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 American Depositary Shares, each representing 1 Preferred Share, without par value, as of June 11, 2007	New York Stock Exchange* New York Stock Exchange
Common Shares, R$5.00 par value American Depositary Shares, each representing 1 Common Share, without par value, as of June 12, 2007	New York Stock Exchange* 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

* 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-looki 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

Risk Factors

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

Risks Relating to CEMIG

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

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.

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

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

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

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

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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 Mobiliários* (the Brazilian securities regulatory body), or the CVM. In order to complete this process, the investor will usually need to have a consultant or attorney who has expertise in Central Bank and CVM regulations. Any delay in obtaining this certificate could adversely impact your ability to receive dividends or distributions relating to the preferred shares 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.

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(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

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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							