI, IGP-M, INPC (1), IPCA/IBGE (2);
- Equity securities: Average IBOVESPA (3);
- Real Estate: IPCA/IPEAD + 6% per year;
- Participant loans: IPCA/IPEAD + 10.03% per year.

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(1) *Indice Nacional de Preços ao Consumidor* INPC (Consumer Price National Index)

(2) *Indice de Preços ao Consumidor Amplo*- IPCA (Consumer Price Index calculated by the Brazilian Institute of Geography and Statistics IBGE)

(3) *Indice da Bolsa de Valores de São Paulo* IBOVESPA (Index which represents the variation of the main shares negotiated on Sâo Paulo Stock exchange)

As of December 31, 2006 and 2005, the pension plan assets includes securities issued by CEMIG as follows:

	Defined benefit pension plan December 31, 2006	**December 31, 2005**
Debentures	203	203

Shares	27	39
	230	242

Assumptions used by the Company in 2006 and 2005 for its defined benefit pension plans were as follows (percentage including projected inflation of 5% per annum):

Actuarial method	Projected Unit Credit
Annual discount rate	11.30
Annual expected return on plan assets	14.45
Annual salary increase	7.10
Annual increase in benefits	5.00
Mortality rate	AT - 83
Disability rate	Light Medium
Disable mortality rate	IAPB-57
Expected annual turnover rate	2.00

The rationale used in determination of long-term return on assets rate described above is based in the asset managers mid to long-term expectations and the Brazilian government bonds rates, reduced by 2% or 3% as the Company deemed reasonable.

CEMIG s obligation related to its post-retirement health care plan is calculated using a defined annual contribution per employee during the rest of their lives. The contribution amount is not based on the increase or decrease in medical care cost. If the predetermined contributions do not cover future benefit expenses, CEMIG s employees will be required to make additional contributions or the related medical benefits will be reduced, in accordance with an agreement between CEMIG and the labor union relating to the health care plan.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension benefits	Post-retirement health care, insurance and dental benefits
2007	375	67
2008	393	70
2009	413	74
2010	434	78
2011	455	82
2012 and thereafter	2,642	473
	4,712	844

16. ACCRUED LIABILITY FOR CONTINGENCIES

CEMIG and its subsidiaries are party to certain legal proceedings in Brazil arising in the normal course of business, regarding tax, labor, civil and other issues. The Company believes that any loss in excess of the amounts provided for in respect of such contingencies will not have a material adverse effect on the Company s results of operations or financial position. For those contingencies for which an adverse outcome has been deemed probable based on the assessment of management and the Company s legal counsel, the Company has recorded provisions for losses as follows:

	December 31	
	2006	2005
Labor Claims		
Various	35	114
Civil Lawsuits		
Personal Injury	8	36
Rate Increase	104	132
Other	61	29
	173	197
Tax		
FINSOCIAL	21	21
VAT	2	
Taxes payable Suspended Liability	40	38
INSS	1	
Other	2	2
	66	61
Regulatory		
ANEEL Administrative Proceedings	6	5
Total	280	377

Certain details relating to such provisions are as follows:

(a) Labor Claims:

The labor claims relate principally to overtime and hazardous occupation compensation. In the fourth quarter of 2006 the company reviewed the labor-law cases and the expectation of loss in the actions, changing the criteria for provisioning from a percentage over the total amount of the actions to an individual analysis of the cases, which resulted in a reduction of the amounts provisioned.

(b) Rate Increase

A number of industrial consumers have brought legal action against the Company seeking refunds of amounts paid to CEMIG as a result of a rate increase that became effective during the Brazilian government s economic stabilization Cruzado Plan in 1986, alleging that such increases violated the price controls instituted as part of that plan. CEMIG determines the amounts to be reserved based on the amount billed subject to consumers claims and recent court decisions. The provision for these rate increase claims is R$104 as of December 31, 2006.

(c) Taxes payable Suspended Liability

The recorded provision of R$40 as of December 31, 2006 (R$38 as of December 31, 2005) is related to the deduction of the social contribution tax paid in the calculation of income tax. CEMIG has a preliminary court order granted by the Eighth Civil Court of the Federal Justice, on April 17,1998, for the exemption of payment.

(d) ANEEL Administrative Proceedings

CEMIG was fined by ANEEL in some administrative proceedings due to alleged failure to comply with certain quality standards with respect to consumers and other matters. The Company is defending against such fines. The provision as of December 31, 2006 represents the potential loss relating to these matters.

(e) Other Civil lawsuits

Refer basically to several civil claims brought by people who have suffered damages arising mainly from accidents that occurred during the ordinary course of CEMIG business and damages suffered as a result of the interruption of the supply of energy to them. The provision as of December 31, 2006 represents the potential loss relating to these matters.

(f) Contingencies for which an adverse outcome has been deemed remote or reasonably possible

CEMIG has other relevant legal proceedings against it for which the Company considers an unfavorable outcome to be remote or reasonably possible. The Company does not expect to incur any material losses with respect to these contingencies and therefore the Company has not recorded any accruals for such claims. Certain details relating to such matters are as follows:

(I) Income and social contribution taxes on post retirement benefits

On October 11, 2001, the Brazilian Federal Tax Authorities (Secretaria da Receita Federal) issued an assessment notice, in the updated amount of R$297, arising from the utilization of tax credits that resulted from the amendment of the Company s 1997, 1998 and 1999 tax returns. The tax returns were amended as a result of a change in the accounting method for recording post-retirement benefit liabilities. The additional liabilities that resulted from the accounting change were recognized in the revised tax returns, resulting in tax loss carryforwards. No reserve has been recorded as a result of this assessment notice, since the Company believes that the procedures which generated the tax credits are legally sound. An adverse outcome in this mater has been deemed remote.

The tax credits mentioned in the preceding paragraph were offset against federal taxes paid in 2002 and 2003. Due to this offset, CEMIG is exposed to additional penalties in the amount of R$257. No reserve for contingencies has been made to cover any liabilities that may result from the tax assessment, since CEMIG believes that it has solid legal grounds that support the procedures adopted. An adverse outcome in this mater has been deemed remote.

(II) ITCMD Imposto de Transmissão Causa Mortis e Doação (Inheritance and Donation Tax)

The State of Minas Gerais assessed the Company for the non-payment of the tax named ITCMD Imposto de Transmissão Causa Mortis e Doação (Inheritance and Donation Tax), in the amount of R$132 as of December 2006. No reserve has been recorded for these claims, since the Company believes that the probability of an adverse outcome relating to this mater is reasonably possible.

(III) Regulatory agency acts

ANEEL has filed regulatory proceeding pending against CEMIG claiming that CEMIG owes the Federal Government R$623 due to a miscalculation of credits in the amount of the cumulative rate deficit (CRC) applied to reduce amounts owed to the Federal Government. On October 31, 2002, ANEEL issued a final administrative decision against the Company. On January 9, 2004, the Brazilian Treasury Authority (Secretaria do Tesouro Nacional) issued an official collection notice, in the amount of R$516, to be paid before January 30, 2004. The Company did not make such payment since it believes that the likelihood of an adverse outcome is reasonably possible.

