

ENERGY CO OF MINAS GERAIS  
Form 20-F  
June 30, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

---

**FORM 20-F**

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

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2010**

**OR**

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

**OR**

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

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

Commission file number 1-15224

---

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

(Exact name of Registrant as specified in its charter)

**ENERGY CO OF MINAS GERAIS**

(Translation of Registrant's name into English)

**BRAZIL**

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

Title of each class:	Name of exchange on which registered:
Preferred Shares, R\$5.00 par value	New York Stock Exchange*
American Depositary Shares, each representing 1 Preferred Share, without par value	New York Stock Exchange
Common Shares, R\$5.00 par value	New York Stock Exchange*
American Depositary Shares, each representing 1 Common Share, without par value	New York Stock Exchange

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

None

---

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Table of Contents

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:

298,269,668 Common Shares  
384,144,914 Preferred Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non accelerated filer

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

IFRS

Other

If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No

---

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

---

Table of Contents

**Table of Contents**

<u>PART I</u>		1
<u>Item 1.</u>	<u>Identity of Directors, Senior Management and Advisers</u>	1
<u>Item 2.</u>	<u>Offer Statistics and Expected Timetable</u>	1
<u>Item 3.</u>	<u>Key Information</u>	1
<u>Item 4.</u>	<u>Information on the Company</u>	15
<u>Item 4A.</u>	<u>Unresolved Staff Comments</u>	66
<u>Item 5.</u>	<u>Operating and Financial Review and Prospects</u>	66
<u>Item 6.</u>	<u>Directors, Senior Management and Employees</u>	81
<u>Item 7.</u>	<u>Major Shareholders and Related Party Transactions</u>	90
<u>Item 8.</u>	<u>Financial Information</u>	92
<u>Item 9.</u>	<u>The Offer and Listing</u>	98
<u>Item 10.</u>	<u>Additional Information</u>	102
<u>Item 11.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	116
<u>Item 12.</u>	<u>Description of Securities Other than Equity Securities</u>	117
<u>PART II</u>		119
<u>Item 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	119
<u>Item 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	119
<u>Item 15.</u>	<u>Controls and Procedures</u>	119
<u>Item 16A.</u>	<u>Audit Committee Financial Expert</u>	121
<u>Item 16B.</u>	<u>Code of Ethics</u>	121
<u>Item 16C.</u>	<u>Principal Accountant Fees and Services</u>	121
<u>Item 16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	122
<u>Item 16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	122
<u>Item 16F.</u>	<u>Change in Registrant's Certifying Accountant</u>	122
<u>Item 16G.</u>	<u>Corporate Governance</u>	122
<u>PART III</u>		123

<u>Item 17.</u>	<u>Financial Statements</u>	123
<u>Item 18.</u>	<u>Financial Statements</u>	123
<u>Item 19.</u>	<u>Exhibits</u>	124

**PRESENTATION OF FINANCIAL INFORMATION**

Companhia Energética de Minas Gerais CEMIG is a *sociedade por ações, de economia mista* (a state-controlled mixed capital company) organized under the laws of the Federative Republic of Brazil, or Brazil. References in this annual report to CEMIG, we, us, our and 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*

Table of Contents

(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, and with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). For purposes of this annual report we prepared the consolidated statements of financial position as of December 31, 2010 and 2009 and January 1, 2009 and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2010 and 2009, in *reais* in accordance with International Financial Reporting Standards or IFRS, as issued by the IASB. As a result of our adoption of IFRS as from January 1, 2009, we are required to include in our audited financial statements as of December 31, 2010 and 2009 and for the two years ended December 31, 2010 an opening balance sheet as of January 1, 2009. These consolidated financial statements are our first consolidated financial statements prepared in accordance with IFRS. KPMG Auditores Independentes has audited our consolidated financial statements as of and for the years ended December 31, 2010 and 2009 and as of January 1, 2009 as stated in their report appearing elsewhere herein.

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\$1.6631 to US\$1.00, as certified for customs purposes by the U.S. Federal Reserve Board as of December 31, 2010. 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.

**Changes to Regulatory Requirements for Presentation of Financial Statements Convergence to International Financial Reporting Standards**

*Presentation of financial statements in accordance with IFRS*

On July 13, 2007, the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM issued Rule No. 457 to require listed companies to publish their consolidated financial statements in accordance with IFRS, as issued by the IASB, starting with the year ending December 31, 2010.

*Convergence of Brazilian GAAP to IFRS*

On December 28, 2007, Law No. 11,638 was enacted and amended numerous provisions of the Brazilian Corporate Law relating to accounting principles and authority to issue accounting standards. Law No. 11,638 sought to enable greater convergence between Brazilian GAAP and IFRS. To promote convergence, Law No. 11,638 modified certain accounting principles of the Brazilian Corporate Law and required the different applicable regulators (including the CVM) to issue accounting rules conforming to the accounting standards adopted in international markets. Additionally, the statute was used to set accounting standards for the CPC, which is a committee of officials from the Brazilian Federal Accounting Board (*Conselho Federal de Contabilidade*), Brazilian Independent Auditors Institute (*Instituto dos Auditores Independentes do Brasil*), São Paulo Stock Exchange (*BM&FBovespa S.A. Bolsa de Valores, Mercadorias e Futuros*) or BM&FBovespa, industry representatives and academic bodies that have issued accounting guidance and pursue the improvement of accounting standards in Brazil. Law No. 11,638 permits the CVM to rely on the accounting standards issued by the CPC in establishing accounting principles for regulated entities.

Subsequently on May 27, 2009, Law No. 11,941 was enacted, which, among other things, amended numerous provisions of the Brazilian Corporate Law and tax regulation, bringing Brazilian GAAP and IFRS into closer agreement.

As result of the issuance of Law No. 11,638, and Law No. 11,941, CPC has issued approximately 60 standards, interpretations and orientations with the objective of making Brazilian GAAP similar to IFRS. The CPC issued several standards for application beginning with the year ended December 31, 2008, and during 2009 and 2010 the CPC issued several additional standards.

## **MARKET POSITION AND OTHER INFORMATION**

The information contained in this annual report regarding our market position is, unless otherwise indicated, presented for the year ended December 31, 2010 and is based on, or derived from, reports issued by the *Agência Nacional de Energia Elétrica* (the Brazilian National Electric Energy Agency), or Aneel, and by the *Câmara de Comercialização de Energia Elétrica* (the Brazilian Electric Power Trading Chamber), or CCEE.

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.



Table of Contents

References in this annual report to the common shares and preferred shares are to our common shares and preferred shares, respectively. References to Preferred American Depositary Shares or Preferred ADSs are to American Depositary Shares, each representing one preferred share. References to Common American Depositary Shares or Common ADSs are to American Depositary Shares, each representing one common share. Our Preferred ADSs and Common ADSs are referred to collectively as ADSs, and Preferred ADRs and Common ADRs are referred to collectively as ADRs.

On May 2, 2008, a 2.02% stock dividend was paid on the preferred shares. On May 8, 2008, a corresponding adjustment was made to the Preferred ADSs through the issuance of additional Preferred ADSs. On April 29, 2009, a 25.000000151% stock dividend was paid on the preferred shares. On May 13, 2009, a corresponding adjustment was made to the Preferred ADSs through the issuance of additional Preferred ADSs. On April 29, 2010, a 10.000000128% stock dividend was paid on the preferred shares. On May 10, 2010, a corresponding adjustment was made to the Preferred ADSs through the issuance of additional Preferred ADSs. The Preferred ADSs are evidenced by American Depositary Receipts, or Preferred 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 Preferred ADSs evidenced by Preferred ADRs issued thereunder (the Second Amended and Restated Deposit Agreement).

On May 2, 2008, a 2.02% stock dividend was paid on the common shares. On May 8, 2008, a corresponding adjustment was made to the Common ADSs through the issuance of additional Common ADS. On April 29, 2009, a 25.000000151% stock dividend was paid on the common shares. On May 13, 2009, a corresponding adjustment was made to the Common ADSs through the issuance of additional Common ADSs. On April 29, 2010, a 10.000000128% stock dividend was paid on the common shares. On May 10, 2010, a corresponding adjustment was made to the Common ADSs through the issuance of additional Common ADSs. The Common ADSs are evidenced by American Depositary Receipts, or Common ADRs, issued pursuant to a Deposit Agreement, dated as of June 12, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of Common ADSs evidenced by Common ADRs issued thereunder (the Common ADS Deposit Agreement and, together with the Second Amended and Restated Deposit Agreement, the Deposit Agreements).

**FORWARD-LOOKING INFORMATION**

This annual report includes forward-looking statements, principally in Item 3. Key Information, Item 5. Operating and Financial Review and Prospects and Item 11. Quantitative and Qualitative Disclosures about Market Risk. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions relating to, among other things:

- general economic, political and business conditions, principally in Latin America, Brazil, the State of Minas Gerais, in Brazil, or Minas Gerais, the State of Rio de Janeiro, in Brazil, or Rio de Janeiro, as well as other states in Brazil;
- 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 and the maturity profile of our 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 in particular in Minas Gerais and Rio de Janeiro;
- 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;

Table of Contents

- 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 have acquired and that we may acquire;
- existing and future policies of the Federal Government of Brazil, which we refer to as the Federal Government;
- existing and future policies of the government of Minas Gerais, which we refer to as the State Government, including policies affecting its investment in us and the plans of the State Government for future expansion of electricity generation, transmission and distribution in Minas Gerais; and
- other risk factors as set forth under Item 3. Key Information Risk Factors.

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

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

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



Table of Contents

**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 IFRS 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 and Presentation of Financial Information.

The selected consolidated financial data as of December 31, 2010 and 2009 and for each of the years ended December 31, 2010 and 2009, in IFRS, has been derived from our audited consolidated financial statements and the notes thereto included elsewhere in this annual report. These consolidated financial statements are our first consolidated financial statements prepared in accordance with IFRS.

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\$1.6631 per US\$1.00, the exchange rate as of December 31, 2010. The *real* has historically experienced high volatility. We cannot guarantee that U.S. dollars can be converted into *reais*, or that *reais* can be converted into U.S. dollars, at the above rate or at any other rate. On June 3, 2011, the exchange rate for *reais* was R\$ 1.5722 per US\$1.00. See Exchange Rates.

Table of Contents**Selected Consolidated Financial Data in IFRS**

	As and for the year ended December 31,		
	2010 (in millions of US\$(1)(2))	2010 (in millions of R\$ except per share/ADS data or as otherwise indicated)	2009
<b>Income Statement Data:</b>			
Net operating revenues:			
Electricity sales to final consumers	8,028	13,352	13,233
Electricity sales to the interconnected power system	963	1,602	1,775
Use of basic transmission and distribution networks	1,932	3,213	2,235
Other operating revenues	476	791	652
Tax on revenues	(3,665)	(6,095)	(5,737)
Total net operating revenues	7,734	12,863	12,158
Operating costs and expenses:			
Electricity purchased for resale	(2,238)	(3,722)	(3,199)
Use of basic transmission and distribution networks	(438)	(729)	(853)
Depreciation and amortization	(539)	(896)	(895)
Personnel	(728)	(1,211)	(1,318)
Gas purchased for resale	(135)	(225)	(167)
Royalties for use of water resources	(84)	(140)	(154)
Third-party services	(555)	(923)	(819)
Employee post-retirement benefits	(64)	(107)	(150)
Materials and supplies	(81)	(134)	(114)
Operational provision	(83)	(138)	(124)
Employee profit sharing	(195)	(325)	(239)
Construction cost	(120)	(200)	(119)
Other	(281)	(466)	(316)
Total operating costs and expenses	(5,541)	(9,216)	(8,467)
Operating income	2,193	3,647	3,691
Financial income (expenses), net	(496)	(825)	(354)
Income before income taxes and non-controlling interests	1,697	2,822	3,337
Income taxes expense	(339)	(564)	(1,131)
Net income before non-controlling interests	1,358	2,258	2,206
Non-controlling interests			(73)
Net income	1,358	2,258	2,133
Other comprehensive income (loss)			
Comprehensive income	1,358	2,258	2,133
Basic earnings (loss): (3)			
Per common share	2.05	3.41	3.69
Per preferred share	2.05	3.41	3.69
Per ADS	2.05	3.41	3.69
Diluted earnings (loss): (3)			
Per common share	2.05	3.41	3.69

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Per preferred share	2.05	3.41	3.69
Per ADS	2.05	3.41	3.69

Table of Contents

	As of and for the year ended December 31,			
	2010	2010	2010	2009
	(in millions of US\$)(1)(2)	(in millions of R\$ except per share/ADS data or as otherwise indicated)	(in millions of R\$ except per share/ADS data or as otherwise indicated)	(in millions of R\$ except per share/ADS data or as otherwise indicated)
<b>Balance Sheet Data:</b>				
Assets:				
Current assets	4,862	8,086		8,617
Property, plant and equipment, net	4,947	8,228		8,303
Intangible assets	2,889	4,804		3,705
Financial assets	4,398	7,315		5,508
Account receivable from the Minas Gerais State				
Government	1,105	1,837		1,824
Other assets	1,974	3,283		2,337
Total assets	20,177	33,556		30,294
Liabilities:				
Current portion of long-term financing	1,325	2,203		6,659
Other current liabilities	2,525	4,200		3,620
Non-current financing	6,629	11,024		4,634
Employee post-retirement benefits Non-current	1,240	2,062		1,915
Shareholders equity	6,900	11,476		11,165
Capital stock	2,052	3,412		3,102
<b>Other Data:</b>				
Weighted average outstanding shares basic: (3)				
Common		298,269,668		271,154,243
Preferred		383,853,994		348,958,176
Dividends per share (3)				
Common		R\$ 1.75		R\$ 2.68
Preferred		R\$ 1.75		R\$ 2.68
Dividends per ADS (3)				
Common		R\$ 1.75		R\$ 2.68
Dividends per share (5)(3)				
Common		US\$ 1.05		US\$ 1.61
Preferred		US\$ 1.05		US\$ 1.61
Dividends per ADS (5)(3)				
Common		US\$ 1.05		US\$ 1.61
Preferred		US\$ 1.05		US\$ 1.61
Weighted average outstanding shares diluted: (3)				
Common		298,269,668		271,154,243
Preferred		383,853,994		348,958,176
Dividends per share diluted (3)				
Common		R\$ 1.75		R\$ 2.68
Preferred		R\$ 1.75		R\$ 2.68
Dividends per ADS diluted (3)				
Common		R\$ 1.75		R\$ 2.68
Dividends per share diluted (5)(3)				
Common		US\$ 1.05		US\$ 1.61
Preferred		US\$ 1.05		US\$ 1.61
Dividends per ADS diluted (5)(3)				
Common		US\$ 1.05		US\$ 1.61

(1) Converted at the exchange rate of US\$1.00 to R\$1.6631, the exchange rate as of December 31, 2010. See Exchange Rates.

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

(3) This information is presented in U.S. dollars at the exchange rate in effect as of the end of each year.





Table of Contents

(4) Per share numbers have been adjusted to reflect the stock dividends on our shares in May 2009 and 2010, and per ADS numbers have been adjusted to reflect the corresponding adjustments to our ADS.

**Exchange Rates**

On March 4, 2005, the National Monetary Council (*Conselho Monetário Nacional*), or CMN, consolidated the commercial rate exchange market and the floating rate market into a single exchange market. Such regulation allows, subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of *reais* by a foreign person or company, without limitation as to amount. Additionally, all foreign exchange transactions must be carried out by financial institutions authorized by the Central Bank to operate in this 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. 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 Preferred ADSs or Common 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 Preferred ADSs and Common 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. For more information 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 Preferred ADSs and the Common ADSs.

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

Month	Reais per US\$1.00			
	Low	High	Average	Period-end
December 2010	1.6631	1.7183	1.6955	1.6631
January 2011	1.6452	1.6921	1.6745	1.6739
February 2011	1.6597	1.6780	1.6664	1.6598
March 2011	1.6274	1.6727	1.6574	1.6287
April 2011	1.5635	1.6156	1.5833	1.5670
May 2011	1.5745	1.6382	1.6136	1.5833
June 2011 (1)	1.5722	1.5974	1.5816	1.5974

(1)As of June10, 2011.