On November 14, 2003, the Federal Public Auditing Court, which has the authority to audit any decision by ANEEL that may impact public finance, initiated an administrative proceeding against ANEEL to evaluate the criterion adopted by ANEEL in the Energy Consumption Reduction Emergency Program (Programa Emergencial de Redução de Consumo de Energia Elétrica), or PERCEE. The Federal Public Auditing Court has asked the Company to provide certain information with respect to its rates, which, according to the Federal Public Auditing Court, were mistakenly approved by ANEEL. In addition, the Federal Public Auditing Court contested the index and the X Factor applied by ANEEL in the Company s rate revision of 2003. The Company has filed an administrative proceeding before the Federal Public Auditing Court to challenge this decision.

The potential loss resulting from the inability to provide support for these rates amounts to R$80. The Company has not recorded a provision relating to this matter as the likelihood of an adverse outcome is reasonably possible.

(IV) Value-added tax

Since 2002 the company has received a subvention from Eletrobrás in relation to the discounts given to low income consumers. The Minas Gerais state office of the Federal Tax Authority served an infringement notice on CEMIG, on the argument that the subvention should be subject to the value-added tax (ICMS), in the total amount of R$78. No provision was constituted for the result of this dispute, since the company believes that it is not a legal obligation and that it has arguments on the merit for defense against this demand. The Company believes that the likelihood of an adverse outcome in this matter is reasonably possible.

(V) Land usage taxes (taxa de ocupação do solo)

Several Municipalities of the State of Minas Gerais have assessed the Company for the payment of the land usage taxes. There are several administrative proceedings and lawsuits related to this matter, in the total amount of approximately R$11. The Company believes that the likelihood of an adverse outcome in this matter is reasonably possible.

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a) Fourth Amendment to the CRC Agreement

(VI) Civil lawsuits - Consumers

Various consumers and the Public Prosecutor of Minas Gerais have brought civil claims against CEMIG contesting rate adjustments applied in prior years, including rate subsidies granted to low-income consumers, the special rate adjustment, the inflationary index used to increase the electric rates in April 2003 and double reimbursement for any amounts that the Company found to have wrongfully collected and substitution of current adjustment index contained in the concession agreement as well as a revision of the methodology for calculation of the X Factor. It is not possible at the present time to estimate the amounts involved in these claims. The Company believes that the likelihood of an adverse outcome in this matter is remote.

The Company is the defendant in suits challenging the charging of tax on public lighting. These claims are totaled an estimated amount of R$399 as of December 31, 2006. The Company believes that the likelihood of an adverse outcome in this matter is reasonably possible.

(VII) Social Security and tax obligations indemnity for the Anuênio and profit shares

CEMIG and its subsidiaries Cemig Geração e Transmissão S.A. and Cemig Distribuição S.A. paid an indemnity to the employees in 2006, in the amount of R$178, in exchange for the rights to future payments known as Anuênios which would be incorporated into salaries. The company and its subsidiaries did not make the payments of income tax and social security contribution on this amount because it considered that these obligations are not applicable to amounts paid as indemnity. However, to avoid the risk of a future fine arising from a different interpretation by the Federal Tax Authority and the National Social Security Institution (INSS), the company and its subsidiaries decided to file for orders of mandamus to allow payment into Court of the amount of any obligations, in the amount of R$122, posted in Deposits connected to legal actions in Long term assets. No provision was made for possible losses in this matter since the company and its subsidiaries classify the risk of loss in this action as reasonably possible.

In September 2006 CEMIG was notified by the Social Security National Institute, INSS, as a result of the non-payment of the Social Security contribution on the amounts paid as profit sharing in the period 2000 to 2004, representing R$92. The Company appealed in the administrative sphere against the decision. No provision has been constituted since CEMIG believes it has arguments on the merit for defense, and the adverse outcome in this action is considered to be reasonably possible.

In addition to the matters described above, CEMIG and its subsidiaries are involved in other litigation arising from the normal course of business. Management believes that any losses relating to these items would not have a material adverse effect on the consolidated financial position and results of operations of the Company.

(g) Environmental Matters

CEMIG has some relevant legal proceedings related to Environmental Matters. Certain details relating to such matters are as follows:

(I) Aimorés

CEMIG is also a co-defendant, along with CVRD, in a public civil action lawsuit brought by the Federal Public Attorneys Office, concerning the Aimorés hydroelectric power plant. The plaintiffs allege that CEMIG did not obtain proper licensing for this project, and seek to recover damages and annul the environmental licenses relating to this plant and those of the related concessions. CEMIG has not accrued any liability related to this claim since CEMIG believes it has arguments on the merit for defense, and the adverse outcome in this action is considered to be reasonably possible. CEMIG also contested a lawsuit related to this power plant brought by a municipality that alleges that the project authorizations have not been duly approved.

(II) Irapé

The Federal Public Attorneys Office filed a suit against CEMIG alleging irregularities in the installation of the Irapé hydroelectric power plant, which allegedly would result in material adverse impacts on the environment and the local population. The action was settled after CEMIG signed an undertaking and committed to implement social and environmental measures. Recently, the Federal Public Attorneys Office filed another action alleging non-compliance with the obligations assumed and claiming foreclosure on the guarantee that CEMIG had given.

A Conduct Adjustment Agreement (TAC) was entered into between the Federal Public Attorneys Office and CEMIG in relation to the Irapé plant. The Federal Public Attorneys Office alleged that CEMIG did not comply with its social-environmental responsibilities and sued us. The trial court found CEMIG to be in compliance with the TAC and the case was dismissed. The Federal Public Attorney s Office appealed, and CEMIG counter-appealed, to the federal court of appeals. CEMIG has not accrued any liability related to this claim since CEMIG believes it has arguments on the merit for defense, and the adverse outcome in this action is considered to be remote. The estimated value of the case is R$6.

17. SHAREHOLDERS EQUITY

(a) Capital stock:

	Year ended December 31, (thousands of shares)		
	2006	**2005**	**2004**
PREFERRED SHARES:			
Balance	273,838,953	273,838,953	273,838,953
COMMON SHARES:			
Balance	212,622,504	212,622,504	212,622,504
TREASURY STOCK (Preferred shares):			
Balance	(207,384)	(207,384)	(207,384)
Total	486,254,073	486,254,073	486,254,073

At December 31, 2006, the State Government owned 51% of the Company s common shares and 2% of its preferred shares, equal to 23% of total capital. The holders of the preferred shares are not entitled to vote at shareholders meetings, but the shares have priority in the repayment of capital upon liquidation and are entitled to a minimum annual dividend as described in note 17 (d.1). As described in Note 31 (g) and 31 (h), on June 4, 2007, the Company completed an increase of registered capital, followed by a reverse stock split. All share data has been retroactively restated to reflect these transactions.

As of December 31, 2006, the common and preferred shares have a par value amount of R$0.01.

(b) Additional paid-in capital:

The balance refers to premium received by the Company when shares were issued.

(c) Appropriated retained earnings:

The following describes certain reserves that are included in shareholders equity:

Fiscal incentive investment reserve - this reserve results from an option to designate a portion of income tax otherwise payable for investment in government-approved projects and it is recorded in the following year the taxable income is earned. Under Brazilian GAAP, the amount designated for investments is recorded as an asset and credited directly to this reserve. This balance is restricted for capital increase. Under U.S. GAAP, this investment tax credit was originally credited to income and then transferred from unappropriate retained earnings to this reserve.

Rate shortfall reserve - this represents the accumulated rate shortfall reimbursement recorded under the rate-setting system in force up to March 1993.