Year Ended December 31,	Reais per US\$1.00			
	Low	High	Average	Period-end

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

2006	2.0549	2.3580	2.1738	2.1342
2007	1.7298	2.1520	1.9449	1.7790
2008	1.5580	2.6190	1.8322	2.3130
2009	1.6995	2.4420	1.9976	1.7425
2010	1.6574	1.8885	1.7600	1.6631

---

Source: U.S. Federal Reserve Board

Table of Contents

**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 strategic orientation of the business of CEMIG. 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. It is not possible to analyze the impact and effects this may have on us or our results of operations.

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 in the future use, its status as our controlling shareholder to decide whether 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 and uncertain 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, or the New Industry Model Law, introduced a new regulatory framework for the Brazilian electricity industry.

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 Law No. 10,848/04 is considered to be unconstitutional by the Brazilian Supreme Court, the regulatory scheme introduced by Law No. 10,848/04 might cease to be in effect, which would generate uncertainty as to how and when the Federal Government will be able to introduce changes to the electricity industry. Accordingly, we cannot currently evaluate the impact of 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 rules for the sale of electric energy and market conditions could affect our energy selling prices.*

Under applicable law, our generation companies are not allowed to sell energy directly to our distribution companies. As a result, our generation companies have to sell electricity in a regulated market through public auctions conducted by Aneel (the Regulated Market, the Regulated Contracting Environment - ACR, or the Pool ) or in the Free Market (the ACL ). Legislation allows distributors that contract with our generation companies under the Regulated Market to reduce the quantity of energy contracted under some agreements up to a certain limit, exposing our generation companies to the risk of failing to sell their remaining energy at adequate prices.

We perform trading activities through power purchase and sale agreements, mainly in the ACL, through our generation and trading subsidiaries. Contracts in the ACL may be entered into with other generating agents, energy traders, or Free Consumers , who are allowed to purchase energy directly from generating agents. Free Consumers are consumers with demand equal to or greater than 3 MW, who are allowed to choose their electricity supplier. Older contracts with this type of consumer give them the flexibility to purchase more or less energy (by 5% on average) from us than was originally contracted for by such consumers, which may adversely impact our business, results of operations and financial condition. Newer contracts, signed after 2005, generally do not allow for this kind of flexibility in the purchase of energy. Nonetheless, the increase in market competition could lead to this type of arrangement becoming common again.

In addition to Free Consumers, Special Consumers , who are consumers with contracted demand between 500kW and 3MW, are eligible to buy energy in the Free Market so long as they buy electricity from alternative sources, such as Small Hydroelectric Plants, biomass plants or wind plants. With the growth of trading in the alternative-energy market, CEMIG acquired a portfolio of purchase contracts for this type of energy. The agreements for sale to Special Consumers also have specific flexibilities to

Table of Contents

comply with their particular characteristics, linked to their historical consumption level. Very wide market variations might generate short-term positions that could have a prejudicial financial impact on our results.

Despite the strategy described in the Power Generation and Trading section, lack of liquidity for execution of the trading policy or volatility in future prices due to market conditions and/or market perceptions may negatively affect our results of operations. Also, if we are unable to sell all the power capacity in the regulated auctions or in the free market, the unsold capacity will be settled in the CCEE at settlement prices (Preço de Liquidação de Diferenças), or PLD, which tend to be very volatile. If this occurs in periods of low settlement prices, our revenues and results of operations could be adversely affected.

*Aneel has discretion to establish the rates Cemig distribution charges consumers. These rates are determined pursuant to concession contracts entered into with Aneel (acting on behalf of the Federal Government) 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 readjustment; (2) the periodic revision; and (3) the extraordinary revision. We are entitled to apply each year for the annual readjustment, which is designed to offset the effects of inflation on rates and allows us to pass through to consumers certain changes in our costs that are beyond our control, such as the cost of electricity we purchase and government-imposed sector charges, including charges for the use of transmission and distribution facilities. In addition, Aneel carries out a periodic tariff revision every five years that is aimed at identifying variations in our costs as well as setting a factor based on our scale gains, which will be considered in our annual rate adjustments and passed on to our consumers. We are also entitled to request an extraordinary revision of our rates if unforeseen events significantly alter our cost structure. The periodic revision and extraordinary revision are subject, to a certain degree, to the discretion of Aneel, in spite of there being pre-established rules at each review cycle.

Although our concession agreements provide 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 be unable 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 Contrato de Cessão de Crédito de Saldo Remanescente, or CRC Account. We renegotiated and changed the terms of the CRC account on certain occasions, and on January 27, 2006 we placed the credits on the CRC account into a Credit Receivables Fund (FIDC), acquiring subordinated units of the Fund, as part of a securitization transaction. The senior units of the FIDC were subscribed by two commercial banks. The value of the FIDC on December 31, 2010 was R\$1,837 million, the amount related to the subordinated units being R\$939 million and the amount relating to the senior units being R\$898 million. The CRC Account is being repaid through the withholding of part of any dividends the State Government is entitled to receive. Senior unit holders of the FIDC are entitled to certain scheduled payments of earnings by the FIDC, which are funded by the withheld dividends and guaranteed by us. We cannot guarantee that sufficient dividends will be withheld for making scheduled payments to senior unit holders in the FIDC, which could result in us having to make certain scheduled payments to senior unit holders of the FIDC, under the terms of the guarantee we provided. See Item 5. Operating and Financial Review and Prospects Impact of Our Account Receivable from the State Government.

*We are strictly liable for any damages resulting from inadequate rendering of electricity services.*

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 National System Operator (Operador Nacional do Sistema, or ONS) or to the ONS itself, are shared among generation, distribution and transmission companies. Until a final allocation is defined, the liability for such damages will be shared in the proportion of 35.7% to distribution agents, 28.6% to transmission agents and 35.7% to generation agents. These proportions are established by the number of votes that each class of energy concessionaires receives in the general meeting of the ONS, and as such, they are subject to change in the future. Our business, results of operations and financial condition might be adversely affected as a result of any such damages.

Table of Contents

*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 CMN 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. Brazilian legislation also establishes that a state-controlled company, in general, may use proceeds from external transactions with commercial banks (debt, including bonds) only to refinance financial obligations. As a result of these regulations, our capacity to incur debt is limited, and this could negatively affect the implementation of our investment plan.

*There are contractual restrictions on our capacity to incur debt.*

We are subject to certain restrictions on our ability to incur debt due to covenants set forth in our loan agreements. In the event of our non-compliance with any such covenants in our loan agreements, the total principal, future interest and any penalties due under these agreements may become immediately due and payable. In the past, and in 2009 and 2010, in particular, 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 in regards to such non-compliance, 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 executing new agreements 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 and conditions of our concession agreements, and/or the authorizations granted to us, which could result in fines, other penalties and, depending on the severity of non-compliance, expropriation of the concession agreements or revocation of the authorizations.*

We conduct our generation, transmission and distribution activities pursuant to concession agreements entered into with the Federal Government through Aneel and/or pursuant to authorizations granted to the companies of our portfolio, as the case may be. 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 contract 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 for a period of up to two years;
- intervention by Aneel in the management of the concessionaire that it is in breach; and
- termination of the concession.

In addition, the Federal Government has the power to terminate any of our concessions or authorizations, 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.

Also, delays regarding the implementation and construction of new energy undertakings can also trigger the imposition of regulatory penalties by Aneel, which, under Aneel's Resolution No. 63 of May 12, 2004, can vary from warnings to the early termination of these concessions or authorizations.

We cannot guarantee that Aneel will not impose penalties or terminate our concessions or authorizations in the event of a breach. Any compensation we may receive upon the termination of the concession contract and/or the authorizations 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 of our concession contracts, or imposition of penalties might adversely affect our business, results of operations and financial condition.

Table of Contents

*We cannot be certain of the renewal of our concessions.*

We carry out the vast majority of 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 power 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 acceptable to the Federal Government.

In light of the degree of discretion granted to the Federal Government, which is frequently advised by Aneel, by the Concessions Law with respect to new concession contracts and the renewal of existing concessions, and given the lack of long-standing precedents clearly setting out how the Federal Government intends to exercise its discretionary power and interpret and apply the Concessions Law, we cannot guarantee 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 Item 4. The Brazilian Power Industry - Concessions. Non-renewal of any of our concessions could adversely affect our business, results of operations and financial condition.

*Brazilian electricity production, and, consequently, our business, is highly dependent on hydroelectric power plants, which in turn depend on climate conditions to produce electricity.*

More than 70% of the present installed capacity of the Brazilian electricity generation system is hydroelectric. There are substantial variations in water flow both from month to month (seasonal variations) and also in the total flow to a plant over the whole of a year, and these flows depend, fundamentally, on the quantity of rainfall during the rainy season. In addition, rainfall is not uniform over all the river basins.

To balance production and consumption, the Brazilian system is almost entirely interconnected by a transmission grid. The decision on where to generate, and from what source, is taken by the National System Operator (Operador Nacional do Sistema - ONS), the principal function of which is to operate the available resources in an optimal manner, minimizing the cost of operation and the risks of an electricity shortage. In the event of periods of adverse hydrological conditions, the ONS might decide to save water in the reservoirs of the hydroelectric plants and increase thermal generation, which has the effect of increasing the cost for the hydroelectric generators. Also, in the event of scarcity of energy due to adverse hydrological situations, the system might undergo rationing, which could result in increased costs and a decrease in our cash flow.

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

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

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

- 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 achieve the revenues we expected in connection with such expansion projects.

Table of Contents

*Requirements 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. Delays or denials of license requests by the environmental authorities, as well as our possible inability to meet the requirements established by the environmental authorities during the environmental licensing processes, may result in additional costs, or even prohibit the construction and maintenance of these projects.

Non-compliance with environmental laws and regulations, such as the building and operation of a potentially polluting facility without a valid environmental license or authorization, could, in addition to the obligation to redress any damage that may be caused (which is not subject to any limit), result in criminal, civil and administrative sanctions being applied to us. Based on Brazilian legislation, criminal penalties such as restriction of 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 ranging from R\$50 thousand to R\$50 million, require partial or total suspension of activities; suspend or restrict tax benefits or cancel or suspend lines of credit from governmental financial institutions 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 and financial condition.

CEMIG is also subject to Brazilian legislation requiring the payment of compensation in relation to the polluting effects of its activities. Under state and federal law enacted in 2009, up to 0.5% of the total amount invested in the implementation of a project that causes significant environmental impact must be applied toward compensation measures, in an amount determined on a case by case basis by environmental authorities according to the extent of the environmental impact. Certain provisions of state legislation set forth that such compensation measures must also be adopted retroactively to projects concluded before the enactment of the relevant laws. The retroactive nature of these provisions is being challenged by some companies and the matter is being discussed again among SEMAD, the Attorney General of the State-AGE and the Federation of Industries of Minas Gerais - FIEMG and it is not clear whether they will apply. We have not yet assessed the effects of this legislation on CEMIG, but it could result in additional costs for the Company, which might affect our business, results of operation and financial condition. See Item 4. Information on the Company Environmental Matters Compensation Measures.

In addition, the state laws of Minas Gerais, where the greater part of CEMIG's operations is located, requires a Legal Forest Reserve corresponding to 20% of the total area of the rural property owned by certain entities, and the environmental authorities are currently debating whether this requirement applies to companies in the electricity sector. If a Legal Forest Reserve is found to be required for companies in the electricity sector, our business, results of operations and financial condition might be adversely affected. See Item 4. Information on the Company Environmental Matters Legal Forest Reserves.

Finally, the adoption or implementation of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require us to make additional capital expenditures or incur additional operating expenses in order to maintain our current operations, curtail our production activities or take other actions that could have a material adverse effect on our financial condition, results of operations and cash flow.

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

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

As of December 31, 2010, our total past due receivables from final consumers were approximately R\$1,479 million, corresponding to 11.50% of our net revenues for 2010, and our allowance for doubtful accounts was R\$555 million. Approximately 11.29% 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 consumers. 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 might be unable to complete our proposed capital expenditure program.*

Our by-laws state that we may use up to 40.0% of our annual EBITDA (earnings before interest, income taxes, depreciation and amortization), each fiscal year, on capital investments and acquisitions. In our Extraordinary General Meeting of Shareholders held on June 17, 2010, the shareholders approved an increase of this limit to 90% of our 2010 EBITDA. Our ability to carry out our 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, which could affect our business, results of operations and financial condition.

Table of Contents

*Our ability to distribute dividends is subject to limitations.*

Whether or not you receive dividends depends on 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 in excess of the amount of mandatory distribution required under our by-laws, in the case of the preferred shares.

Because 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 CEMIG receives dividends or other cash distributions from its operating subsidiaries. The dividends that our subsidiaries may distribute to us depend on our subsidiaries generating sufficient profit in any given fiscal year. Dividends can be paid out from the profit accrued on each fiscal year, or 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.

*We operate without insurance policies against catastrophes and general third party liability.*

We do not have general third party liability insurance covering accidents and have not asked for bids related to this type of insurance, except for insurance covering third party liability in connection with air travel. 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, nor for business interruption risk; nor 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. Also, we may incur liabilities beyond the coverage limits provided in our current insurance policies.

We cannot guarantee that our insurance policies are sufficient to cover in full any liabilities that may arise in the course of our business nor that these insurance policies will continue to be available in the future. The occurrence of claims in excess of the amount insured or which are not covered by our insurance policies might generate significant and unexpected additional costs for us, causing an adverse effect on our business and results of operation and financial condition.

*We will need funds in the short term to fund our current and expected acquisitions.*

We will need funds in the short term to fund our current and future acquisitions and investments. However, no assurance can be given that we will be able to raise such funds in a timely manner and in the amounts necessary or at competitive rates, or that we will otherwise have supplemental cash-on-hand available to finance our investments and our acquisitions. If we are unable to raise funds as planned, we may be unable to meet our acquisition commitments, and our investment program could suffer delays or significant changes, which could adversely affect our business, financial condition or prospects.

*We may incur losses in connection with pending litigation.*

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

We are currently defending several legal and administrative proceedings relating to civil, administrative, environmental, tax and other claims. These claims involve a wide range of issues and seek indemnities and reparation in money and by specific performance. Several individual disputes account for a significant part of the total amount of claims against us. Our consolidated financial statements include contingency provisions in the total amount of R\$257 million as of December 31, 2010 for actions in which the existence of a present obligation on the date of the financial statements was considered to be more likely than not. (excluding labor-related provisions for which the total is R\$114 million, as disclosed below).

Under IFRS, we classify the risk of adverse results in these proceedings as remote, possible or probable. We disclose the aggregate amounts of these proceedings that we have judged possible or probable, to the extent the amounts are known or reasonably estimable, and we record provisions for losses that we consider probable. These disclosures for 2010 are included in Item 8. Financial Information Legal Proceedings and Note 21 Legal Provisions and Contingencies to our consolidated financial statements.

We are not required to disclose or record provisions for proceedings in which our management judges the risk of loss to be remote. However, the amounts involved in certain of the proceedings in which we believe our risk of loss is remote are substantial, and the losses to us could, therefore, be significantly higher than the amounts for which we have recorded provisions. Even for the amounts recorded as provisions for probable losses, a judgment against us would have an effect on our cash flow if we are required to pay those amounts.

Table of Contents

Unfavorable decisions in our legal proceedings may, therefore, reduce our liquidity and adversely affect our business, financial condition and results of operations. Also, any negative outcomes with respect to any litigation could adversely affect our reputation.

*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 collective bargaining agreements with the labor unions representing most of these employees.

We are currently defending a number of labor-related claims brought by our employees that mostly relate to overtime and compensation for occupational hazards. We are also subject to claims related to outsourcing of services, in which employees of our contractors and subcontractors have brought actions against us for the payment of outstanding labor liabilities. See Item 8. Financial Information Legal Proceedings - Labor and Pension Fund Obligations.

As of December 31, 2010, our labor-related claims totaled, in the aggregate, approximately R\$280 million, of which R\$114 million, considered to have a probable risk of loss, were provisioned (not including judicial deposits). In 2008 and 2009 we did not face any material labor unrest, except for a minor stoppage in 2009. In the negotiations for reaching the 2010 collective agreement, part of our employees went on strike for 20 days. Our Operational Emergency Committee was activated and the strike did not affect the supply of electricity to our consumers. 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 actions. 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 be unable 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.

**Risks Relating to Brazil**



## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

*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 flows; and/or

Table of Contents

- limits on foreign trade.

Measures by the Brazilian government to maintain economic stability, and also speculation on any future acts of the Brazilian 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.

The new President of Brazil took office at the beginning of 2011. The President has considerable power to determine governmental policies and actions that relate to the Brazilian economy. It is not possible to predict whether the government elected in 2010 or any succeeding governments will have an adverse effect on the Brazilian economy, and, consequently, on our business. Any changes or uncertainty regarding governmental policies may contribute to economic instability and may increase market volatility of the Brazilian securities and have an adverse effect on the Brazilian economy, 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 Preferred ADSs and the Common 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. According to the Amplified National Consumer Price Index, or IPCA, Brazilian annual inflation rates in 2008, 2009 and 2010 were 5.9%, 4.3% and 5.9%, 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 or actions to adjust the value of the real might 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 might be unable 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 might also hinder our ability to access foreign financial markets or might 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 Preferred ADSs and Common ADSs.

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

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

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 2010, the real appreciated 4.6% against the U.S. dollar. Between December 31, 2010 and April 1, 2011, the real appreciated 2.9% against the U.S. dollar. Considering the volatility the world economy is facing, no assurance can be given that the real will not depreciate against the dollar again. On December 31, 2010, the U.S. dollar/real exchange rate was R\$1.6631/US\$1.00. See Exchange Rates.

As of December 31, 2010, approximately 1.45% of our total indebtedness under loans, financings and debentures was denominated in currencies other than the real (92.0% of that being denominated in U.S. dollars). If the real depreciates against the U.S. dollar, our related financial expenses will increase and our results of operations and financial condition could be adversely affected. Our foreign exchange losses decreased from R\$98 million in 2009 to R\$13 million in 2010. We also have entered into certain power purchase agreements that are dollar denominated. We cannot guarantee that 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 the event of adverse 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.

Table of Contents

*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 Preferred ADS and the Common ADSs.*

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including other Latin American countries. 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 to access the capital markets and finance our operations in the future on acceptable terms or at all. Due to the characteristics of the Brazilian power 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.*

Periodically, allegations of unethical or illegal conduct might be made with respect to figures in the Brazilian government, including legislators and/or party officials. Although the current political environment is more stable than in past years, no assurance can be given that this situation will endure.

If such events lead to a materially adverse perception of Brazil among investors, the trading value of our shares, the Preferred ADSs and the Common ADSs could decline, and our ability to access international markets could suffer. In addition, any political instability resulting from such events could cause us to re-assess our strategies if the Brazilian economy suffers as a result.

**Risks Relating to the Preferred Shares, Common Shares, Preferred ADSs and Common ADSs**

*The preferred shares and Preferred ADSs generally do not have voting rights and the Common ADSs can only be voted by proxy by providing voting instructions to the depositary.*

In accordance with the Brazilian Corporate Law and our by-laws, holders of our preferred shares, and, by extension, holders of our Preferred ADSs representing preferred shares, are not entitled to vote at our shareholders' meetings, except in very limited circumstances. Holders of our Preferred 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 our Preferred ADSs and Common ADSs may not be able to vote by instructing the depositary. Holders of our Common ADSs representing common shares are not able to vote at our shareholders' meetings, but rather vote by proxy by providing voting instructions to the depositary.

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

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

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 of this type would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of preferred shares or common shares from reais into U.S. dollars. We cannot guarantee 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, Preferred ADSs or Common ADSs.*

Law No. 10,833 of December 29, 2003 provides that the sale 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 sale 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 disposals of our Preferred ADSs and Common ADSs between non-residents of Brazil. However, in the event that the disposal of assets is interpreted to include a disposal of our Preferred ADSs and Common ADSs, this tax law would accordingly result in the imposition of withholding taxes on the disposal of our Preferred ADSs and Common ADSs by a non-resident of Brazil to another non-resident of Brazil.

*Exchanging Preferred ADSs or Common ADSs for underlying shares may have unfavorable consequences.*

The Brazilian custodian for the preferred shares and common shares must obtain an electronic certificate of foreign capital registration from the Central Bank to remit U.S. dollars from Brazil to other countries for payments of dividends, any other cash

Table of Contents

distributions, or to remit the sales proceeds upon disposal of the shares. If you decide to exchange your Preferred ADSs or Common 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 in order to receive any proceeds distributed in connection with the shares. 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 CMN Resolution No. 2,689 of January 26, 2000, 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 CVM. In order to complete this process, the investor will usually need to engage 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 Preferred ADSs or Common 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 common 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 Brazilian securities, such as the preferred shares, common shares, Preferred ADSs or Common ADSs, generally 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 Preferred ADSs or Common ADSs for the desired price and within the desired period. The BM&FBovespa, the only stock exchange in Brazil on which shares are traded, had an average market capitalization of approximately R\$2.33 trillion and an average daily trading volume of approximately R\$5.38 billion in 2010. In comparison, the operating companies listed on the New York Stock Exchange, Inc., or the NYSE, had a market capitalization of approximately US\$14.5 trillion as of December 31, 2010 and an average daily trading volume of approximately US\$70.8 billion in 2010.

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

Under our by-laws, we must pay our shareholders a mandatory annual dividend 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. Our by-laws also require that the mandatory annual dividend we pay to holders of our preferred shares equal a least the greater of 10% of the par value of our shares or 3% of the net worth value of our shares, should the payment based on 50% of our net income not surpass this amount. 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 have not been made in a given fiscal year, under the terms set forth in Minas Gerais State Law No. 828 of December 14, 1951 and Minas Gerais State Law No. 15,290 of August 4, 2004. See Item 8. Financial Information Dividend Policy and Payments for a more detailed discussion.

Table of Contents

*Holders of the Preferred ADSs and Common ADS and holders of our shares may have different shareholders' rights than holders of shares in U.S. companies.*

Our corporate governance, disclosure requirements and accounting standards are governed by our by-laws, by standards enacted by the IASB, by the Level 1 Differentiated Corporate Governance Practices of the BM&FBovespa, by the Brazilian Corporate Law and by the CVM. These regulations 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. In addition, the rights of an ADS holder, which are derivative of the rights of holders of our common or preferred shares, as the case may be, to protect their interests against actions by our board of directors and controlling shareholders, are different under Brazilian Corporate Law than under the laws of other jurisdictions. Rules against insider trading and self-dealing and other rules for the preservation of shareholder interests may also be different in Brazil than in the United States, potentially disadvantaging holders of the preferred shares, common shares, Preferred ADSs and Common ADSs.

*The sale of a significant number of our shares or the issuance of new shares may materially and adversely affect the market price of our shares, Preferred ADSs and Common ADSs.*

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 Preferred ADSs and the Common ADSs. As a consequence of the issuance of new shares or sales of shares by existing shareholders, the market price of our shares and, by extension, the Preferred ADSs and Common 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 Preferred ADSs or Common 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 por ações de economia mista* (a state-controlled mixed capital company) with 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.

The following chart shows our corporate structure as of June 17, 2011.

Table of Contents

Table of Contents

The following are our principal subsidiaries, which are consolidated in our financial statements as of and for the year ended December 31, 2010, all of which are incorporated in Brazil, except Transchile Charrúa Transmisión S.A., which is incorporated in Chile:

- Cemig Geração e Transmissão S.A., or Cemig Generation and Transmission (100% interest) engages in electricity generation and transmission and has been in operation since January 1, 2005.
- Cemig Distribuição S.A., or Cemig Distribution (100% interest) engages in electricity distribution and has been in operation since January 1, 2005.
- Sá Carvalho S.A. (100% interest) produces and sells electricity, holding the concession to operate the Sá Carvalho hydroelectric power plant, with installed capacity of 78 MW. The plant started operating in 1951, and its concession expires in December 2024 but can be extended for a period of up to 20 years. CEMIG acquired control of Sá Carvalho S.A. from Acesita S.A. in December 2000.
- Rosal Energia S.A. ( Rosal Energia ) (100% interest) produces and sells electricity, holding the concession to operate the Rosal hydroelectric power plant, with installed capacity of 55 MW. Its concession expires in May 2032 but can be extended for a period of up to 20 years. The company was formed in October 1999 and the plant began operating on December 31, 1999. CEMIG acquired 100% of the shares of Rosal Energia from the Grupo Rede in December 2004.
- Usina Térmica Ipatinga S.A. (100% interest) is a special-purpose company producing and selling electricity and steam generated by the Ipatinga thermoelectric power plant, with installed capacity of 40 MW. This company was formed in August 2000. The power plant is owned by USIMINAS and CEMIG is entitled to operate this power plant since 2000 and has rights to the energy generated from the plant until 2014 as payment of a debt owed to CEMIG from USIMINAS.
- Horizontes Energia S.A. (100% interest) produces and sells electricity as an independent power producer, or IPP, at the Machado Mineiro and Salto do Paraopeba hydroelectric power plants, in the State of Minas Gerais, and the Salto Voltão and Salto do Passo Velho hydroelectric plants in the State of Santa Catarina, with total installed capacity of 14.1 MW. Their concessions expire on October 4, 2030, except for Machado Mineiro's concession, which expires on July 8, 2025. The company was formed in April 2001 and the plants began operating in 2001, except for Machado Mineiro, which began operating in 1992.
- Usina Termelétrica Barreiro S.A. (100% interest) is an IPP producing and selling energy from the Barreiro thermoelectric power plant, with installed capacity of 12.9 MW. The company was formed in April 2001 and the plant began operating in February 2004 with its authorization extending until 2023.
- Central Termelétrica de Cogeração S.A. (100% interest) operated the Barreiro thermoelectric power plant but is now a non-operational company, since operation of the plant was subsequently transferred to Usina Termelétrica Barreiro S.A. Central Termelétrica de

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Cogeração S.A. was formed in July 2002.

- Cemig PCH S.A. (100% interest) is an IPP operating the 23MW Pai Joaquim small hydro plant and selling the electricity produced. The company was formed in October 2001 and the plant began operating in March 2004 under an authorization that expires in April 2032.
- Central Hidrelétrica Pai Joaquim S.A. (100% interest) was formed in July 2002, used to operate Pai Joaquim, a Small Hydroelectric Plant that was transferred to Cemig PCH S.A. Its corporate purpose was changed to trading in electricity by means of an amendment to its bylaws in 2010.
- Cemig Capim Branco Energia S.A. (100% interest) operates the two-plant Capim Branco generating complex, through the Capim Branco Energia Consortium. The complex, renamed the Amador Aguiar Complex, has potential total installed capacity of 450 MW. The company was formed in May 2001 and the Amador Aguiar I plant began operating in February 2006, and Amador Aguiar II began operating in March 2007. The concession runs until August 2036.

Table of Contents

- Cemig Baguari Energia S.A. (100% interest) used to operate as a vehicle for CEMIG's participation in the Baguari Hydro Plant consortium, which operates the Baguari Hydro Plant. This company was formed in July 2006 and CEMIG later decided to take part in the consortium through the company Baguari Energia S.A.
- Cemig Trading S.A. (100% interest) provides services related to the sale and trading of electricity in the Brazilian electricity sector, such as evaluation of scenarios, representation of consumers in the CCEE, structuring and intermediation of electricity purchase and sale transactions, and consultancy and advisory services. It also buys and sells electricity in the Free Market to meet the needs of its consumers. It was formed in July 2002.
- Efficientia S.A. (100% interest) provides electricity efficiency and optimization services, consultancy and solutions, and also operating and maintenance services to electricity supply facilities. The company was formed in January 2002.
- Cemig Telecomunicações S.A. (100% interest) provides telecommunications and related services, through multiservice networks using fiber optic cable, coaxial cable and other electronic equipment. Cemig Telecomunicações S.A. has a 49% interest in Ativas Data Center ( Assets ) (jointly controlled) which provides infrastructure provision of Information Technology - ICT, including physical hosting and related services for medium and large corporations.
- Cemig Serviços S.A. (100% interest) was formed in April 2008 to provide services related to generation, transmission and distribution of electric power.
- Light S.A. ( Light ) (jointly controlled , 26.06% interest in its total capital) The main holdings of Light S.A. are Light Energia, a generator of electricity, Light Serviços de Eletricidade S.A., an electricity distributor, and Light Esco Ltda., which operates in energy trading and energy efficiency. For further details, please see Acquisition of Interest in Light.
- Companhia de Gás de Minas Gerais ( Gasmig ) (jointly controlled, 55.19% interest) acquires, transports, distributes and sells natural gas. Gasmig was formed in July 1986 and in December 2004, CEMIG sold 40% of its interest in Gasmig to Gaspetro, a wholly owned subsidiary of Petrobras, and entered into a Shareholders Agreement with, Petrobras and Gaspetro. Gasmig holds a concession for distribution of piped gas throughout the state of Minas Gerais for a period of 30 years beginning in January 1993, and this period may be extended.
- Transmissora Aliança de Energia Elétrica S.A. ( TAESA ), formerly Terna Participações S.A., (jointly controlled, 56.69% direct interest in its total capital) is a holding company which operates in electricity transmission in 11 states of Brazil through the following companies, which it controls or in which it has stockholding interests: Empresa de Transmissão do Alto Uruguai S.A. ( ETAU ) (holding 52.58% of the registered capital) and Brasnorte Transmissora de Energia S.A. (holding 38.67% of the registered capital). Together, these companies hold an aggregate 2,307 miles of transmission lines, comprising component parts of the Brazilian National Electricity Transmission Grid.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

- Empresa Paraense de Transmissão de Energia S.A. ( ETEP ) (jointly controlled, 41.96% interest) is the holder of a public service electricity transmission concession for the transmission line originating at the Tucuruí Substation and ending at the Vila do Conde Substation in the State of Pará. ETEP was formed in March 2001 and CEMIG acquired its interest in ETEP in August 2006.
- Empresa Norte de Transmissão de Energia S.A. ( ENTE ) (jointly controlled, 49.99% interest) is the holder of a public service electricity transmission concession for two 500-kV transmission lines, the first from the Tucuruí Substation to the Marabá Substation in the State of Pará, and the second from the Marabá Station to the Açailândia Substation in the State of Maranhão. ENTE was formed in September 2002 and CEMIG acquired its interest in ENTE in August 2006.
- Empresa Regional de Transmissão de Energia S.A. ( ERTE ) (jointly controlled, 49.99% interest) is the holder of a public service electricity transmission concession for the 230-kV transmission line from the Vila do Conde Substation to the Santa Maria Substation in the State of Pará. ERTE was formed in September 2002 and CEMIG acquired its interest in ERTE in August 2006.
- Empresa Amazonense de Transmissão de Energia S.A. ( EATE ) (jointly controlled, 38.53% interest) is the holder of the public service electricity transmission concession for the 500-kV transmission lines between the sectionalizing substations of Tucuruí, Marabá, Imperatriz, Presidente Dutra and Açailândia. EATE was formed in March 2001, and CEMIG acquired its interest in EATE in August 2006.