Legal reserve - this reserve is a requirement for all Brazilian corporations and represents the appropriation of 5% of annual net income up to a limit of 20% of share capital. This appropriation is not required in the fiscal year in which this legal reserve balance, added to the other established capital reserves, exceeds 30% of the paid-in capital, which has been the case with respect to 2006 and 2005. However, the Company opted to appropriate 5.00% of 2006 annual net income, according to Brazilian corporate law, in the amount of R$86.

(d) Unappropriate retained earnings:

This balance represents retained earnings determined in accordance with U.S. GAAP after (i) the allocation of the amount for legal reserve (when required) as described in note 17 (c); (ii) allocation or transfer to or from other reserves; and (iii) dividends and interest on capital in lieu of dividends as described in note 17 (d.1).

(d.1) Dividends and interest on capital in lieu of dividends:

The Company pays 50% of adjusted net income as mandatory dividends. Additionally, the Company distributed extraordinary dividends, to the extent that cash is available, as determined by the Board of Directors, subject to the guidelines of the Company Directive Plan. Declared dividends are paid in two equal installments, the first on June 30 and the second on December 30 of the year subsequent to the profit generation.

Each preferred share is entitled to an annual dividend equal to the greater of 10% of par value per preferred share or 3% of the book value of such preferred share, also based on the financial statements prepared in accordance with Brazilian GAAP. This preferred dividend has priority over the allocation of the mandatory dividend amount for the relevant period.

After payment of the preferred dividend, the remainder of the mandatory dividend amount, if any, is allocated first to the payment of an annual dividend to the holders of common shares in an amount up to the annual cash dividend guaranteed to the preferred shares. If a portion of the mandatory dividend amount remains after the payment of the common dividend, the remaining funds are to be distributed on an equal, pro rata basis with respect to all preferred shares and common shares.

The Company may also pay interim dividends to holders of preferred shares and common shares. Any interim dividends paid will count toward the calculation of the dividend payable for the fiscal year in which the interim dividend was declared. Under the Brazilian Corporate Law, the Company s Board of Directors is permitted to recommend, under certain conditions, the non-payment of the mandatory dividend for any year.

The State Government guarantees that the amount of dividends received by certain holders of preferred shares and common shares with respect to any fiscal year will equal at least 6% of the par value of the preferred shares and the common shares. Accordingly, even if net income, based on the Company s financial statements prepared in accordance with Brazilian GAAP, is none with respect to any fiscal year, some of CEMIG s shareholders will receive a dividend of 6%. This guarantee applies only to private holders of shares and not to public or governmental holders.

Under the Brazilian Corporate Law, if the Company does not distribute the minimum preferred dividends for three consecutive years, the preferred shares become entitled to vote.

Effective December 26, 1995, Brazilian law allows the deductibility of interest on capital paid to shareholders for income tax purposes, provided such interest is computed based on the Brazilian Long-term Interest Rate (TJLP), effective in the year the interest on capital is computed.

In 2006, 2005 and 2004, the minimum dividend requirements have been met and dividend distributions have been made on an equal, pro rata basis with respect to all preferred shares and common shares.

Under USGAAP, the Company declared dividends and interest on capital in lieu of dividends as follows:

	Year ended December 31,		
	2006	2005	2004
Regular Dividends	1,178	182	70
Extraordinary dividends		897	
2005 supplementary dividends		77	
Interest on capital	169	635	510
Total	1,347	1,791	580

The Company reverts the dividends not claimed by the shareholders within three years of the date they were distributed in accordance with the Brazilian Corporate Law and its by-laws. The amounts of the dividends not claimed is de minimis .

18. NET OPERATING REVENUES

(a) The composition of electric energy supplied by consumer class is as follows:

	Year ended December 31,					
	GWh (unaudited)			R$		
	2006	2005	2004	2006	2005	2004
Residential	6,647	6,589	6,526	3,244	3,051	2,643
Industrial	23,759	23,472	22,969	2,937	2,850	3,549
Commercial	3,851	3,754	3,537	1,654	1,506	1,256
Rural	1,938	1,941	1,846	505	473	395
Governmental entities	1,650	1,593	1,532	512	464	392
Public services	1,016	981	966	258	231	200
Own consumption	30	29	55			
Unbilled, net				209	133	106
	38,891	38,359	37,431	9,319	8,708	8,541
Electricity sales to the interconnected power system						
Supply	10,914	1,255	364	697	114	24
Energy transactions on CCEE/MAE				187	123	12
Total	49,805	39,614	37,795	10,203	8,945	8,577

	Number of consumers (unaudited)		
	2006	2005	2004
Residential	5,064,556	4,927,966	4,830,935
Industrial	70,795	69,207	68,263
Commercial	549,378	537,656	530,158
Rural	495,066	417,026	388,445
Governmental entities	51,929	49,955	48,475
Public services	7,654	7,400	7,305
Own consumption	796	769	1,324
	6,240,174	6,009,979	5,874,905
Supply	43	8	5
Total	6,240,217	6,009,987	5,874,910

Rate Readjustment

The rates of Cemig Distribuição S.A. were increased by an average of 7.05% from April 8, 2006. The adjustment was applied in different percentages by category of consumption for the purpose of gradually eliminating, as stated in a note by ANEEL, the cross-subsidies existing between consumer groups. As an example, residential consumers had an increase of 5.14% in their electricity bills, while high-voltage consumers had an increase of 11.32%. The increase of the rates do not represent an increase of the CEMIG s operating revenues in the same percentage because part of it is used to the regulatory assets settlement. See note 4.

Low-income consumers

The Federal Government, through Centrais Elétricas Brasileiras ELETROBRAS is reimbursing distributors for billing losses incurred from 2002 resulting from the new classification criteria established for low income consumers due to the lower rate applied to them.

(b) The composition of other operating revenues is as follows:

	Year ended December 31,		
	2006	**2005**	**2004**
Gas sales			420
Telecom and cable TV services	121	92	62
Services rendered	31	26	21
Rental and leasing	29	31	23
Others	18	19	10
	199	168	536

(c) The composition of taxes on revenues is as follows:

	Year ended December 31,		
	2006	**2005**	**2004**
VAT	2,286	2,164	1,784
Emergency capacity charge		176	292
COFINS	1,026	721	473
PIS-PASEP	231	175	57
Others		5	2
	3,543	3,241	2,608

The emergency capacity charge is not collected since December 2005, according with ANEEL´s resolution.

(d) The composition of use of basic transmission network is as follows:

	Year ended December 31,		
	2006	**2005**	**2004**
TUSD Tariff for Use of the Distribution System	1,261	1,058	
Use of basic transmission	417	403	243
Use of connection of basic transmission	102	62	2
	1,780	1,523	245

19. OPERATING COSTS AND EXPENSES

Some of the operating costs and expenses consist of the following:

(a) Electricity purchased for resale:

	Year ended December 31,		
	2006	**2005**	**2004**
Itaipu Binacional	822	825	1,116
Initial contracts	128	151	107
Bilateral contracts	42		
Incentive Program for Alternative Electric Power Sources -PROINFA -	41		
From suppliers though CCEE/MAE	26	23	41
System services charge	50	67	85
Energy Public Bids	793	371	
From other sources	5	18	21
	1,907	1,455	1,370

(b) Personnel:

	Year ended December 31,		
	2006	**2005**	**2004**
Salary and payroll charges	911	788	802
Benefits	115	83	80
	1,026	871	882
Personnel costs transferred to construction in progress	(158)	(92)	(121)
	868	779	761
Voluntary termination program			27
Voluntary Indemnity for future annual bonus	178		
	1,046	779	788

Removal of certain employees salary benefits Anuênio

On April 27, 2006, Cemig presented a proposal to its employees to pay an amount in exchange for certain benefits representing an annual percentage of 1% on future salaries, called Anuênio . The amount of this payment represents the estimate of the future incremental salaries to be received until the employees complete 35 years of contribution to the National Social Security System (INSS), discounted at a rate of 12.00%, plus application of a variable percentage reduction factor established by the Company. Employees accepted the proposal in June 30, 2006, and the payment of the indemnity was R$178 in August 2006 which was recorded in operating expenses.