Table of Contents

- Empresa Catarinense de Transmissão de Energia S.A. ( ECTE ) (jointly controlled, 19.09% interest) is the holder of the public service electricity transmission service concession for the 525-kV transmission line from the Campos Novos Substation to the Blumenau Substation in the State of Santa Catarina. ECTE was formed in August 2000, and CEMIG acquired its interest in ECTE in August 2006.
- Companhia de Transmissão Centroeste de Minas (jointly controlled, 51.0% interest) built and currently operates and maintains the 345-kV transmission line from the substation of the Furnas hydroelectric power plant to a substation located in Pimenta. Companhia de Transmissão Centroeste de Minas was formed in October 2004 and the period of the concession for the Furnas Pimenta transmission line is 30 years, beginning in March 2005. It began commercial operation of the 345 kV, 62.5-km, 750 MVA Furnas Pimenta transmission line, in Minas Gerais, on March 25, 2010.
- Companhia Transleste de Transmissão (jointly controlled, 25.0% interest) built and operates the 345-kV transmission line connecting a substation in Montes Claros to the substation of the Irapé hydroelectric power plant. This company was formed in October 2003 and began operating in December 2005. The concession period of the Irapé-Montes Claros transmission line is 30 years, beginning in February 2004.
- Companhia Transudeste de Transmissão (jointly controlled, 24.0% interest) built, operates and maintains the 345-kV transmission line from Itutinga to Juiz de Fora. Companhia Transudeste de Transmissão was formed in October 2004 and began operating in February 2007. The period of the concession for the Itutinga Juiz de Fora transmission line is 30 years, beginning in March 2005.
- Companhia Transirapé de Transmissão (jointly controlled, 24.5% interest) built, operates and maintains the 230-kV Irapé Araçuaí transmission line. Companhia Transirapé de Transmissão was formed in December 2004 and began operating in May 2007. The period of the concession for the transmission line is 30 years, beginning in March 2005.
- Empresa Brasileira de Transmissão de Energia S.A. ( EBTE ) (jointly controlled, 49% direct interest) was formed in July 2008 as a special-purpose company to build, operate and maintain 481.6 miles of transmission lines: the 144.16 mile, 230kV, double-circuit Brasnorte Juba transmission line; the 65.87 mile double-circuit Brasnorte Parecis transmission line; the 133.59 mile double-circuit Brasnorte Juína transmission line, the 90.10 mile single-circuit Nova Mutum Sorriso transmission line, and the 47.85 mile, 230kV, single circuit Sorriso Sinop transmission line, and the Parecis and Juína 230/138/13.8 kV substations, to transmit hydroelectrically generated electricity from the Dardanelos and Juruena complexes and strengthen the regional transmission system. Partial operational startup occurred in December 2010 and EBTE became fully operational in June 2011.
- Transchile Charrúa Transmisión S.A. (jointly controlled, 49% interest) is engaged in building, operating and maintaining the 220 kV Charrúa Nueva Temuco transmission line in Chile. Transchile Charrúa Transmisión S.A. was formed in July 2005. The period of the concession for the line is 20 years, beginning in May 2005, and it may be extended for an equal period. Its commercial operation began on January 21, 2010.
- Baguari Energia S.A. (jointly controlled, 69.39% interest) is a special-purpose company formed in April 2008 to operate the electricity generation concession of the Baguari power plant (140 MW), through the Baguari AHE Consortium, in which Baguari Energia

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

S.A. has a 49% interest. The period of the concession is 35 years, beginning in August 2006. The first and the second generation units started operating on September 9, 2009, and November 28, 2009, respectively. The third generation unit started operating on March 2, 2010 and the last generation unit started operating on May 19, 2010.

- Hidrelétrica Cachoeirão S.A. (jointly controlled, 49% interest) built and operates the Cachoeirão small hydro plant (PCH), on the Manhuaçu River, in the municipalities of Pocrane and Alvarenga, in the State of Minas Gerais, with installed capacity of 27 MW. Hidrelétrica Cachoeirão S.A. was formed in January 2007 and began operating in December 2008. Its concession period is 30 years, beginning in July 2000.

- Hidrelétrica Pipoca S.A. (jointly controlled, 49% interest) operates and sells the electricity generated by the Pipoca power plant on the Manhuaçu River, in the municipalities of Caratinga and Ipanema. Hidrelétrica Pipoca S.A. was formed in June 2004 and CEMIG became its shareholder in May 2008. The plant has an installed capacity of 20 MW and its three generation units began operating in October 2010. The authorization expires in September 2031.

- Lightger S.A. (jointly controlled, 49% interest) is engaged in building, operating and selling electricity generated by the Paracambi small hydro plant (PCH), on the Lajes River, in the municipality of Paracambi, state of Rio de



Table of Contents

Janeiro, 45 miles from the state's capital, Rio de Janeiro. Originally formed as a limited liability company in December 2001, Lightger S.A. was transformed into a corporation in November 2009. CEMIG acquired its interest in August 2010. The plant has an installed capacity of 25 MW, with startup of the first generation unit planned for October, 2011. The second generation units are expected to start their operations in December 2011. Its authorization period is 30 years, beginning in May 2001.

- Guanhães Energia S.A. (jointly controlled, 49% interest) is engaged in building and operating the Dores de Guanhães, Senhora do Porto and Jacaré small hydro plants in the municipality of Dores de Guanhães and the Fortuna II plant, in the municipalities of Guanhães and Virginópolis, with aggregate capacity of 44 MW. Guanhães Energia S.A. was formed in June 2006 and CEMIG acquired its interest in October 2007. Construction is delayed and is planned to begin in 2012, and operational startup is planned for the second half of 2013. Its authorization period is 30 years, beginning in 2001 for Fortuna II, October 2002 for Jacaré and Senhora do Porto, and November 2002 for Dores de Guanhães.
- Madeira Energia S.A. ( MESA ) (jointly controlled, 10% interest) is a special-purpose company, formed in August 2007 to build, operate and maintain the Santo Antônio hydroelectric plant, through its wholly owned subsidiary Santo Antônio Energia S.A. ( SAESA ). The plant is being built in the basin of the Rio Madeira, in the Northern region of Brazil. It will have generating capacity of 3,150 MW and is expected to start operating in December 2011. Its concession period runs for 35 years beginning in June 2008.
- Central Eólica Praias de Parajuru S.A. (jointly controlled, 49% interest) is located in the county of Beberibe, in the State of Ceará, 63 miles from the state's capital, Fortaleza. It started commercial operation in August 2009. All the electricity, totaling 106,604 MWh/year, has been sold to Eletrobrás, under the Program to Encourage Alternative Sources of Electricity ( Proinfa Program ) for a period of 20 years.
- Central Eólica Praia do Morgado S.A. (jointly controlled, 49% interest) is located in the county of Acaraú, in the State of Ceará, 174 miles from the State's capital, Fortaleza. It started operating in May 2010. All the electricity, totaling 115,636 MWh/year, has been sold to Eletrobrás, under the Proinfa Program for a period of 20 years.
- Central Eólica Volta do Rio S.A. (jointly controlled, 49% interest) is located in the county of Acaraú, in the State of Ceará, 149 miles from the State's capital, Fortaleza. It began operating in September 2010. All the electricity, totaling 161,238 MWh/year, has been sold to Eletrobrás, under the Proinfa Program for a period of 20 years.
- Axxiom Soluções Tecnológicas S. A. (49% interest) provides complete services of systems implementation and management to electricity sector companies (generation, transmission and distribution). Axxiom Soluções Tecnológicas S. A. was formed on August 27, 2007 and began operating in the second half of 2008.
- Parati S.A. Participações em Ativos de Energia Elétrica ( SPE Parati ) (jointly controlled, 49% interest) has as its corporate purpose the participation in the capital stock of other companies, domestic or foreign, as a partner or shareholder.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

On July 3, 2008, CEMIG's Board of Directors authorized Cemig Generation and Transmission to acquire a 49% stake in the Itaocara Hydroelectric Power Plant and the Paracambi and Lajes Small Hydroelectric Power Plants and to join, by contract: the UHE Itaocara Consortium, in partnership with Itaocara Energia Ltda.; the PCH Paracambi Consortium, in partnership with Lightger Ltda.; and the PCH Lajes Consortium, in partnership with Light Energia S.A. The objective of each consortium is to prepare technical and economic feasibility studies and to plan, build, operate and maintain the respective power plants.

On August 13, 2010 Cemig Generation and Transmission acquired from Light S.A. 49% of the registered and voting capital of Lightger S.A., a specific purpose subsidiary of Light S.A., which holds the authorization for commercial operation of the Paracambi Small Hydro Plant. Anel's approval of the transaction was obtained through Authorizing Resolution No. 2,494 of August 3, 2010. Cemig Generation and Transmission paid a total of R\$20 million for the acquisition of 25,939,013 common shares of Lightger S.A., equivalent to a price of R\$0.769482 per share.

The Lajes Small Hydro Plant is still at the planning and feasibility study stages. The Paracambi Small Hydro Plant is expected to become fully operational in 2011. The Itaocara Hydroelectric Power Plant is expected to begin operating in 2014.

Table of Contents

On February 4, 2009, Cemig Generation and Transmission's Board of Directors authorized the offering of a binding proposal for a share purchase agreement to Energimp S.A. to purchase a 49% interest in three wind farms located in the State of Ceará, Brazil for R\$213 million. The transaction was completed on August 15, 2009, for R\$223 million.

The wind farms acquired include the Praias de Parajuru Wind Farm, which started operating in August 2009, the Praia do Morgado Wind Farm, which started operating in May 2010, and the Volta do Rio Wind Farm, which started operating in September 2010, with a total installed capacity of 99.6 MW. The acquisitions were approved by Aneel, the Federal Savings Bank (Caixa Econômica Federal), Eletrobrás, and the antitrust authority CADE (Conselho Administrativo de Defesa Econômica).

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. We are party to concession agreements with Aneel that consolidate 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. We are also party to a concession agreement with Aneel with respect to our transmission operations. In connection with the unbundling, on September 16, 2005, Aneel approved the transfer of our concession for distribution services to Cemig Distribution and the transfer of our concession for transmission services to Cemig Generation and Transmission. On October 22, 2008, Aneel approved the transfer of our generation concession to Cemig Generation and Transmission.

On December 31, 2010, we generated electricity at 59 hydroelectric plants, three thermoelectric plants and four wind farms and had a total installed capacity of 6,909 MW. At the same date, we owned and operated 3,085 miles of transmission lines and 292,682 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 and Item 5. Operating and Financial Review and Prospects.

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 Gasmig as a subsidiary to undertake the distribution of natural gas through pipelines located in Minas Gerais, of which we sold a 40% stake in 2004 to Gaspetro.

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. (currently CEMIG Telecomunicações S.A.). We also provide consulting services and have entered into consulting agreements with electricity companies in several countries.

**Acquisition of Terna**

Under its strategic business plan, one of CEMIG's objectives is to expand its market share in the Brazilian electricity sector. In this context, on April 23, 2009, Cemig Generation and Transmission signed a share purchase agreement with the Italian company Terna Rete Elettrica Nazionale S.p.A, or Terna S.p.A. in relation to the shares in the transmission holding company Terna Participações S.A. ( Terna ). This transaction was completed on November 3, 2009 through Transmissora do Atlântico de Energia Elétrica S.A. ( Atlântico ), a company formed by Cemig Generation and Transmission, owning 49%, and Fundo de Investimento em Participações Coliseu ( FIP Coliseu ), owning 51%. Ownership of the FIP Coliseu is shared among several different investors, both individual and institutional.

Atlântico acquired 65.85% of the registered capital and 85.26% of the voting stock of Terna, for a price of R\$2,148 million. On November 4, 2009, the name of Terna Participações S.A. was changed to Transmissora Aliança de Energia Elétrica S.A. ( Taesa ).

Under one of the agreements that regulate the partnership of Cemig Generation and Transmission with FIP Coliseu in the acquisition of the shares in Terna, Cemig Generation and Transmission has granted FIP Coliseu the right to sell all of its interest in Taesa to Cemig Generation and Transmission, exercisable in April 2014, upon payment of the amounts of capital invested net of the dividends and benefits received by FIP Coliseu in the acquisition of Terna adjusted by the variation in the IPCA inflation index +7% p.a.

On December 28, 2009, Atlântico was split, and the majority of it was incorporated by Taesa, with the separated part of net assets and liabilities transferred to Transmissora Alterosa de Energia S.A. ( Alterosa ), a company also owned by us and FIP Coliseu.

Table of Contents

Alterosa assumed the obligations in relation to the public offering to acquire shares in Taesa, with the purpose to give non-controlling shareholders the same terms in the sale of shares. After the incorporation, Cemig Generation and Transmission and FIP Coliseu directly held, respectively, 32.27% and 33.59% of the registered capital, and 41.78% and 43.48% of the voting stock, of Taesa.

On March 23, 2010, to comply with the requirement that all shareholders should receive the same terms of sale as those of the transaction with Terna S.p.a., as required by the bylaws of Taesa, Brazilian Corporate Law, CVM Instruction 361/2002 and the Regulations of Level 2 Corporate Governments Practices of BM&FBOVESPA, a tender offer was carried out for acquisition of the common and preferred shares of Taesa, and also of units representing one common share and two preferred shares each.

This tender offer was settled on May 11, 2010, with acceptance of the offer by holders of 86.17% of all shares being traded in the market, which corresponded to 77,525,322 shares (25,841,774 common shares and 51,683,548 preferred shares). The price paid was R\$12.91 per share, totaling R\$1,001 million. After the tender offer, Cemig Generation and Transmission and FIP Coliseu together held an aggregate total of 95.28% of the total capital of Taesa (97.96% of the common shares and 86.17% of the preferred shares).

On December 31, 2010, the operational companies Novatrans Energia S.A., Transmissora Sudeste Nordeste S.A. ( TSN ), Empresa de Transmissão de Energia do Oeste S.A. ( ETEO ), Taesa Serviços Ltda and the holding companies Alterosa and Transmissora Alvorada de Energia S.A. were merged into Taesa, in accordance with Aneel Authorizing Resolution No. 2,627 of November 30, 2010.

From a shareholder's perspective, these mergers were an important step for increasing efficiency at the company, providing greater strength to its financial structure and making it more competitive. These transactions are aimed, among other things, at simplifying our corporate structure. Also, the mergers are expected to result in improved security and efficiency and make Taesa the principal vehicle for growth and acquisitions within its economic group.

Cemig Generation and Transmission's total equity interest in Taesa remained unchanged on December 31, 2010, representing 56.69% of Taesa's capital stock, as follows:

Holder	Common Shares	%	Preferred Shares	%	Total	%
FIP Coliseu	101,678,120	50.0%		0.0%	101,678,120	38.6%
Cemig Generation and Transmission	97,690,473	48.0%	51,683,548	86.2%	149,374,291	56.7%
Board members	22	0.0%		0.0%	22	0.0%
Related parties	2	0.0%		0.0%	2	0.0%
Free float	4,148,824	2.0%	8,297,648	13.8%	12,446,472	4.7%
<b>TOTAL</b>	<b>203,517,711</b>	<b>100.0%</b>	<b>59,981,196</b>	<b>100.0%</b>	<b>263,498,907</b>	<b>100.0%</b>

**Acquisition of Interest in Light**

In August 2006, CEMIG acquired a 25% interest in Rio Minas Energia Participações S.A. ( RME ), which in turn held a 52.25% interest in Light S.A., or Light, which generates, and distributes electricity and provides energy services in the state of Rio de Janeiro. On December 31, 2009,

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

the shareholders of RME approved a stockholding reorganization based on a partial split of the company into equal parts, resulting in CEMIG and Andrade Gutierrez Concessões S.A. ( AGC ) holding a direct interest in Light, after the transaction, while Luce Brasil Fundo de Investimento em Participações ( LUCE ), through Luce Empreendimentos e Participações S.A. ( LEPSA ), and Equatorial Energia S.A. ( Equatorial ), through the remaining portion of RME, kept their respective indirect interests.

On December 30, 2009, CEMIG, as purchaser, entered into share purchase agreements with AGC and Fundo de Investimento em Participações PCP (FIP PCP), the controlling shareholder of Equatorial, in relation to their respective direct and indirect stockholdings in Light. Under the provisions of these share purchase agreements, the amounts were to be adjusted by the Interbank Certificates of Deposit (*Certificados de Depósito Interbancário*), or CDI rate, published by Cetip S.A. Balcão Organizado de Ativos e Derivativos (the Securities Custody and Financial Settlement Center), from December 1, 2009 up to the date of closing of each transaction, less the dividends paid or declared in the period. Under the provisions of these share purchase agreements, completion of the agreement signed with FIP PCP was conditional on a stockholding restructuring of Equatorial, which was the direct holder of the shares that are the subject of the transaction, which took place on April 29, 2010.

Table of Contents

The share purchase agreement with AGC corresponds to 13.03% of the voting and total stock of Light. The price of the acquisition, corresponding to 26,576,149 common shares in Light, was R\$785 million, equivalent to approximately R\$29.54 per share. On March 25, 2010, CEMIG paid R\$718.5 million to AGC, corresponding to 25,494,500 shares, or 12.50% of the capital, equivalent to R\$28.18 per share. Completion of the remainder of the transaction, for 1,081,649 shares, or 0.53% of the capital, took place in November 17, 2010, when CEMIG paid R\$15.8 million to AGC.

The share purchase agreement with FIP PCP was entered into in connection with the acquisition of up to 55.41% of the indirect stockholding held by FIP PCP, the controlling shareholder of Equatorial, in Light. This interest consists of 14,728,502 common shares in Light, equivalent to 7.22% of the voting and total capital of Light. For this transaction to be completed, Equatorial underwent a reorganization to separate out the indirect holding in Light to a new company (Redentor Energia S.A., a company listed on the *Novo Mercado* of the BM&FBovespa, which holds 100% of RME, which in turn holds 13.03% of the shares of Light S.A).