(c) Regulatory charges:

	Year ended December 31,		
	2006	**2005**	**2004**
Fuel usage quota	506	416	292
Global reserve for reversion quota	18	103	204
Energy development account	334	295	238
ANEEL inspection fee	34	24	19
Charges for use of water resources	139	145	108
	1,031	983	861

(d) Employee Profit Sharing

The Company records employee profit sharing based on 3% of the service income, which resulted in an expense of R$71, R$76 and R$62, respectively, for the years ended December 31, 2006, 2005 and 2004. Additionally, in the collective labor agreement reached with the unions in November 2006, 2005 and 2004, the Company agreed to pay additional installments of R$139, R$184 and R$48, respectively.

(e) Third-party Services

	Year ended December 31,		
	2006	**2005**	**2004**
Tax collecting agents/reading of measurers	93	84	76
Marketing	49	49	46
Maintenance and electric conservation of installations and equipment	84	78	55
Building maintenance	29	27	21
Outsourcing services	27	13	15
Transportation and fares	8	3	4
Lodging and feeding	16	16	15
Security	14	13	13
Management Consulting	22	16	8
Maintenance of furniture	21	18	18
Maintenance of vehicle	17	5	4
Electric service	20	17	9
Other	75	81	45
	475	420	329

(f) Other:

	Year ended December 31,		
	2006	**2005**	**2004**
Provision for doubtful accounts	94	54	62
Disposal of fixed assets, net	37	39	28
Provisions for contingencies-			
Labor claims	(79)	3	20
Civil lawsuits Consumers	(18)	28	8
ANEEL administrative proceedings			(10)
Civil lawsuits Other	19	34	(8)
Bonus paid during the rationing period			24
Rentals	33	42	34
Grants and donations	35	24	19
Consumption electric energy	16	12	20
Advertising	21	29	20
CCEE/MAE contribution	3	3	2
Other taxes (real estate, vehicle, etc)	29	22	6
General expenses	44	89	55
	234	379	280

a) Fourth Amendment to the CRC Agreement

20. FINANCIAL INCOME (EXPENSES), NET

Financial income (expense) consists of the following:

	Year ended December 31,		
	2006	**2005**	**2004**
Financial income-			
Interest and monetary restatement of account receivable from State Government	187	277	581
Reversal (provision) for losses on account receivable from State Government	99	223	(326)
Interest income	169	193	137
Late charges on overdue electricity bills, recorded on the cash basis	129	81	63
Foreign exchange gains	90	164	110
Monetary restatement on deferred regulatory assets	574	672	573
Gains on derivatives contracts	25	6	2
Taxes on financial revenues	(69)	(93)	(57)
Other	125	63	32
	1,329	1,586	1,115
Financial expense-			
Interest on loans and financing	(529)	(328)	(255)
Monetary restatement on deferred regulatory liabilities	(133)	(158)	(80)
Financial transaction tax (CPMF)	(83)	(65)	(49)
Foreign exchange losses	(2)	(18)	(25)
Monetary restatement losses	(34)	(16)	(124)
Losses on derivative contracts	(116)	(156)	(176)
Other expenses	(97)	(91)	(56)
	(994)	(832)	(765)
Financial income, net	335	754	350

The foreign exchange gains and losses are substantially related to the variation of the *real* in relation to the U.S. dollar.

21. RELATED PARTY TRANSACTIONS

The Company enters into a variety of related party transactions, the main transactions are as follows:

(a) State Government -

Account receivable and related financial income	Note 3 and 20
VAT - Assets	Note 8
VAT - Liabilities	Note 12
VAT - Expense	Note 18(c)
Debentures - Liabilities	Note 13
(b) FORLUZ -	
Employee post-retirement benefits related balances	Note 15
(c) COPASA -	
Accounts receivable, net	Note 7

Other related party transactions are not material.

22. FINANCIAL INSTRUMENTS

The Company manages its financial instruments through periodic monitoring of positions, diversification of counterparties and establishment of credit limits by counterparty. Financial instruments, which potentially subject CEMIG to concentrations of credit risk are cash and cash equivalents for 2006 and 2005. CEMIG limits its credit risk associated with cash and cash equivalents by placing its investments with highly rated financial institutions generally with short-term maturities.

(a) Cash and cash equivalents :

As of December 31, 2006 and 2005, cash and cash equivalents are stated at cost plus accrued interest and approximate fair value, given the short term maturities of these items.

(b) Financing and other financial instruments:

Based on interest rates currently available to CEMIG for bank financings with similar terms and average maturities, the fair value of long-term financing at December 31, 2006 and 2005 is R$5,710 and R$3,783, respectively, compared to book values of R$6,524 and R$4,826, respectively.

In March 2006, CEMIG entered into an agreement with its partners in one of CEMIG s unconsolidated equity investments, which gives CEMIG an option to purchase its partners interests in the power generation assets of the underlying equity investee. The option price amounted to R$1,124 as of December 31, 2006. The option price is restated based on the IGP-M variation plus interest of 13.44% per year.

Pursuant to the agreement, the option expires in two years on March 23, 2008 and, under certain restricted conditions, may be extended for an additional two-year period. The exercise of the option is contingent upon the completion of a corporate restructuring by the equity investee to spin-off its power generation assets.

The Company s management believes that the possibility that CEMIG will exercise this option is remote considering that its terms are currently economically unfeasible.

(c) Derivative financial instruments:

The Company utilizes derivative financial instruments to protect its operations from exchange rate risk. The derivative financial instruments are not used for speculative purposes. As of December 31, 2006, the Company has derivative financial instruments (swaps) with financial institutions, in connection with potential exchange losses resulting from the devaluation of the Brazilian real compared to the U.S. dollar in the net notional amount of US$109 million (US$103 million in 2005) and the Japanese yen in the notional amount of ¥3,879 million (¥3,879 million in 2005). The net realized and unrealized losses from these operations for 2006, in the net amounts of R$91 (R$150 in 2005 and R$174 in 2004), were recorded as financial expenses.