In connection with the Share Purchase Agreements, on March 24, 2010, CEMIG entered into an option contract for sale of shares and other matters (the Put Option) with Enlighted Partners Venture Capital LLC, a limited liability company, the object of which is the grant of an option to sell the share units of Luce Investment Fund ( LUCE Fund ), which owns 75% of the share units in LUCE, which in turn is the indirect holder, through LEPSA, of 26,576,149 common shares in Light, representing approximately 13.03% of the total and voting capital of Light. The remaining 25% of the equity interest of FIP Luce is held by Fundação de Seguridade Social Braslight ( Braslight ).

The price of the share units of LUCE Fund equals US\$340.5 million, adjusted by 11% p.a. and reduced of any dividends or interest on capital paid or declared from December 1, 2009 up to the closing date.

On October 6, 2010, Enlighted exercised the Put Option and, consequently, Braslight also stated its position on the exercise of its right of joint sale, so that CEMIG or a third party indicated by it will have to acquire 100% of the units of LUCE, which will represent the acquisition of a further 13.03% of the registered and voting capital of Light S.A.

On April 11, 2011, CEMIG assigned all the rights and obligations specified in the contracts referred to above to SPE Parati, so as to permit continuation of its policy of expansion through other acquisitions, maintaining its indebtedness capacity, as well as allowing maintenance of Light's existing indebtedness, since Light would not become subject to state control or the rules governing the financing of public sector companies.

In view of the financial obligations involved in these acquisitions, the analyses made by the Company indicated that the acquisitions should be made in partnership with a financial partner, which would acquire part of the shares and receive, in consideration, an option to sell those shares to CEMIG with a minimum guaranteed remuneration. This financial partner would be an Equity Investment Fund (FIP), whose unit holders would be financial institutions interested in participating in projects of low performance risk, already being operated by a company with proven operational excellence, and in earning an attractive return.

The Company entered into a partnership with BTG Alpha Participações Ltda. ( BTG Alpha ), and, subsequently, with its successor, Redentor Fundo de Investimento em Participações ( FIP Redentor ), for acquisition of the equity interest indirectly owned by FIP PCP and Enlighted in Light S.A., through SPE Parati.

FIP Redentor has as its unit holders Banco Santander (Brasil) S.A. ( Santander ), Banco Votorantim S.A. ( Votorantim ), BB Banco de Investimento S.A. ( Banco do Brasil ) and Banco BTG Pactual S.A. ( BTG Pactual ), the latter being the fund manager.

SPE Parati's capital stock is currently distributed as follows: FIP Redentor holds 50% of SPE Parati's common shares and 100% of its preferred shares, representing 75% of SPE Parati's total capital stock and CEMIG holds 50% of SPE Parati's common shares, representing 25% of SPE Parati's total capital stock.

On May 12, 2011, FIP PCP sold its indirect interest in Light, through Redentor Energia S.A., to SPE Parati. The value of this acquisition was R\$403 million, for 54.08% of the indirect interest in Light held by FIP PCP.

According to the rules of the Novo Mercado segment of BM&FBovespa, SPE Parati is required, in connection with the transaction with FIP PCP, to make a tender offer to acquire the shares held by the non-controlling shareholders of Redentor Energia S.A., giving them rights similar to tag-along rights. The acquisition price per share in the tender offer will be R\$6.874712, updated by the variation of SELIC - Sistema Especial de Liquidação e Custódia (Special Settlement and Custody System), or SELIC



Table of Contents

interest rate, calculated *pro rata* from the acquisition closing date, May 12, 2011 (exclusive), up to the date of financial settlement of the auction (inclusive). If all eligible shareholders of Redentor Energia S.A. opt to accept the tender offer, SPE Parati will have to pay a total amount of R\$342.5 million, of which R\$85.6 million would be paid by CEMIG plus accrued SELIC interest. This transaction is expected to be completed in September 2011.

As agreed by CEMIG and FIP Redentor, CEMIG shall grant an irrevocable and irreversible option, exclusively to FIP Redentor (and not to any of its unit holders), under which FIP Redentor will have the right, at the end of the 60th month from the date of subscription of the shares issued by SPE Parati, to sell the totality of the shares owned by FIP Redentor, and CEMIG, or a third party indicated by it, will have the obligation to buy such shares, by means of payment of an exercise price equivalent to the amount paid at the time of payment of the initial pay-up of the shares, plus expenses, less the dividends and 57.2% of the interest on capital received during such period, all adjusted according to the CDI Rate plus 0.9% per year, *pro rata*, from the date of its actual disbursement/payment to the exercise date of the put option. The payment of the exercise amount and the transfer of the shares issued by SPE Parati are subject to prior approval by Aneel, in the event FIP Redentor exercises this option.

In the event of the exercise price is higher than the amount paid-up by FIP Redentor at the time of the subscription of the shares of SPE Parati, an adjustment factor of  $(1/(1 - 0.4279)) - 1$  shall be applied to the difference, and added to the exercise price.

On December 31, 2010, we held a 26.06% total interest in Light. As of June 6, 2011 we held a 27.82% total interest in Light, which included a direct 26.06% interest and an indirect 1.76% interest through SPE Parati. Assuming the above transactions close, the Company will hold, directly and indirectly, approximately 32.58% of the voting shares of Light.

**Acquisition of Interest in Transmission Companies from Abengoa**

On June 2, 2011, Taesa entered into two share purchase and sale agreements with Abengoa Concessões Brasil Holding S.A. ( Abengoa Concessões ) and Abengoa Construção Brasil Ltda. ( Abengoa Construção ), and, together with Abengoa Concessões, Abengoa ), in the total amount of R\$1,099 million, to acquire equity interests in the capital stock of transmission companies owned by Abengoa.

One of the agreements is the Share Purchase and Sale Agreement for the acquisition of 50% of the shares held by Abengoa Concessões in the capital stock of Abengoa Participações Holding S.A. ( Abengoa Participações ) which, on the closing date of the transaction, will hold 100% of the shares of the following transmission companies:

- STE Sul Transmissora de Energia S.A. ( STE ),
- ATE Transmissora de Energia S.A. ( ATE ),
- ATE II Transmissora de Energia S.A. ( ATE II ) and
- ATE III Transmissora de Energia S.A. ( ATE III )

The other agreement is the Share Purchase and Sale Agreement for the acquisition of 100% of the shares held by Abengoa in the capital stock of the transmission company NTE - Nordeste Transmissora de Energia S.A. ( NTE ).

The operating assets to be acquired include 1,523 miles of transmission lines, with a Permitted Annual Revenue (Receita Anual Permitida, or RAP ) of R\$455 million, representing an increase of R\$277 million in Taesa's RAP.

Prior to the closing of the transaction, Abengoa Concessões shall:

- transfer all the shares currently held by Compañía Española de Financiación Del Desarrollo (COFIDES) in the capital stock of ATE (23.82%) and ATE III (18.55%) to Abengoa Concessões; and,
- transfer all the shares held by Abengoa Concessões in the capital stock of the subsidiaries ATE, ATE II, ATE III and STE to Abengoa Participações, so that Abengoa Participações will hold all the shares of the capital stock of these subsidiaries.

The closing of the transaction and the acquisition of the shares by Taesa is subject to a number of conditions precedent, including: (i) the approval of the transaction by the shareholders of Taesa in a general shareholders' meeting, (ii) the consent of the financing banks to the transfer of the shares, and (iii) the approval of the transaction by Aneel. In addition, the transaction must also be submitted to the approval of the Brazilian antitrust authority (Conselho Administrativo de Defesa Econômica (CADE)).

The purchase price shall be adjusted by the accrued variation of the SELIC between December 31, 2010 and the business day immediately preceding the closing date of the transaction. The purchase price shall also be adjusted in accordance with any dividends, capital increase or capital reduction, from December 31, 2010 to the closing date of the transaction.

Table of Contents

The corporate structure after the closing of the transaction will be as follows:

The Shareholders Agreement to be entered into between Taesa and Abengoa with respect to the ATE, ATE II, ATE III and STE subsidiaries will contain the standard provisions generally included in such agreements, including:

- a special quorum for certain matters, which approval will depend on the affirmative vote of Taesa's representatives in the shareholders meetings or in the board of directors meetings;
- the right of first refusal in the acquisition of shares from shareholders that wish to transfer their shares to third parties; and
- a dispute resolution mechanism.

**Transmission Concession Holders**

In 2006, CEMIG, in partnership with MDU Brasil Ltda. and Brascan Brasil Ltda., acquired 50% ownership of the voting stock of the electricity transmission concession holders EATE, ENTE, ETEP, and ERTE, and 40% of the voting stock of the transmission concession holder ECTE, for R\$802 million. Together, we refer to the companies as the Brazilian Power Transmitters (*Transmissoras Brasileiras de Energia*), or TBE.

On September 24, 2008 Brookfield Brasil TBE Participações Ltda., or Brookfield, CEMIG's partner in TBE, exercised the option to sell its shares in the companies EATE, ECTE, ENTE, ERTE and ETEP to CEMIG, Alupar Investimento S. A. (Alupar) and Centrais Elétricas de Santa Catarina (Celesc). Jointly with Alupar and Celesc, CEMIG acquired the shares formerly owned by Brookfield in the transmission companies of the TBE Group, which consists of EATE, ENTE, ETEP, ECTE and ERTE.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Subsequently, on June 30 and July 14, 2009, CEMIG acquired additional Brookfield shares of the TBE Group. At the end of those transactions, CEMIG held 99.9% of the shares previously owned by Brookfield in EATE, ENTE, ERTE, and ETEP, and 78.3% of the shares previously owned by Brookfield in ECTE, for an amount corresponding to R\$504.9 million.

In October 2008, EATE acquired an 80% interest in the companies Sistemas de Transmissão Catarinense S.A. ( STC ) and Lumitrans Companhia Transmissora de Energia Elétrica, both located in Santa Catarina, adding R\$32 million in Permitted Annual Revenue ( RAP ), and 122 miles of network, to the TBE Group.

Also, in 2008, EATE, jointly with Cemig Generation and Transmission, won an aneel Auction for the construction, operation and maintenance of five sections of transmission line (482 miles), involving seven substations (400MVA), in Mato Grosso, with a RAP of R\$27 million. EBTE was contracted to operate the project, with EATE owning 51% of the capital and Cemig Generation and Transmission owning 49%.

In May 2009, ETEP won an Aneel Auction for the construction, operation and maintenance of the 345kV Santos Dumont substation, in Minas Gerais, for RAP of R\$8 million. In June 2009, Empresa Santos Dumont de Energia S.A. ( ESDE ) was contracted to operate the project.

Table of Contents*Description of the transmission concession holders*

On December 31, 2010, CEMIG had direct investments (jointly controlling) in EATE, ECTE, ENTE, ERTE, ETEP and EBTE, and indirect investments in STC, Lumitrans, and ESDE as disclosed under "Transmission Assets" section below.

Under the concession contracts for these lines, the annual revenue in the last 15 years of the contracts is 50% less than the annual revenue for the first 15 years, though the annual revenue is adjusted each year for inflation in connection with the transmission companies' annual review, except the most recent concessions, such as EBTE and ESDE, in which this 50% reduction in revenues after the 15th year is not applicable. The annual review and revenue adjustment usually takes place in the month of July. We recognize revenue on these contracts on a straight-line basis in accordance with the nature of the services provided.

On November 13, 2010, 13,411,720 shares, representing 13.3% of the voting and total capital of ENTE; 3,112,200 shares, representing 13.03% of the voting and total capital of ERTE; and 2,410,597 shares, representing 5.73% of the voting and total capital of ECTE, were transferred to CEMIG. CEMIG paid approximately R\$100.5 million for these shares, becoming the holder of 49.99% of the total and voting capital of ENTE; 49.99% of the total and voting capital of ERTE; and 19.09% of the total and voting capital of ECTE, as shown below:

**TBE Capital Chart December 31, 2010**

Holder	% OF TOTAL CAPITAL				
	EATE	ECTE	ENTE	ERTE	ETEP
Alupar Investimentos S.A.	38.56%	40.01%	50.01%	50.01%	50.02%
Centrais Elétricas Brasileira S/A Eletrobrás	22.91%				8.02%
Centrais Elétricas de Santa. Catarina CELESC		30.89%			
<b>Companhia Energética de Minas Gerais CEMIG</b>	<b>38.53%</b>	<b>19.09%</b>	<b>49.99%</b>	<b>49.99%</b>	<b>41.96%</b>
MDU Resources Luxembourg		10.01%			
<b>TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Holder	% OF VOTING CAPITAL				
	EATE	ECTE	ENTE	ERTE	ETEP
Alupar Investimentos S.A.	50.02%	40.01%	50.01%	50.01%	50.02%
Centrais Elétricas Brasileira S/A Eletrobrás					
Centrais Elétricas de Santa. Catarina CELESC		30.89%			
<b>Companhia Energética de Minas Gerais CEMIG</b>	<b>49.98%</b>	<b>19.09%</b>	<b>49.99%</b>	<b>49.99%</b>	<b>49.98%</b>
MDU Resources Luxembourg		10.01%			
<b>TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**Capital Expenditures**

Capital expenditures for the years ended December 31, 2010 and 2009 in millions of *reais*, are as follows:

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

	Year ended December 31,	
	2010	2009
Generation power projects under property, plant and equipment	575	783
Transmission network expansion	1,800	1,746
Distribution network expansion	1,673	877
Others	156	293
Total capital expenditures	4,204	3,699

We currently project capital expenditures in 2011 related to property, plant and equipment of approximately R\$1,540 million. In the first quarter of 2011 we invested R\$124 million and we expect to require additional capital expenditures of R\$1,416 million in 2011 to support our plans. The principal uses of these capital expenditures are expected to be for the expansion of our distribution infrastructure.

We expect to fund our capital expenditures in 2011 mainly from our cash flow from operations and, to a lesser extent, through financing. We expect to finance our expansion and projects by commercial bank loans and by issuing debentures in the local market.

We expect our capital expenditures in 2011 to be lower than in 2010 due to the investments in acquisition of interests in TAESA and Light in 2010, which totalized R\$1,562 million.

Table of Contents**Business Overview***General*

We are required, like other Brazilian electric utilities, to purchase electricity from the Itaipu Hydroelectric Power Plant in an amount determined by the Federal Government based on our electricity sales. See Distribution and Purchase of Electric Power Purchase of Electric Power Itaipu. In addition, we purchase energy from other concessionaires. See Distribution and Purchase of Electric Power Purchase of Electric Power Auction Contracts. 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: (other than with respect to Light):

**CEMIG S ELECTRIC ENERGY BALANCE (6)**

(GWh)	Year ended December 31,		
	2010	2009	2008
<b>RESOURCES</b>	77,752	70,548	68,318
Electricity generated by CEMIG (1)	30,361	32,830	31,291
Electricity generated by auto-producers	980	1,167	1,062
Electricity generated by Ipatinga	300	210	355
Electricity generated by Barreiro	65	62	75
Electricity generated by Sá Carvalho	380	428	349
Electricity generated by Horizontes	80	79	41
Electricity generated by Cemig PCH	58	3	22
Electricity generated by Rosal Energia	310	309	230
Electricity generated by Amador Aguiar	614	641	610
Electricity generated by Cachoeirão (5)	134	148	
Electricity bought from Itaipu	8,590	8,889	12,323
Electricity bought from CCEE and other companies (2)(3)	35,880	25,782	21,960
<b>REQUIREMENTS</b>	77,752	70,548	68,318
Electricity delivered to final consumers (4)	43,272	39,204	42,940
Electricity delivered to auto-producers	993	996	982
Electricity delivered by Ipatinga	300	211	355
Electricity delivered by Barreiro	99	84	98
Electricity delivered by Sá Carvalho	496	500	473
Electricity delivered by Horizontes	85	79	84
Electricity delivered by Cemig PCH	121	123	122
Electricity delivered by Rosal Energia	263	263	263
Electricity delivered by Cachoeirão (5)	143	140	
Electricity delivered to the CCEE and other companies(2)(3)	26,264	23,339	17,211
Losses	5,716	5,609	5,790

- (1) Discounting the losses attributed to generation (738 GWh in 2010) and the internal consumption of the generating plants.
- (2) This amount refers to contracts, purchases and sales of electricity under the CCEE, including the Energy Reallocation Mechanism (*Mecanismo de Realocação de Energia*).
- (3) Includes bilateral contracts with other agents of the CCEE.
- (4) Includes electricity delivered to consumers outside the concession area.
- (5) Includes 100% of electricity produced by Cachoeirão Hydro Power Plant. CEMIG has a 49% interest in the consortium, and is responsible for the sale of 100% of the physical guarantee of this Small Hydro Plant.
- (6) It does not include Light, which manages its own electric energy balance.