The table below summarizes the Company s derivative financial instruments and the unrealized losses recorded on these instruments as of December 31, 2006 and December 31, 2005:

CEMIG s Right	CEMIG s obligation	Maturity Date	December 31, 2006 Unrealized Losses Principal amount contracted-million	Fair Value
¥ (Japanese Yen) exchange gains or losses + rate (3,90% p.a.)	R$ pegged to the CDI variation(111.00% CDI)	On 12/2009	¥3,879	(1)
US$ exchange gains or losses + rate (5.58% p.a. 7.48% p.a.)	R$ 100% of the CDI + rate from 1.50% p.a. to 3.01% p.a.	From 04/2007 to 06/2013	US$138	(186)

R$ 106% of the CDI	R$or US$ 48% of the CDI or exchange gains or losses (whichever is higher)	On 04/2010	(US$29)	(187)

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			December 31, 2005		
			Unrealized Losses		
CEMIG s Right	CEMIG s obligation	Maturity Date	Principal amount contracted-million		Fair Value
¥ (Japanese Yen) exchange gains or losses + rate (3.90% p.a.)	R$ pegged to the CDI variation(111.00% CDI)	On 12/2009	¥3,879		(41)
US$ exchange gains or losses + rate (5.58% p.a. 7.14% p.a.)	R$ 100% of the CDI + rate from 2.00% p.a to 3.01% p.a.	From 12/2005 to 06/2013	US$155		(102)
R$ 100% of the CDI	R$or US$ 60% of the CDI or exchange gains or losses (whichever is higher)	From 10/2006 to 11/2006	(US$23)		
R$ 106% of the CDI	R$or US$ 48% of the CDI or exchange gains or losses (whichever is higher)	On 10/2006	(US$29)		
					(143)

At December 31, 2006, the Company had recorded the amount of R$187 as other current liabilities, representing the fair value of these financial instruments at the respective balance sheet date.

(d) Other financial instruments:

The carrying value of CEMIG s other financial instruments, in *reais*, approximates fair values at such dates reflecting the short-term maturity or frequent repricing at December 31, 2006 and 2005 of these instruments.

23. EXPOSURE AND RISK MANAGEMENT

As a Brazilian energy concessionaire, the Company operates in an environment in which factors such as corporate reorganization, new regulations issued by governmental bodies and consumer market changes are considered risk factors.

The Company established of a Corporate Risk Management Program in January 2003, and implemented this program in 2004 in connection with its restructuring. This Corporate Risk Management Program aims to achieve the following: operate as an auxiliary in achievement of the objectives set by the strategic plan; create awareness among shareholders of the possible events that could constitute a risk of loss of value; structure the company to be able to take proactive stances in relation to its risk environment; provide the company's executives with a methodology and tools for effective management of risk; and provide other areas of strategic management with input concepts and procedures, and factors that strengthen the company's organizational control infrastructure.

The main market risks which affect CEMIG s operations are described as follows:

(a) Exchange rate risk

CEMIG and its subsidiaries are exposed to the risk of increases in exchange rates, mainly U.S. dollar against the real, significantly impacting its financial position, results of operations, and cash flows. In order to protect against increases in exchange rates, the Company has derivative financial instruments (swaps) with financial institutions in the amount of R$233, equivalent to the notional amount of US$109 and R$70, equivalent to the notional amount of ¥3,879. These financial instruments partially offset the exchange variation of the Brazilian real compared to the U.S. dollar and yen for interest based on the CDI (See Note 22(c)). The exchange rate net exposure is as follows:

	December 31, 2006	2005
U.S. Dollar		
Financing	554	653
(-) Contracted derivative instruments notional amounts	(233)	(241)
	321	412
Japanese Yen		
Financing	70	77
(-) Contracted derivative instruments notional amounts	(70)	(77)
Other Currencies		
Financing		
Euro	36	41
Other	1	8
	37	49
Net liabilities exposed to exchange rate risk	358	461

(b) Interest rate risk

CEMIG and certain subsidiaries are exposed to the risk of increases in international interest rates, impacting their loans and financing denominated in foreign currencies with floating rates, mainly LIBOR, in the amount of R$146 (R$178 as of December 31, 2005).

The Company is also exposed in 2006 to the risk of increases in interest rates on real denominated financial liabilities, partially offset by real denominated financial assets as follows:

	December 31, 2006	2005
CEMIG s exposure to domestic interest rates		
Asset		
CRC Agreement	1,726	1,519
Short-term investments	1,008	1,299
Deferred regulatory assets	2,697	3,465
	5,431	6,283
Liabilities		
Financing (local currency)	5,863	4,047
Payments to generators for energy purchased on CCEE/MAE during the rationing period	328	362
Derivative instruments	303	318
	6,494	4,727
Net liabilities exposed to interest rate risk	(1,063)	1,556

(c) Credit risk

The risk resulting from losses on doubtful receivables for CEMIG is considered low. A significant part of electricity sales is dispersed among a large number of customers. The Company s procedures to reduce overdue bills comprise the issuance of notices that bills are overdue, phone calls and negotiations to permit the collectibility of bills that are in arrears. After these efforts are exhausted, CEMIG interrupts the energy supply.

(d) Debt acceleration risk

The Company and certain of its subsidiaries have contracts for loans, financing and debentures with certain restrictive clauses (covenants), usually applicable to such operations, related to compliance with economic-financial indices, cash flow generation and other indicators. The creditors have the right to declare the early termination of CEMIG s obligations and require the immediate payment of all outstanding debts in the case of a violation of such restrictive clauses. The Company has not complied with a covenant of several financial institutions loan for which the Company has obtained waiver stating that the creditors will not demand accelerated or anticipated payments until December 31, 2007.

(e) Risk of non-renewal of concessions

The Company has concessions for commercial operation of electricity generation, transmission and distribution services with the expectation, by the management, that ANEEL and/or the Mining and Energy Ministry will renew them. If the renewals of the concessions are not granted by the Regulatory Body or if those Bodies renew them for requirement of additional costs ("concession for consideration"), the present levels of profitability and activity could be altered.

24. SHAREHOLDERS' AGREEMENT

In 1997, the State Government of Minas Gerais sold approximately 33% of the Company s common shares to a group of investors led by Southern Electric Brasil Participações Ltda. (Southern). As part of this transaction the State of Minas Gerais and Southern entered into a Shareholders Agreement that provided for, among other things, the requirement of a qualified quorum to approve significant corporate acts, certain amendments to CEMIG s by-laws, the issuance of debentures and convertible securities, the distribution of dividends other than that provided for in the by-laws and changes to the corporate structure.

On September 1999, the State Government of Minas Gerais brought an annulment action, by way of a request for interim relief against the shareholders agreement entered into with Southern in 1997. In 2003, the Supreme Court of the State of Minas Gerais annulled the referred to shareholders agreement. The appeals filed by Southern are under the Federal Courts consideration.

25. CONCENTRATIONS

(a) Labor:

The majority of CEMIG s work force are members of SINDIELETRO (employee labor union). CEMIG and SINDIELETRO negotiate a collective bargaining agreement on an annual basis, which includes wage increases and profit sharing, along with other matters. The collective bargaining agreement becomes effective in November of each year. The 2006 collective bargaining agreement included an 4.0% average salary increase.

(b) Renewal of concession agreements:

At a meeting on October 3, 2006 the Board of Directors of ANEEL decided by majority to approve submission to the Mining and Energy Ministry (MME) of a group of alternatives (duly instructed and indicating their advantages and disadvantages), for decision, in relation to applications for extension of concessions made by the subsidiary Cemig Geração e Transmissão S.A. for the following plants Pandeiros, Rio das Pedras, Poço Fundo, São Bernardo, Xicão, Luiz Dias, Emborcação, Nova Ponte and Santa Luzia with total installed capacity of 1,735MW.

On June 14, 2007, the Mining and Energy Ministry (MME) extended such concessions for a period of 20 years, indistinctly, from the dates of maturity of the respective grants. The signature of the respective Amendment will be celebrated probably on the second half of 2007. The Amendment to the contract of Concession will observe the norms and conditions established for the pertinent legislation, as well as those foreseeing in the Law in the 10,848, of 15 of March of 2004, and its respective regulations.

Seven of the Company s hydroelectric plants accounted for approximately 75% of its installed electric generation capacity as of December 31, 2006.

GENERATION CONCESSIONS-	**Installed Capacity (MW)(unaudited)**	**Expiration Date**
São Simão	1,710	January 2015
Emborcação	1,192	July 2025
Nova Ponte	510	July 2025
Jaguara	424	August 2013
Miranda	408	December 2016
Três Marias	396	July 2015
Volta Grande	380	February 2017
Irapé	360	February 2035
Aimorés	162	December 2035
Salto Grande	102	July 2015
Others	1,048	July 20015 to August 2036
Total installed capacity	6,692	

DISTRIBUTION CONCESSIONS-	**Date concession expires**
Northern Region	February/2016
Southern Regional	February /2016
Eastern Region	February /2016
Western Region	February /2016

26. INSURANCE (Unaudited)

The Company has insurance policies for part of its property, plant and equipment, as follows:

Risk	Coverage	Effective Date	Insured Amount
Aircraft 2006 to 2007	Fuselage	04/28/06 to 04/28/07	14
Aircraft 2007 to 2008	Fuselage	04/29/07 to 04/29/08	14
Warehouses and buildings 2006 to 2007	Fire	07/10/06 to 07/10/07	576
Generators, turbines and equipment 2006 to 2007	Total	05/05/06 to 05/05/07	1,548
Generators, turbines and equipment 2007 to 2008	Total	05/05/07 to 05/05/08	1,770

CEMIG does not have general third-party liability insurance covering accidents and has not requested bids relating to this type of insurance. The Company has not requested bids for, nor does it carry, insurance coverage for major catastrophes affecting its facilities such as earthquakes and floods, for business interruption risk or system failures. In addition, the Company does not have insurance for losses incurred as a result of business interruption caused by a strike or other type of labor action.

The Company has not experienced significant losses arising from the aforementioned risks.

27. COMMITMENTS (Unaudited)

Cemig has outstanding contractual obligations and commitments which include principal debt payment provisions, the obligation to purchase electricity for resale from Itaipu, the obligation to transfer and transport electric power from Itaipu as well as construction commitments. The following table provides information, as of December 31, 2006, about our contractual obligations and commitments.

	2007	2008	2009	2010	2011	2012	2013 and beyond	Total
Long-Term debt	691	547	869	658	756	911	2,092	6,524
Derivative financial instruments (swaps)	103	15	36	9	8	8	8	187
Purchase of Electricity from Itaipu for resale (1)	1,216	1,021	1,070	1,103	1,115	1,159	499	7,183
Transportation of Electric Power from Itaipu (1)	78	82	85	89	93	97	42	566
Baguari hydroelectric power plant	56	76	31	4				167
Aimorés hydroelectric power plant	33	4						37
Três Marias hydroelectric power plant	25	3						28
Luz para todos (Light for All) Program	204							204
Cresce Minas I	176	438	107					721
Sales Management System I	77	41	16					134
Furnas-Pimenta Transmission line	14	2						16
Pension Plan Debt - Forluz	120	89	94	96	87	85	746	1,317
Purchase of Energy Spot Market	748	1,023	1,261	1,533	1,662	1,742	4,415	12,384
Total	3,541	3,341	3,569	3,492	3,721	4,002	7,802	29,468

(1) Contract with Furnas, denominated in U.S. dollars, to supply electric power purchased from Itaipu until May 2013.

28. SEGMENT INFORMATION

Under CEMIG s distribution concession agreements, CEMIG was required to restructure its operations in order to place its generation, transmission and distribution operations into separate subsidiaries, wholly owned by CEMIG. To comply with this requirement, in 2004, CEMIG incorporated two new wholly-owned subsidiaries: CEMIG Geração e Transmissão S.A. and CEMIG Distribuição S.A. The Company s Extraordinary Shareholders General Meeting on December 30, 2004 authorized the transfer, as of January 1, 2005, of the Company s investments and separate assets and liabilities to these subsidiaries to separate its generation, transmission and distribution activities. Cemig Geração e Transmissão S.A. and CEMIG Distribuição S.A. began to operate as from January 1, 2005. The effective transfer of concessions of electricity transmission, generation and distribution to the new subsidiaries was subject to ANEEL s approval, in accordance with Resolution N.o 407, of December 20, 2004.

As of and for the years ended December 31, 2006 and 2005, the Company s reportable segments are its generation and transmission, and distribution segments. As of December 31, 2004, the Company s reportable segments were the electricity, gas and telecommunications operations. The gas segment was consolidated until December 15, 2004, when the Company sold 40% of its interest in GASMIG and signed an Association Agreement with PETROBRAS, which gave PETROBRAS substantive participating rights. The gas segment principal activities were the acquisition, transportation and distribution of natural gas. The telecommunications segment principal activities are rendering telecommunications services and developing related activities through integrated systems using optical fiber cable, coaxial cable, electronic equipment and other, as well as providing cable TV and internet access services.

Due to the fact that the Company changed in 2005 the structure of its internal organization in a manner that caused the composition of its reportable segments to change, and it is impracticable to restate the corresponding information for earlier periods, the Company has not disclosed its 2004 segment information in accordance with the current criteria.

The Company s chief operating decision maker utilizes information prepared in accordance with Brazilian GAAP. Consequently, the Company has presented its segment information in accordance with Brazilian GAAP, reconciled to U.S. GAAP. The operations of all reportable segments of the Company are conducted substantially in the State of Minas Gerais, Brazil. Reportable segments are strategic business units that offer different products and services. Each of the reportable segments has a responsible senior officer. All inter-segment activity has been eliminated. Financial information for each of the Company s reportable segments is as follows:

	BRGAAP 2006	Adjustment	USGAAP 2006	BRGAAP 2005	Adjustment	USGAAP 2005
Identifiable assets						
Electricity						
Distribution	12,687	305	12,992	10,309	1,271	11,580
Generation and Transmission	7,834	829	8,663	7,592	742	8,334
Other	1,843	(10)	1,833	1,266	166	1,432
Total consolidated assets	22,364	1,124	23,488	19,167	2,179	21,346

The Company allocated the account receivable from Minas Gerais State Government to the Distribution segment.

2006	Power Generation and Transmission	Distribution of Energy	Other	BRGAAP	Adjustment	USGAAP
Net operating revenues	2,427	6,246	20	8,693	(53)	8,640
Operating income	1,184	873	(5)	2,052	(1,279)	773
Financial income (expenses), net	(270)	197	120	47	288	335
Income tax (Expense) Benefit	(208)	(300)	33	(475)	(22)	(497)
Net income	706	770	243	1,719	(1,017)	702
Depreciation and amortization charges	224	367	38	629	181	810
Equity method			97	97	(6)	91
Additions to property, plant and equipment	152	918	16	1,086	242	1,328

2005	Power Generation and Transmission	Distribution of Energy	Other	BRGAAP	Adjustment	USGAAP
Net operating revenues	1,475	6,361	83	7,919	(406)	7, 513
Operating income	853	1,060	(97)	1,816	(492)	1, 324
Financial income (expenses), net	(241)	329	531	619	135	754
Income tax (Expense) Benefit	(110)	(399)	46	(463)	163	(300)
Minority interests			2	2		2
Net income	531	990	482	2,003	(194)	1,809
Depreciation and amortization charges	194	364	34	592	77	669
Equity method			29	29		29
Additions to property, plant and equipment	425	890	41	1,356	155	1,511

29. PERIODIC RATE REVIEW OF ELECTRICITY CONCESSIONS

ANEEL´s Resolution 234 of October 31, 2006, established new concepts and guidelines relating to the second cycle of the Periodic Review for Distributors of Electricity. The mainly differences are the base of assets to be used in the second Tariff Review that shall be the previous base of assets updated by the IGP-M Inflation Index and the definition of the operational costs to be covered by the rates. ANEEL will continue to use the Reference Company as the comparative base.