*Generation*

According to Aneel, at December 31, 2010, we were the third largest electric power generation group in Brazil as measured by total installed capacity. At December 31, 2010, we generated electricity at 59 hydroelectric plants, three thermoelectric plants and four wind farms and had a total installed generation capacity of 6,909 MW of which hydroelectric plants accounted for 6,575 MW, thermoelectric plants accounted for 184 MW and wind farms accounted for 50 MW. Eight of our hydroelectric plants accounted for



Table of Contents

approximately 80% of our installed electric generation capacity in 2010. During the year ended December 31, 2010, we recorded expenses totaling R\$728 million relating to transmission charge payments made to the ONS and to transmission concession holders. See The Brazilian Power Industry and Item 5. Operating and Financial Review and Prospects.

*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 final users. We transport energy produced at our own generation facilities as well as energy that we purchase from Itaipu, and other sources, as well as the energy for 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 Brazilian Grid regulated by the ONS. See The Brazilian Power Industry. As of December 31, 2010, our transmission network consisted of approximately 38 miles of upper 525 kV lines, 2,663 miles of 500 kV lines, 177 miles of 440kV lines, 1,347 miles of 345 kV lines and 909 miles of 230 kV lines, which were distributed, mainly, among the following companies:

- Cemig Generation and Transmission: 1,352 miles of 500 kV lines, 1,265 miles of 345 kV lines and 499 miles of 230 kV lines located in Minas Gerais.
- TAESA: CEMIG's proportionate share includes 862 miles of 500 kV lines, 177 miles of 440 kV lines and 155 miles of 230 kV lines, distributed among TAESA and its subsidiaries in eleven different Brazilian States. CEMIG's interest in TAESA is 56.69%.

The remaining assets are dispersed among sixteen transmission companies of the group and CEMIG's proportionate share includes 38 miles of upper 525 kV lines, 449 miles of 500 kV lines, 82 miles of 345 kV lines and 256 miles of 230 kV lines in six different Brazilian States and in Chile.

*Distribution*

Through Cemig Distribution, we have four distribution concession agreements in the state of Minas Gerais that grant us rights to supply electricity to consumers in that area, including consumers that may be eligible, under the legislation, to become Free Consumers (consumers with demand equal to or greater than 3 MW, or consumers with demand equal to or greater than 500 kW from alternative energy sources, such as wind, biomass or Small Hydroelectric Plants). The concession area of Cemig Distribution covers approximately 219,103 square miles, or 96.7% of the territory of the state. As of December 31, 2010, we owned and operated 292,682 miles of distribution lines, through which we supplied 23,102 GWh to approximately 7.1 million end-consumers.

In 2010, a total of 19,274 GWh was carried and delivered by the electricity distribution systems. The total amount of electricity supplied to distribution consumers was 42,375 GWh, of which 55.7% was supplied to industrial consumers, 19.2% to residential consumers, 11.7% to commercial consumers, 5.8% to rural consumers and 7.6% to other consumers. Cemig Distribution is the largest electricity distribution

concession holder in Brazil, in terms of number of consumers, according to ABRADÉE.

Through Light Serviços de Eletricidade S.A. ( Light SESA ) which is controlled by our subsidiary Light S.A., we participate in the distributions service concession contract in the State of Rio de Janeiro, which gives us the right to supply electricity in an area of covering 10,970 square miles. In 2010, Light SESA reached about 4 million consumers which corresponded to approximately 72% of total consumption in the state, including the metropolitan region, with a captive consumption of 19,459 GWh.

*Other Businesses*

While our main business consists of the generation, transmission and distribution of electricity, we also engage in the following businesses:

(i) distributing natural gas in Minas Gerais through our subsidiary, Gasmig, (ii) telecommunications through our consolidated subsidiary Cemig Telecomunicações S.A., a company created to provide fiber-optics and coaxial cable network installed along our transmission and distribution lines through which telecommunication services can be provided; (iii) national and international consulting business through our subsidiary Efficientia S.A., which focuses on providing our largest customers in the industrial, service and commercial sectors with energy solutions; and (iv) implementation and management of systems for electricity sector companies (generation, distribution and transmission) through our subsidiary Axxiom Soluções Tecnológicas S.A.. We also seek to strengthen our business in gas and the development of alternative sources of energy, particularly oil. On February 9, 2009, our by-laws were amended to create the Office of the Chief Officer for the Gas Division, who is responsible for coordinating all the policies and processes for exploration, acquisition, storage, transportation, transmission, distribution and sale of oil and gas and their sub-products, whether derived directly or through third parties.

Table of Contents**Revenue Sources**

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

	Year ended December 31,	
	2010	2009
Electricity sales to final consumers	13,352	13,233
Electricity sales to the interconnected power system	1,602	1,775
Use of basic transmission and distribution networks	3,213	2,235
Services rendered	179	129
Telecommunication and other	612	523
Tax on revenues	(6,095)	(5,737)
Total	12,863	12,158

**Power Generation and Trading***Overview*

The following table sets forth certain operating information concerning our electric power generation plants as of December 31, 2010:

Facility	Installed Capacity (MW)	Assured Energy (1) (average MW)	Year Commenced Operations	Installed Capacity % of Total	Date Concession or Authorization Expires	CEMIG's Interest
<b>Major Hydroelectric Plants</b>						
São Simão	1,710	1,281.0	1978	24.7	January 2015	100%
Emborcação	1,192	497.0	1982	17.3	July 2025	100%
Nova Ponte	510	276.0	1994	7.4	July 2025	100%
Jaguara	424	336.0	1971	6.1	August 2013	100%
Miranda	408	202.0	1998	5.9	December 2016	100%
Três Marias	396	239.0	1962	5.7	July 2015	100%
Volta Grande	380	229.0	1974	5.5	February 2017	100%
Irapé	360	206.3	2006	5.2	February 2035	100%
Aimorés	161.7	84.3	2005	2.3	December 2035	49%
Salto Grande	102	75.0	1956	1.5	July 2015	100%
Funil	88.2	43.6	2002	1.3	December 2035	49%
Sá Carvalho	78	58.0	2000(2)	1.1	December 2024	100%
Queimado	86.6	47.8	2004	1.3	January, 2033	82.5%
Rosal Energia	55	30.0	2004(2)	0.8	May 2032	100%
Itutinga	52	28.0	1955	0.8	July 2015	100%
Baguari	47.6	27.3	2009	0.7	August 2041	34%
Amador Aguiar I	50.5	32.6	2006	0.7	August 2036	21.05%
Amador Aguiar II	44.2	27.6	2007	0.6	August 2036	21.05%

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Camargos	46	21.0	1960	0.7	July 2015	100%
Porto Estrela	37.3	18.6	2001	0.5	July 2032	33.3%
Igarapava	30.5	24.4(3)	1999	0.4	December 2028	14.5%
Pai Joaquim (4)	23	13.9	2004	0.3	April 2032	100%
Cachoeirão	13.2	8.0	2008	0.2	July 2030	49%
Piau	18	8.0	1955(2)	0.3	July 2015	100%
Gafanhoto	14	6.7	1946	0.2	July 2015	100%
Pipoca	9.8	5.8	2010	0.1	September 2031	49%
Smaller Hydroelectric Plants (5)	115.2	61.4		1.7		
Thermoelectric Plants						
Igarapé	131	71.3	1978	1.9	August 2024	100%
Ipatinga	40	40.0	2000(2)	0.6	December 2014	100%
Barreiro	12.9	11.4	2004	0.2	April 2023	100%
Wind Farm						
Morro do Camelinho	1	0.3	1994	0.0	Indefinite	100%
Praias do Parajuru	14.1	6.1	2009	0.2	September 2032	49%
Praia do Morgado	14.1	6.8	2010	0.2	December 2031	49%
Volta do Rio	20.6	9.5	2010	0.3	December 2031	49%
Light Hydroelectric Plants						
Fonte Nova	34.4	27.1	1940	0.5	July 2029	26.06%
Ilha dos Pombos	48.8	30.0	1924	0.7	July 2029	26.06%
Nilo Peçanha	99	87.3	1940	1.4	July 2029	26.06%

Table of Contents

Facility	Installed Capacity (MW)	Assured Energy (1) (average MW)	Year Commenced Operations	Installed Capacity % of Total	Date Concession or Authorization Expires	CEMIG's Interest
Pereira Passos	26.1	13.3	1962	0.4	July 2029	26.06%
Santa Branca	14.6	8.3	1999	0.2	July 2029	26.06%
Total	6,909.4	4,199.7		100		

- (1) Assured Energy is the plant's long-term average output, as established by the Ministry of Mines and Energy (MME) in accordance with studies conducted by the EPE. 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. MME Resolution 303/2004 changed the term Assured Energy to Physical Guarantee.
- (2) Indicates our date of acquisition.
- (3) The amount of 5.49 average MW of Assured Energy, as set forth in the agreement with a consortium formed by Cemig Generation and Transmission and Companhia Vale do Rio Doce, Companhia Siderúrgica Nacional, Votorantim Metais e Zinco S.A and AngloGold Ashanti Brasil Ltda., is included.
- (4) On December 19, 2005, Aneel approved the transfer of the authorization to produce and sell the energy of the Pai Joaquim Small Hydroelectric Power Plant from Central Hidrelétrica Pai Joaquim S.A. to Cemig PCH S.A.
- (5) Corresponds to 29 Small Hydroelectric Power Plants: Anil, Bom Jesus do Galho, Cajuru, Dona Rita, Jacutinga, Joasal, Lages, Luiz Dias, Machado Mineiro, Marmelos, Martins, Paciência, Pandeiros, Parauna, Peti, Pissarrão, Poço Fundo, Poquim, Rio de Pedras, Salto Voltão, Salto de Morais, Salto do Passo Velho, Salto do Paraopeba, Santa Luzia, Santa Marta, São Bernardo, Sumidouro, Tronqueiras and Xicão.

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

Voltage of Connection Lines	Circuit Length of Generation Lines in Miles (from power plants to generation substations) As of December 31,		
	2010	2009	2008
500 kV	7	7	7
345 to 230 kV	108(3)	81(1)	15
161 to 138 kV	112	112	112
69 to 13.8 kV	187(4)	163(2)	134
Total	514	363	268

	Step-Down Transformation Capacity(5) of Generation Substations As of December 31,		
	2010	2009	2008
Number of step-down substations	63	59	58
MVA	7,416	7,332	7,141(6)

- (1) The circuit length of our 230 kV connection lines increased in 2009 because the Baguari facility began its operations.
- (2) The circuit length of our 69 kV connection lines increased in 2009 because the Wind Farm Praias do Parajuru began its operations.
- (3) The circuit length of our 230 kV connection lines increased in 2010 because Praia do Morgado and Volta do Rio Wind Farms began their operations.
- (4) The circuit length of our 69 kV connection lines increased in 2010 because Praia do Morgado and Volta do Rio Wind Farms and Pipoca Small Hydroelectric Plant began their operations.
- (5) This amount does not include the Light acquisition.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

- (6) 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 incorporated the following subsidiaries in the State of Minas Gerais and other states of Brazil to operate certain of our generation facilities and to hold the related concessions:

*Usina Térmica Ipatinga S.A.* We operate the Ipatinga Thermoelectric Power Plant through our subsidiary Usina Térmica Ipatinga S.A. This plant is an SPP (self power producer) 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

Table of Contents

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 1986 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.

*Rosal Energia S.A.* In December 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, 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.

*Cemig Capim Branco Energia S.A.* We incorporated Cemig Capim Branco Energia S.A. to develop the Capim Branco Generating Complex in partnership with Companhia Vale do Rio Doce, or CVRD, a mining company, Comercial e Agrícola Paineiras, an agricultural company, and Companhia Mineira de Metais, or CMM, a metallurgical company. Aneel Resolution 314 of April 11, 2006, allowed the transfer of the electricity generation concession of CMM (through CMM's participation in Cemig Capim Branco Energia S.A.) to Votorantim Metais Zinco S.A., or VMZ; and Aneel Resolution 478 of June 12, 2007 ratified the transaction. On March 16, 2007, Aneel published Ruling No. 683 approving the change of the name of the Capim Branco Generating Complex to the Amador Aguiar Generating Complex. The project consists of the Amador Aguiar I and Amador Aguiar II Hydroelectric Power Plants, with installed capacity of 240 MW and 210 MW, respectively. We have entered into a purchase contract with Cemig Capim Branco Energia S.A. under which Cemig Distribution will purchase the energy produced by Amador Aguiar I and Amador Aguiar II for 20 years from the start date of each plant's commercial operations, which in the case of Amador Aguiar I was February 21, 2006, and in the case of Amador Aguiar II was March 9, 2007. This contract was submitted to Aneel in 2003 and was approved in December 2004.

*Horizontes Energia S.A.* We formed Horizontes Energia S.A., or Horizontes Energia, to generate and trade electricity as an IPP (independent power producer) 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 city of Xanxerê in the State of Santa Catarina, with an installed capacity of 8.2 MW); and the Salto do Passo Velho Power Plant (also located on the Chapecozinho River in Xanxerê, 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; 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 committed for sale through 2011. The Salto do Paraopeba Power Plant is currently out of service for refurbishment. We expect that this power plant will resume its operations in 2013.

*Usina Termelétrica Barreiro S.A.* We formed Usina Termelétrica Barreiro S.A. to participate, in partnership with 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 neighborhood of the city of Belo Horizonte in Minas Gerais. Construction started in July 2002 and commercial generation began in February 2004. 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 through the Pai Joaquim Small Hydroelectric Power Plant, as an IPP. This plant, located on the 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 Hydroelectric Power Plant, and trades the energy produced by this plant.

*Hidrelétrica Cachoeirão S.A.* Together with our partner in this project, Santa Maria Energética S.A. ( Santa Maria Energética ), we formed a special-purpose company named Hidrelétrica Cachoeirão S.A., to build and operate the Cachoeirão Small Hydroelectric Power Plant. This plant, with an installed capacity of 27 MW, is located on the Manhuaçu River, in the eastern part of Minas Gerais. Cemig Generation and Transmission has a 49% ownership interest in Hidrelétrica Cachoeirão S.A. and Santa Maria Energética has a 51% ownership interest. Santa Maria Energética is a special-purpose company which holds the authorization for commercial operation of the Cachoeirão Small Hydroelectric Power Plant and in January 2007 applied to Aneel for permission to



Table of Contents

transfer this authorization to Hidrelétrica Cachoeirão S.A. Construction began in March 2007 and the facility began operating in December 30, 2008. The concession relating to this plant expires on July 27, 2030.

*Baguari Energia S.A.* Operate the Baguari Hydroelectric Power Plant through the Baguari UHE Consortium, in which Baguari Energia has a 49% interest. The power plant has an installed capacity of 140 MW and is located on the Doce River, in the State of Minas Gerais. The energy generated is commercialized in the ACR. The plant's operational license was obtained on July 5, 2009, and generating units started operating on September 9, 2009, November 28, 2009, March 2, 2010 and May 19, 2010. Initially, Cemig Generation and Transmission had a 34% interest in this consortium and Furnas Centrais Elétricas S.A. had a 15% interest. On February 2, 2010, Aneel transferred to Baguari Energia the Cemig Generation and Transmission and Furnas Centrais Elétricas S.A joint concession in the Baguari Hydroelectric Power Plant. The concession relating to this plant expires on August 15, 2041. As of December 31, 2010, we had invested R\$181.3 million in this project of a total projected investment of R\$190 million.

*Hidrelétrica Pipoca S.A.* Cemig Generation and Transmission has also negotiated a stake in the construction and operation of the Pipoca Small Hydroelectric Power Plant, in partnership with Omega Energia Renovável S.A., formed by the investment companies Tarpon Investimentos and Warburg Pincus, to implement and operate the project. Through Cemig Generation and Transmission, we have a 49% interest in Hidrelétrica Pipoca S.A. The plant, with an installed capacity of 20 MW, is located on the Manhuaçu River, in the eastern part of the State of Minas Gerais. Construction began in October 2008 and commercial operation began in October 2010. The concession relating to this plant expires on September 10, 2031.