The future financial impacts arising from the second cycle of the Periodic Tariff Review, in 2008, are still being studied by the Company, and it is not possible at present to estimate the effects on its business.

30. CONDENSED UNCONSOLIDATED FINANCIAL INFORMATION OF CEMIG

The condensed unconsolidated financial information of CEMIG, as of December 31, 2006 and 2005 and for each of the two years in the period ending on December 31, 2006, under U.S. GAAP is as follows:

As discussed in Notes 1 and 28, CEMIG was required to restructure its operations in order to place its generation, transmission and distribution operations into separate subsidiaries, wholly owned by CEMIG. To comply with this requirement, in 2004, CEMIG incorporated two new wholly-owned subsidiaries: CEMIG Geração e Transmissão S.A. and CEMIG Distribuição S.A.. The Company s Extraordinary Shareholders General Meeting on December 30, 2004 authorized the transfer, as of January 1, 2005, of the Company s investments and separate assets and liabilities to these subsidiaries to separate its generation, transmission and distribution activities. Cemig Geração e Transmissão S.A. and CEMIG Distribuição S.A. began to operate as from January 1, 2005. As such, CEMIG became a holding company in January 1, 2005, and unconsolidated financial information is presented for the years 2006 and 2005.

BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2005 (UNCONSOLIDATED)

(Expressed in millions of Brazilian *reais*)

	2006	**2005**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	23	300
Tax recoverable	13	216
Deferred income and social contr. taxes	24	43
Dividends receivable	1,153	1,317
Other	7	60
	1,220	1,936
NONCURRENT ASSETS		
Accounts receivable from Minas Gerais State government (note 3)		1,519
CRC Account Securitization Fund (FIDC) (note 3)	744	
Deferred income and social contr. taxes (note 5)	213	171
Tax recoverable (note 8)	289	
Other	135	99
	1,381	1,789
PERMANENT ASSETS		
Investments in subsidiaries and affiliates	6,815	6,135
Property, plant and equipment	2	7
	6,817	6,142
TOTAL ASSETS	9,418	9,867

	2006	2005
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable to suppliers	6	20
Payroll and related charges	8	9
Taxes payable	23	38
Dividends and interest on capital	877	1,602
Current portion of long-term financing	7	9
Other	35	36
	956	1,714
LONG TERM LIABILITIES		
Long-term financing (note 13)	103	74
Employee post-retirement benefits (note 15)	82	71
Accrued liability for contingencies (note 16)	277	372
Other	51	48
	513	565
SHAREHOLDERS EQUITY	7,949	7,588
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	9,418	9,867

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (UNCONSOLIDATED)

(Expressed in millions of Brazilian *reais*)

	2006	2005
OPERATING REVENUES	1	2
OPERATING EXPENSES	(17)	(100)
EQUITY IN EARNINGS OF INVESTEES	1,590	1,523
FINANCIAL INCOME (EXPENSES), NET	123	532
INCOME AND SOCIAL CONTRIBUTION TAXES	18	46
NET INCOME	1,715	2,003
OTHER COMPREHENSIVE INCOME	8	1
COMPREHENSIVE INCOME	1,723	2,004

STATEMENTS OF CASH FLOWS (UNCONSOLIDATED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(Expressed in millions of Brazilian *reais*)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:	1,404	58
CASH FLOWS FROM INVESTING ACTIVITIES		
Escrow deposits	4	
Acquisition of investments	(570)	(91)
Net cash used in investing activities	(566)	(91)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term financing	30	51
Repayment of long-term financing and short-term loans		(55)
Sale of FIDC quotas	900	
FIDC amounts received	27	
Dividends and interest on capital paid	(2,072)	(491)
Net cash provided by (used in) financing activities	(1,115)	(495)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(277)	(528)
CASH AND CASH EQUIVALENTS:		
Beginning of the year	300	828
End of the year	23	300
	(277)	(528)
SUPPLEMENTARY CASH FLOWS DISCLOSURE:		
Taxes paid - income taxes	9	20
Interest paid, net of interest capitalized	14	19

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Following is information relating to CEMIG unconsolidated condensed financial statements presented above:

- Investments As of December 31, 2006 and 2005, investments in subsidiaries and affiliates are comprised as follows (see note 9):

	2006	2005
Cemig Geração e Transmissão S.A.	2,951	2,920
Cemig Distribuição S.A.	2,350	2,312
Companhia de Gás de Minas Gerais - GASMIG	153	94
Empresa de Infovias S.A.	286	261
Sá Carvalho S.A.	92	112
Usina Térmica Ipatinga S.A.	65	72
Cemig Capim Branco Energia S.A.	46	31
UTE Barreiro S.A.	10	12
Cemig PCH S.A.	51	49
Efficientia S.A.	3	2
Horizontes Energia S.A.	66	71
Companhia Transleste de Transmissão - Transleste	14	13
Central Térmica de Cogeração S.A.	2	3
Rosal Energia S.A.	137	153
Companhia Transudeste de Transmissão - Transudeste	7	6
Companhia Transirape de Transmissão - Transirape	5	5
Companhia de Transmissão Centroeste de Minas	7	3
Transchile Charrúa Transmisión S.A.	13	4
Rio Minas Energia Participações S.A. - RME	212	
Empresa Regional de Transmissão de Energia S.A. - ERTE	15	
Empresa Amazonense de Transmissão de Energia S.A. - EATE	204	
Empresa Catarinense de Transmissão de Energia S.A. - ECTE	12	
Empresa Norte de Transmissão de Energia S.A. - ENTE	66	
Empresa Paraense de Transmissão de Energia S.A. - ETPE	41	
Others	7	12
	6,815	6,135

- Taxes recoverable As of December 31, 2006 and 2005, taxes recoverable are mainly comprised as follows (see note 8):

	December 31, 2006	2005
Current assets -		
Income tax		15
Social contribution tax	7	192
VAT	4	4
Other	2	5
	13	216
Other non-current assets -		
Income tax	260	
Social contribution tax	29	
VAT		
	289	

- Deferred income and social contribution taxes As of December 31, 2006 and 2005, the major components of the deferred income and social contribution taxes are as follows (see note 5):

	December 31, 2006	2005
Tax loss carryforwards	531	48
Employee post-retirement benefits	12	5
Provision for contingencies	74	115
Provision for doubtful accounts	35	39
Other temporary differences	8	7
	660	214
Provision for losses on realization of deferred tax balances	(423)	-
	237	214
Current Assets	24	43
Other Assets	213	171

- Accrued liabilities for contingencies As of December 31, 2006 and 2005, accrued liabilities for contingencies are mainly comprised as follows (see note 16):

	December 31 2006	2005
Labor Claims		
Various	32	109
Civil Lawsuits		
Personal Injury	8	36
Rate Increase	104	132
Other	61	29
	173	197
Tax		
FINSOCIAL	21	21
VAT	2	-
Taxes payable Suspended Liability	40	38
INSS	1	

Other	2	2
	66	61
Regulatory		
ANEEL Administrative Proceedings	6	5
Total	277	372

- Restriction of transfer of funds from subsidiaries The subsidiaries described bellow qualify as either concessionaires of public services or independent power producer. As such, any transfer of funds to the respective parent company, in the form of loans or advances, requires approval by ANEEL. This regulatory restriction does not apply to cash dividends determined in accordance with the Brazilian Corporate Law.