Cemig Generation and Transmission also operates the following power plants:

*Igarapava Hydroelectric Power Plant* The Igarapava Hydroelectric Power Plant, located on the Grande River, has an installed capacity of 210 MW. We have a 14.5% interest in this enterprise and our partners are Vale (38.2%), Votorantim Metais Zinco (23.9%), Companhia Siderúrgica Nacional (17.9%) and AngloGold Ashanti Brasil (5.5%). Commercial generation began in December 1998. The concession relating to this plant expires on December 30, 2028.

*Queimado Hydroelectric Power Plant* Our partner in this project is CEB Participações S.A. (CEBPar), a subsidiary of Companhia Energética de Brasília, or CEB, a state-controlled electricity company. As per the second Amendment to Concession Contract 006/1997, executed on July 17, 2009, 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. 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, has an installed capacity of 330 MW. We have a 49% interest in this enterprise and our partner, Valesul Alumínio S.A., 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 Renewable Natural Resources, or IBAMA. The concession relating to this plant expires on December 20, 2035.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

*Funil Hydroelectric Power Plant* Also referred to as the José Mendes Junior Hydroelectric Plant, the Funil Hydroelectric Power Plant has generating capacity of 180 MW and is located on the Rio Grande river, in the southern part of Minas Gerais. We have a 49% interest in this enterprise and our partner, Vale S.A. or ( CVRD ), a mining company, has a 51% interest.. Construction began in September 2000, and its three rotors began to generate commercially on 2002 and 2003. The concession relating to this plant expires on December 20, 2035.

*Porto Estrela Hydroelectric Plant* This plant is a project of the Porto Estrela Hydroelectric Consortium, located in the Serra da Estrela mountains in the State of Minas Gerais. It has two generating units, with total installed capacity of 112 MW. We have a 33% interest in this enterprise. The start date of the concession was July 1997, and it will end 35 years from the start date, in July 2032. Construction began on July 9, 1999, and was completed on November 9, 2001. The plant's operational license was obtained on June 29, 2001, and the first and second generating units started operating on September 4, 2001, and November 5, 2001, respectively.

*Irapé Hydroelectric Power Plant* The Irapé Hydroelectric Power Plant, which has an 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, 2006, and October 3, 2006. The concession relating to this plant expires on February 28, 2035.

Table of Contents

*Wind Farms*

Wind farms are becoming an important means of power generation for the near future. Besides its reduced environmental impact, this energy source is completely renewable and widely available in Brazil, according to recent prospective studies. Also, its fast technical development during recent decades resulted in a lower cost per MWh, compared to other means of power generation. CEMIG is monitoring the accelerated evolution of wind-based power generation and its inclusion in the Brazilian energy portfolio.

Our first wind farm, Morro do Camelinho, began operating in 1994. It is located in Gouveia, a town 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 agreement with the government of Germany. The cost of the project was US\$1.5 million, with 51% funded by us and the remaining 49% by the government of Germany.

On August 15, 2009, Cemig Generation and Transmission's purchased from Energimp S.A. a 49% interest in three wind farms located in the State of Ceará, for the amount of R\$223 million. The three wind farms, named UEE Praia do Morgado, UEE Praias de Parajuru and UEE Volta do Rio, have a total installed capacity of 99.6 MW. The acquisition is subject to the approval of Aneel, Caixa Econômica Federal, Eletrobrás, and CADE.

*Central Eólica Praias de Parajuru S.A.* is located in the city of Beberibe, in the State of Ceará. It started commercial operation in August 2009. All of its generation, totaling 106,604 MWh/year, has been sold to Eletrobrás, under the Proinfa Program for a period of 20 years.

*Central Eólica Praia do Morgado S.A.* is located in the city of Acaraú, in the State of Ceará. It started operating in May 2010. All its generation, totaling 115,636 MWh/year, has been sold to Eletrobrás, under the Proinfa Program for a period of 20 years.

*Central Eólica Volta do Rio S.A.* is located in the city of Acaraú, in the State of Ceará. It started its operation in September 2010. All its electricity, totaling 161,238 MWh/year, has been sold to Eletrobrás, under the Proinfa Program for a period of 20 years.

*Expansion of Generation Capacity*

We are currently involved in the construction of six hydroelectric power plants –Dores de Guanhães, Senhora do Porto, Fortuna II, Jacaré, Paracambi and Santo Antônio– that will increase the installed generation capacity of our hydroelectric facilities by 82.39MW over 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.

*SPE Guanhães Energia S.A.* Cemig Generation and Transmission has negotiated an ownership interest in the construction and operation of the Small Hydro Plants, or PCHs, of Dores de Guanhães, Senhora do Porto, Fortuna II and Jacaré. Our partner in this project is Investminas Participações S. A., a wholly owned subsidiary of GlobalBank Participações e Investimentos S.A, which formed, with us, the company SPE Guanhães Energia S.A, or Guanhães Energia. The purpose of Guanhães Energia is to build and operate these four PCHs, namely: Dores de Guanhães, with 14 MW installed capacity; Senhora do Porto, with 12 MW capacity; Jacaré, with 9 MW; and Fortuna II, with 9 MW. Dores de Guanhães, Senhora do Porto and Jacaré will be built on the Guanhães River, located in the municipality of Dores de Guanhães, State of Minas Gerais, and Fortuna II will be built on the Corrente Grande River, located in the municipalities of Guanhães and Virginópolis, State of Minas Gerais. Cemig Generation and Transmission has a 49% ownership interest in Guanhães Energia, while Investminas Participações has the remaining 51%. Construction is expected to begin in first half of 2012, and commercial operation is expected to begin in the second half of 2013. The concessions relating to these plants expire in December 2031 with respect to Fortuna II, November 2032 with respect to Dores de Guanhães and October 2032 with respect to Senhora do Porto and Jacaré. As of December 31, 2010, we had invested R\$10.3 million in this project.

*Paracambi Small Hydroelectric Power Plant* Cemig Generation and Transmission has also negotiated a stake in the construction and operation of the Paracambi Small Hydroelectric Power Plant, in partnership with Light S.A. and Light ESCO S.A., a US investment company, to implement and operate the project. We will have a 49% interest in this project. The plant, with an installed capacity of 25 MW, will be located on the Lajes River, in the eastern part of the State of Rio de Janeiro. Construction began in November 2009 and commercial generation is expected to begin in October 2011 and December 2011. The concession relating to this plant expires on February, 2031. In August 2009, CEMIG's Board of Directors approved the effective participation of the Company in this venture. As of December 31, 2010, we had invested R\$37.25 million in this project.

*Madeira Energia S.A.* MESA is a special-purpose company created to implement, build, operate and maintain the Santo Antônio hydroelectric plant, in the basin of the Madeira River, in the northern region of Brazil. This facility will have a generating capacity of 3,150 MW. MESA is expected to begin operations in December 2011. Cemig Generation and Transmission has a 10% interest in MESA, and based on our ownership interest, we expect to invest R\$1,416 million in the development of the project.

Table of Contents

*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.

*Power Trading*

Under the present regulations of the Brazilian electricity sector, power generation companies are allowed to operate in trading as well as the sale of their own production. CEMIG started intensifying this activity in 2009, which is complementary to the sale of its own generation, buying electricity for future sale through its power generation and trading subsidiaries, aiming further to increase the company's results. CEMIG's wholesale commercialization policy is approved by the Board of Directors and the transactions are individually approved by the Executive Board.

These transactions were previously submitted for analysis by the Energy Risks Management Committee, in which representatives of various areas of CEMIG—financial, legal, commercial, regulatory and planning—participate, for the purpose of determining the risks and results expected, using, for this, analysis of market conditions, hydrology simulation models, energy risk models, estimates of spot prices and calculation of the profit at risk.

The results of the trading activities depend on market conditions, which may be different from the company's expectations. To mitigate this risk, CEMIG seeks to avoid carrying positions, selling the electricity bought as soon as possible.

**Transmission**

*Overview*

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

During the year ended December 31, 2010, we recorded revenue totaling R\$1,554 million as a result of our transmission business. 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 National System Operator (*Operador Nacional do Sistema*), or ONS, and owners of different

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

parts of the basic transmission network. See [The Brazilian Power Industry](#) and [Item 5. Operating and Financial Review and Prospects](#).

We transmit both the energy that we generate and the energy that we purchase from Itaipu and other sources, as well as the energy for the interconnected power system. During the year ended December 31, 2010, we also had 14 industrial free consumers to whom we transported 5,088 GWh directly with high voltage (equal to or greater than 230 kV per industrial consumer) energy through their connections to our transmission lines. Ten of these industrial consumers are CEMIG's energy consumers and accounted for approximately 57.1% of the transported total volume of electricity. 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:

Voltage of Transmission Lines	Circuit Length of Transmission Lines in Miles (from generation substations to distribution substations)		
	As of December 31,		
	2010	2009	2008
>525 kV	38	38	38
500 kV	2,663	2,292	1,801
400 kV	177	101	
345 kV	1,347	1,287	1,287
230 kV	909	665	577
Total	5,134	4,383	3,703

Table of Contents

	Step-Down Transformation Capacity(1) of Transmission Substations As of December 31,		
	2010	2009	2008
Number of step-down substations	68(2)	68(2)	37(2)
MVA	18,079	16,844	16,076

(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) Does not consider the shared substations.

*Transmission Assets*

*Montes Claros Irapé (Transleste)* 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 25% 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. Transmission line operations began on December 18, 2005 and no further investments are required at this time. The concession expires on February 18, 2034.

*Itutinga Juiz de Fora (Transudeste)* 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 is responsible for building and operating this transmission line. This 345 kV transmission line, with a length of approximately 89 miles, connects the substation of the Itutinga Hydroelectric Power Plant and a substation located in Juiz de Fora, a city in southeastern Minas Gerais. Commercial operations began on February 23, 2007 and no further investments are required at this time.

*Irapé Araçuaí (Transirapé)* 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 is responsible for building and operating this transmission line. This 230 kV transmission line, with a length of approximately 38 miles, connects the substation of the Irapé Hydroelectric Power Plant and a substation in Araçuaí, a city located in northeastern Minas Gerais. Commercial operations began on May 23, 2007 and no further investments are required at this time.

*Furnas Pimenta (Centroeste)* 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, which is responsible for building and operating the transmission line. This 345 kV transmission line, with a length of approximately 47 miles, connects the substation of the Furnas Hydroelectric Power Plant and a substation located in Pimenta, a city in the west-central region of Minas Gerais. We began the project in March 2005. Its commercial operation began in March 2010. We have invested a total amount of R\$17.93 million in this project.

*Charrúa Nueva Temuco (Transchile)* 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*, or 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., an SPC incorporated in Chile and responsible for building and operating the transmission line. With a length of approximately 127 miles, the transmission line connects the substations of Charrúa and Nueva Temuco in central Chile. We began the project in June 2005 and construction began in April 2007. On July 18, 2007, Transchile Charrúa Transmisión S.A. entered into a project finance agreement with the Inter-American Development Bank in the amount of US\$51.0 million related to the transmission line and substations. Commercial operation began in January 2010. We have invested a total amount of R\$44.19 million in this project.

*TAESA*: On December 31, 2010, CEMIG had direct investments (jointly controlled) in TAESA, that owns the following assets:



Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Table of Contents

Company	Miles	Capacity (kV)	Operation	Concession Contract	Concession Expiration Date
TSN- Transmissora Sudeste Nordeste S.A.	374	500kV	April/03	097/2000	12/20/2030
	2	230kV			
Munirah-Transmissora de Energia S.A.	38	500kV	November/05	006/2004	02/18/2034
Gtesa- Goiânia Transmissora de Energia	18	230kV	July/03	001/2002	01/21/2032
Patesa- Paraíso Açu Transmissora de Energia S.A.	48	230kV	March/04	087/2002	12/11/2032
Novatrans Energia S.A.	450	500kV	April/04	095/2000	12/20/2030
ETAU-Empresa de Transmissão Alto Uruguai S.A.	35	230kV	May/05	082/2002	12/18/2032
ETEO- Empresa de Transmissão de Energia do Oeste S.A.	177	440kV	October/01	040/2000	05/12/2030
Brasnorte Transmissora de Energia S.A.	52	230kV	August/09	003/2008	03/17/2038

On December 31, 2010, CEMIG had direct investments (jointly controlled) in EATE, ECTE, ENTE, ERTE, ETEP and EBTE, and indirect investments in STC, Lumitrans, and ESDE as shown in the table below.

Company	Connection	Length (Miles)	Capacity (kV)	Operation	Concession contract (2)	Concession Expiration Date
EATE (1)	Tucuruí (Pará) to Presidente Dutra (Maranhão)	576	500	March/2003	June 12, 2001	June 12, 2031
ECTE (1)	Campos Novos (Santa Catarina) to Blumenau (Santa Catarina)	157	525	March/2002	November 1, 2000	November 1, 2030
ENTE (1)	Tucuruí (Pará) to Açailândia (Maranhão)	285	500	February/2005	December 11, 2002	December 11, 2032
ERTE (1)	Vila do Conde (Pará) to Santa Maria (Pará)	96	230	September/2004	December 11, 2002	December 11 2032
ETEP (1)	Tucuruí (Parã) to Vila do Conde (Pará)	201	500	August/2002	June 12, 2001	June 12, 2031
Lumitrans (1)	Machadinho Campos Novos	24,8	525	October/2007	February 18, 2004	February 18, 2034
STC (1)	Barra Grande Lajes- Rio do Sul	114.3	230	November/2007	April 27, 2006	April 27, 2036
EBTE	Brasnorte-Juba,Brasnorte-Parecis Brasnorte- Juína,Nova Mutum-Sorriso, Sorriso- Sinop	486	230	June/2011	October 16, 2008	October 16, 2038
ESDE	LT Barbacena 2- Santos Dumont	1.8	345			November 19, 2039

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

LT Santos Dumont- Juiz de Fora  
1

Expected to  
start operating  
in July/2012

November 19,  
2009

- 
- (1) The operation and maintenance of transmission lines of EATE, ENTE and ERTE are carried out by Eletronorte-Centrais Elétricas do Norte do Brasil S.A. or Eletronorte and of ECTE by Celesc and Eletrosul and of STC by Celesc and Lumitrans by Eletrosul.
  - (2) Right acquired for commercial operation of public electricity transmission services for 30 years, renewable for the same period of time.

Table of Contents**Distribution and Purchase of Electric Power***Overview*

Our distribution operation consists of electricity transfers 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 small 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, 2002 through December 31, 2010, we invested approximately R\$1,172 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 - High Voltage (from distribution substations to final consumers)		
	As of December 31,		
	2010	2009	2008
161 kV	34.2	34.2	34.2
138 kV	7,140.2	7109.8	6,993.0
69 kV	2,855.2	2801.2	2,817.9
34.5 kV + Others	593.4	592.8	600.2
Total	10,623.01	10,537.9	10,445.3

Type of Distribution Lines	Circuit Length of Distribution Lines in Miles - Medium and Low Voltage (from distribution substations to final consumers)		
	As of December 31,		
	2010	2009	2008
Overhead urban distribution lines	59,943.6	59,365.7	56,887.0
Underground urban distribution lines	889.8	889.8	857.5
Overhead rural distribution lines	223,423.4	219,560.3	217,369.3
Total	284,256.8	279,815.8	275,113.9

	Step-Down Transformation Capacity(1) of Distribution Substations		
	As of December 31,		
	2010	2009	2008
Number of substations	564	559	560
MVA	10,788	9,404	9,309

(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.

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. For the next five years, we anticipate an increase of approximately 928,000 new urban consumers and 98,000 rural consumers. In order to accommodate this growth, we expect that we will need to add 208,000 medium-voltage poles, 1,034 miles of transmission lines and 32 step-down substations, adding 1,201 MVA to our distribution network, increasing the network's installed capacity by 2,377 MVA, including reinforcement. Ongoing projects for development of our distribution capacity include the following:

Table of Contents

*Luz para Todos* We have adopted a rural electricity development program called Light for All (*Luz para Todos*) program sponsored by the Federal Government and the State Government of Minas Gerais. We plan to use the program to meet our goal of providing electricity to 100% of the rural consumers in the State of Minas Gerais. The first phase of the Light for All program supplied electricity to 190,000 additional rural residences in the State of Minas Gerais and required a total investment of approximately R\$1.7 billion, of which CEMIG invested R\$1.05 billion. This first phase included the Light in the Knowledge (*Luz no Saber*) sub-program, which used solar energy to provide electricity to schools, community centers and rural homes in remote locations not yet connected to the distribution network. In 2009, the Federal Government, the State Government and the CEMIG concessionaire launched the second and third phases of the program, scheduled to end on December 31, 2011. A total investment of R\$1.15 billion is projected for these phases of the program, of which CEMIG is responsible for approximately R\$389 million. The end of the Light for All Program was postponed to December 31, 2011, on October 5, 2010, contemplating service to an additional 40,000 new consumers in 2011. By the end of the Light for All Program, we expect to have added 285 thousand new consumers, benefiting a population of approximately 1.5 million inhabitants.