As of December 31, 2006, total restricted subsidiaries net assets amount to R$5,780 composed as follows:

	2006
Cemig Geração e Transmissão S.A.	2,951
Cemig Distribuição S.A.	2,350
Sá Carvalho S.A.	92
Usina Térmica Ipatinga S.A.	65
Cemig Capim Branco Energia S.A.	46
UTE Barreiro S.A.	10
Cemig PCH S.A.	51
Efficientia S.A.	3
Horizontes Energia S.A.	66
Central Térmica de Cogeração S.A.	2
Rosal Energia S.A.	137
Companhia de Transmissão Centroeste de Minas	7
	5,780

31. SUBSEQUENT EVENTS

(a) Rates readjustment

The rates of Cemig Distribuição S.A. were increased by an average of 5.16% from April 8, 2007. The adjustment was applied in different percentages by category of consumption. The increase of the rates do not represent an increase of the CEMIG s operating revenues in the same percentage because part of it is used to the regulatory assets settlement. See note 4.

(b) Issuance of Promissory Notes (commercial paper)

On January 2, 2007 Cemig Distribuição S.A. issued R$200 in Promissory Notes (commercial paper), which will have tenor of 180 days and pay interest corresponding to 102.00% of the daily interbank deposit. The funds raised will be used for replenishment of cash in relation to the debt maturing and settled between August 2006 and December 2006. The Promissory Notes may be redeemed early by the Issuer at his exclusive option.

(c) Reduction of interest in LIGHT S.A.

On May 16,2007 the Brazilian National Development Bank (BNDES) converted 90% of its issues debentures in interest in Light S.A. corresponding to 31.50% of the total registered capital. The consequence of this transaction was a reduction in the interest ownership of Rio Minas Energia Participações S.A. (RME) in Light S.A. from 79.39% to 54.20% and a decrease in the indirect interest ownership of CEMIG from 19.89% to 13.55%.

(d) American Depositary Receipts (ADRs)

In accordance with the decision of the meeting of CEMIG s Board of Directors held on February 28, 2007, the American Depositary Receipts (ADRs) representing the Common Shares of the Company will be available for investors as from June 12, 2007, without the issuance of any new shares. This ADR program has been registered with the CVM (Brazilian Securities Commission) and will be registered with the SEC (Securities and Exchange Commission) of the USA, and listed on the New York Stock exchange(NYSE). This gives US

investors the same access to the Common (ON) shares of Cemig as is currently available under the existing ADR program for the preferred (PN) shares.

(e) Regulatory agency acts

On January 9, 2007, ANEEL has filed regulatory proceeding against Cemig Distribuição S.A. questioning some criteria used by the subsidiary to calculate the amount billed to the low-income consumers to be reimbursed by Centrais Elétricas Brasileiras ELETROBRAS in the amount of R$143. The Company recorded a provision in 2007 of R$30 which represents the potential loss relating to these matters.

(f) Issuance of debentures of Cemig Geração e Transmissão S.A.

In the first half of 2007, Cemig Geração e Transmissão S.A. concluded its first issuance of debentures in the amount of R$993, with the purpose of carrying out the obligatory exchange specified in the deed of the first issuance by CEMIG, as a result of the process of unbundling. Cemig Geração e Transmissão S.A. did not receive the net funds of this offer, nor will there be an increase in debt, since the liabilities arising from the deed of the first CEMIG issuance are already allocated in Cemig Geração e Transmissão S.A. since the beginning of its operational activities on January 1, 2005. Of the total of the issue, R$558 was posted as debt and 41% of the new issue was exchanged for the debentures that the Company holds in treasury, arising from the redemptions made at the time of the re-negotiations.

(g) Proposal for increase in the registered capital

On April 26, 2007, the Annual General Meeting approved an increase in the registered capital through the use of the Earnings Reserve so as to comply with Article 199 of the Corporate Law, which limits the amount of the reserves to the amount of the company s registered capital. Therefore, the registered capital of CEMIG increased from R$1,621 to R$2,432 with issuance of new shares, through capitalization of R$811 of the balance on the Retained Earnings Reserve, distributing as a consequence to stockholders a bonus of 50%, in new shares, of the same type as those held, and with nominal value R$0.01.

(h) Reverse split

The Annual General Meeting approved a reverse split of the shares of the company, of each lot of 500 shares of nominal value R$0.01 for one share of nominal value R$5.00. The reverse split occurred on June 4, 2007. All share and per share data has been retroactively restated to reflect the reverse stock split.

(i) Third Issuance of Commercial Papers of Cemig Distribuição S.A.

On June 12, 2007, Cemig Distribuição S.A. entered into a placement agreement with a creditor, Caixa Econômica Federal, relating to the third public issuance of commercial paper in an amount of R$400. The commercial papers are expected to be subscribed and fully paid up on June 29, 2007. The commercial paper matures 180 days after the subscription date, on December 26, 2007. Upon maturity, Cemig Distribuição S.A. will be obligated to pay to the holders an amount equal to the par value of the paper plus interest at the rate of 101.6% of CDI.

32 - RECENTLY ISSUED U.S. GAAP PRONOUNCEMENTS NOT YET ADOPTED

In June 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes , that prescribes a recognition threshold and measurement attribute for the financial statement of a tax position taken or expected. This Interpretation will result in increased relevance and comparability in financial reporting of income taxes because all tax positions accounted for in accordance with FASB Statement 109, *Accounting for Income Taxes,* will be evaluated for recognition, derecognition, and measurement using consistent criteria. This Interpretation is effective for fiscal years beginning after December 15, 2006. Earlier application of the provisions of this Interpretation is encouraged if the enterprise has not yet issued financial statements, including interim financial statements, in the period this Interpretation is adopted. CEMIG is evaluating the potential impacts of this interpretation in company s consolidated financial statements.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements , that establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements and will change some current practice because of the need for increased consistency and comparability in fair value measurements and for expanded disclosures about fair value measurements. It applies for derivatives and other financial instruments measured at fair value under Statement 133 at initial recognition and in all subsequent periods and should provide users of financial statements with information that is useful in making investment, credit, and similar decisions . This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. CEMIG is evaluating the potential impacts of this interpretation in company s consolidated financial statements.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements.* No entity is permitted to apply this Statement retrospectively to fiscal years preceding the effective date unless the entity chooses early adoption. The choice to adopt early should be made after issuance of this Statement but within 120 days of the beginning of the fiscal year of adoption, provided the entity has not yet issued financial statements, including required notes to those financial statements, for any interim period of the fiscal year of adoption. CEMIG is evaluating the potential impacts of this interpretation in company s consolidated financial statements.

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