*Cresce Minas* The Grow Minas (*Cresce Minas*) project was launched in 2007 to revitalize and expand the distribution system of the State of Minas Gerais, improving the reliability of the system and increasing the quality of service to consumers. The project is expected to benefit approximately 340 municipalities (41% of the total) of Minas Gerais, encompassing a total population of approximately 4.1 million, including approximately 1.1 million consumers. In 2010, CEMIG invested R\$65.5 million in capital expenditures exclusively to strengthen the medium-voltage distribution system, out of a total of R\$279.4 million projected. CEMIG also invested R\$67 million in 2010 to strengthen the sub-transmission system. In the next two years, we expect to invest an aggregate of R\$102 million in our sub-transmission and transmission systems.

*Purchase of Electric Power*

During the year ended December 31, 2010, we purchased 8,589.84 GWh of electricity from Itaipu, which represented approximately 29.81% of the electricity we sold to final users, and 649.29 GWh (2.25%) of electricity from Proinfa. In addition to the electricity purchased from Itaipu and Proinfa, we have two other basic types of supply arrangements: (i) purchases through public auctions, which accounted for approximately 68.58% of the electricity purchased for resale during the year ended December 31, 2010, and (ii) long-term agreements existing prior to the New Industry Model Law, which represented approximately 6.37% of the electricity purchased in 2010.

*Itaipu* Itaipu is one of the largest operating hydroelectric plants in the world, with an installed capacity of 14,000 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. Brazil generally purchases more than 95% of the electricity generated by Itaipu.

We are one of the power distribution companies operating in the south, southeast and west-central regions of Brazil that are jointly required to purchase all of Brazil's portion of the electricity generated by Itaipu, in accordance with the Law 5.899/1973. 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. During the year ended December 31, 2010, Aneel enacted Resolution 913/2009 requiring Cemig Distribution to purchase 13.4175% 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 rates may be transferred to the final consumer upon approval by Aneel.

Since 2007, Aneel publishes at the end of each year the amount of electricity to be purchased from Itaipu by each of the electric power distribution companies for the following year, as a guidance for the five subsequent years. Based on this, the distribution companies can estimate their remaining energy needs in advance of the next public auctions.

*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 original tariff and prices related to the CCEAR contracts arising from the electricity acquired by CEMIG in auctions during 2010. It also includes contracts signed before 2010 but still effective during that year. See [The Brazilian Power Industry](#) for more information on CCEE and CCEAR.

Table of Contents

Average Tariff(R\$)	Electricity Contracted (MW average per year)	Term of the Contract
57.51	530.17	2005 to 2012
67.33	919.14	2006 to 2013
83.13	105.47	2008 to 2015
106.95	4.47	2008 to 2037
132.27	35.31	2008 to 2022
114.28	3.16	2009 to 2038
126.77	60.41	2009 to 2038
129.26	40.36	2009 to 2023
132.39	31.02	2009 to 2023
115.05	91.77	2010 to 2039
134.99	20.12	2010 to 2039
121.81	88.98	2010 to 2024
138.85	61.23	2010 to 2024
134.67	431.17	2010 to 2024
120.86	24.71	2011 to 2040
137.44	23.24	2011 to 2025
128.42	63.89	2011 to 2025
129.14	56.57	2012 to 2041
128.37	126.34	2012 to 2026
78.87	122.83	2012 to 2041
77.97	457.75	2015 to 2044
99.48	46.80	2015 to 2044

Cemig Distribution has been involved in three auctions in the Regulated Market Environment, (*Ambiente de Contratação Regulada*, or ACR ), sponsored by Aneel, with delivery dates between 2015 and 2044.

Cemig Generation and Transmission, for strategic reasons, was not involved in the A-1 Auction sponsored by Aneel but nevertheless carried out a total of 77 auctions for sale of energy in 2010, representing a trading volume of 96,894 GWh, and has participated in 55 others, representing a trading volume of 70,799 GWh.

The operational strategy of Cemig Generation and Transmission in energy auctions on the ACL is based on assumptions set by its management such as approved futures price curve and the balance of power structure, which defines availability to be directed to agents in this market, aiming to maximize revenue and net income while minimizing the volatility of operating cash flow.

**Bilateral Agreements** Cemig Distribution entered into bilateral agreements with various suppliers prior to the enactment of the New Industry Model Law in 2004. Such agreements are valid under their original terms but cannot be renewed. During the year ended December 31, 2010, Cemig Distribution purchased 1,801.27 GWh pursuant to these agreements, which represented 5.84% of the total electricity purchased by Cemig Distribution during 2010.

**Other Businesses**

*Natural Gas Distribution*

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

In January 1993, the State Government granted Gasmig an exclusive 30-year concession for distribution of natural gas covering the entire State of Minas Gerais and consumers located within it. Gasmig's marketing efforts focus on its ability to provide a more economically efficient and environmentally friendly alternative to oil, liquefied petroleum gas, or LPG, and wood. In 2010, Gasmig supplied approximately 2.6 million cubic meters of natural gas per day to 292 consumers: 189 industrial and commercial consumers, 92 retail distribution stations for natural gas vehicles, 2 thermal power plants and 9 distributors of compressed natural gas, or CNG. In 2010, Gasmig distributed approximately 5.3% of all natural gas distributed in Brazil.



Table of Contents

Gaspetro acquired its 40% equity interest in Gasmig pursuant to an Association Agreement dated August 25, 2004, among CEMIG, Gasmig, Gaspetro and Petrobras. Under the terms of the Association Agreement, Petrobras agreed to make investments to expand the capacity of the current pipelines connected to the Gasmig distribution network and to construct new pipelines, and CEMIG and Gaspetro agreed to fund Gasmig's capital expenditure plan to expand its distribution network.

The transaction was implemented on December 15, 2004 when Petrobras, through its subsidiaries Gaspetro and TSS, concluded its acquisition of a 40% equity interest in Gasmig. On July 26, 2006, TSS was merged into Gasmig. As a condition to such investment, Petrobras and CEMIG entered into a Shareholders Agreement in which CEMIG agreed with Petrobras and its subsidiaries to share in the management of Gasmig. On December 15, 2004, Gasmig executed an additional supply contract with Petrobras which guarantees a gradual increase in supply of up to 5.1 million m<sup>3</sup>/day of natural gas, within a period of 20 years, in addition to the 3.5 million m<sup>3</sup>/day that was previously contracted for. This additional supply agreement is for the supply of natural gas to the regions of the *Vale do Aço* (Steel Valley) and the south of Minas Gerais, and also for expansion of service to the regions of the Greater Belo Horizonte area, the *Zona da Mata* (in the southeast of Minas Gerais) and the *Campos das Vertentes* (historic region), in the industrial, commercial, automotive and residential markets. The additional supply agreement has a term of 20 years, and we began commercial supply pursuant to the agreement in May 2010. Under this agreement the price is established based on the international oil price in the New York market.

We expect that the association with Petrobras will expand Gasmig's distribution capacity, as our ability to offer natural gas to our consumers is expected to increase significantly with the implementation of Petrobras's investments in pipelines. We expect that Gasmig's capital expenditures for 2011 and 2012 will be mostly used for the expansion of our distribution network and growth of CNG and in the residential segment. Gasmig has already completed the necessary expansion to serve the regions of the Steel Valley and the southern region of the State of Minas Gerais.

Other than with respect to the liquefied natural gas, or LNG, supplied to Gasmig by a joint venture between Petrobras and White Martins Gases Industriais Ltda., or White Martins, Gasmig purchases all its natural gas needs from Petrobras, and such natural gas is provided by Petrobras's own deposits. Our relationship with Petrobras is governed by two long term agreements, expiring in 2020 and 2028. The price Gasmig charges its consumers is based on the price charged by Petrobras plus a margin. Therefore, all cost increases in Gasmig's purchase of natural gas are passed on to its consumers through rates increases.

Many energy-intensive industries such as cement, steel, ferroalloys and metallurgy have significant operations in Minas Gerais. We estimate that the total demand for natural gas in Minas Gerais will amount to nearly 3.6 million cubic meters of gas per day by 2012. Gasmig's key strategy is to expand its distribution network in order to serve the portion of the demand not yet reached. Gasmig is engaged in the development of new projects to extend its natural gas distribution systems to reach consumers in other areas of Minas Gerais, mainly in heavily industrialized areas. In 2006, Gasmig began supplying natural gas to three industrial companies and two distribution stations of Vehicular Natural Gas, or VNG, in the region of the Steel Valley, thus concluding the first phase of service to that region of the State of Minas Gerais. The average volume of natural gas distributed in the first phase was approximately 200,000 cubic meters/day. The second phase, which began in 2009, was concluded in 2010, adding 155 miles to Gasmig's networks, and was expected to add approximately 800,000 m<sup>2</sup> per day to Gasmig's market by the end of this year.

In 2010, Gasmig invested approximately R\$339 million in the expansion of its gas pipeline network to serve more consumers in the State of Minas Gerais. The funds to finance the expansion came primarily from its own cash flow and reinvestment of the dividends payable to CEMIG. There was also an issuance of debentures in the amount of R\$294 million carried out by BNDESPAR to fund this expansion, but there were no changes in Gasmig's shareholder structure. The capacity of the natural gas pipeline which brings natural gas from the Campos oil basin (State of Rio de Janeiro, Brazil) was increased in 2010 through an expansion carried out by Petrobras

*Exploration and Production of Crude Oil and Natural Gas*

On December 18, 2008, CEMIG and its partners, Companhia de Desenvolvimento Econômico de Minas Gerais - Codemig, ( Codemig ), Imetame Energia S.A. ( Imetame , formerly called Comp Exploração e Produção de Petróleo e Gás S.A.), Sipet Agropastoril Ltda. ( Sipet ) and Orteng Equipamentos e Sistemas Ltda. ( Orteng ), participated in the Brazil Round 10 Auction carried out by the National Agency of Oil, Natural Gas and Biofuels (*Agência Nacional do Petróleo, Gás Natural e Biocombustíveis*), or ANP, and was granted the execution of concession agreements for four exploratory blocks in the São Francisco Basin, one block in the Potiguar Basin, and one block (REC-T-163) in the Recôncavo Basin. On June 30, 2009, the consortia formed by CEMIG, Codemig, Imetame, Sipet, and Orteng signed the concession agreements regarding three blocks. The participation of both CEMIG and Codemig is 24.5% each. The total participation of Imetame, Sipet, and Orteng is 51%, but the individual participation of these three companies varies, depending on the block. On July 7, 2010, CEMIG, Codemig and Imetame formed three consortia to be responsible for the concession agreements regarding three other blocks. The three consortia have the same composition: CEMIG

Table of Contents

24.5%, Codemig 24.5%, and Imetame 51%. These consortia are expected to sign the concession agreements regarding three blocks in the near future. CEMIG's projected investment is not expected to exceed R\$30 million in the exploration phase.

*Telecommunications, Internet and Cable Television*

On January 13, 1999, Cemig Telecomunicações S.A., or Cemig Telecomunicações, was incorporated in Minas Gerais, Brazil, as a joint venture with AES Força Empreendimentos Ltda., an affiliate of AES Corporation Group. Currently, we own an equity interest of 99.9% in the capital stock of Cemig Telecomunicações.

Cemig Telecomunicações started its business operations in January 2001. The main telecommunication services provided by Cemig Telecomunicações S.A. through its network are signal transportation and access, both for point-to-point and point-to-multipoint applications, delivered mainly to telecommunications operators and Internet service providers on a clear channel basis. Cemig Telecomunicações is also extending its broadband Internet services.

Cemig Telecomunicações provides the network for cable television service in 12 cities in Minas Gerais pursuant to a 15-year service agreement, that expires on December 31, 2015, with WAY TV Belo Horizonte S.A. ( OITV ), and Brasil Telecomunicações, each a holder of concessions to provide cable television and Internet service in certain cities in Minas Gerais, under which Cemig Telecomunicações allows these companies to use its network infrastructure. In return, Brasil Telecomunicações is obligated to deliver to Cemig Telecomunicações a percentage of the revenues derived from their cable television and Internet services and OITV pays per kilometer of the network used.

Cemig Telecomunicações also provides intra-company data transmission services to us pursuant to a five-year agreement signed in 2001 and renewed in October 2007. We use this service for internal communications as well as for certain communications with our consumers.

On June 30, 2010, the Board of Directors of Cemig Telecomunicações approved the execution of the share purchase and sale agreement for the acquisition by Cemig Telecomunicações of 49% of the common shares issued by Ativas Data Center S.A., or Ativas. Ativas provides infrastructure services for Information and Communication Technology (ICT), including hosting, placement, storage and database site backup, professional services, information security and availability.

In September, 2010 Cemig Telecomunicações signed an agreement with AlgarTelecom to provide services in GPON (Gigabit Passive Optical Network). The GPON Project consists of a Triple Play (Data, Voice and Video) service, to be offered first to condominiums in the greater Belo Horizonte area, through an ultra-high band FTTH (Fiber To The Home) network using the GPON technology. This technology offers enormous data transmission capacity, simple and low-cost installation and maintenance.

*Consulting and Other Services*

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

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

On January 9, 2002 we created Efficientia S.A., or Efficientia, in Minas Gerais, to provide project efficiency optimization solutions and operational and management services to energy supply facilities. We have a 100% interest in Efficientia, which began operating in 2003. Such services include consultancy in the areas of efficiency, energy solutions, reduction of non-technical losses in other electricity distribution concession holders and the provision of preventive maintenance services.

Highlights of the consultancy projects of Efficientia in 2010 include conclusion of works for connection to the CEMIG system of three sugar/alcohol plants. Also in 2010, Efficientia signed contracts for: the modernization of the electricity feed for rolling cranes; modernization of the compressed air system and modernization of illumination systems of four different companies.

In partnership with Concert Technologies S.A. ( Concert ), Nansen S.A. Instrumentos de Precisão ( Nansen ), Leme Engenharia Ltda ( Leme ) and FIR Capital Partners Ltda ( FIR ), we created Axxiom Soluções Tecnológicas S.A. ( Axxiom ) (formerly Focus Soluções Tecnológicas S.A.) on August 27, 2007 to offer solutions in technology and systems for operational management of public service concession holders, including electricity, gas, water, and sewerage and other public utility companies. We have a 49% direct interest in Axxiom, which began its operations in the second quarter of 2008. Light currently holds a 51% interest in Axxiom.

Table of Contents

**Energy Losses**

We recognize energy losses in connection with our operations on the national basic grid, which is operated by the ONS, referred to as the Basic Grid. These energy losses are divided into technical and non-technical losses.

Cemig Distribution total energy losses in 2010 were 5,716 GWh, compared to 5,609 GWh in 2009. Of this total in 2010, 738 GWh were related to losses in the Basic Grid attributed to CEMIG by the Electric Energy Trading Chamber (*Câmara de Comercialização de Energia Elétrica*), or CCEE. The remaining 4,978 GWh, which represent 11.04% of the total energy (approximately 45,000 GWh) that passed through the local system. These energy losses included both technical and non-technical losses in the local distribution system of Cemig Distribution.

Light total energy losses in 2010 were 7,489 GWh, compared to 7,359 GWh in 2009, representing 21.27% of the total energy (35,201 GWh) that passed through the system of Light. These energy losses included both technical and non-technical losses in the local distribution system of Light. Besides these losses in 2010, 474 GWh were related to losses in the Basic Grid attributed to Light by the Electric Energy Trading Chamber (*Câmara de Comercialização de Energia Elétrica*), or CCEE.

Technical losses accounted for approximately 80% of Cemig Distribution's and 30% of Light's energy losses in the local distribution grid in 2010. These losses are the inevitable result of the step-down transformation process and the transportation of electric energy. We attempt to minimize technical losses by performing rigorous and regular evaluations of the quality of our electricity supply and our facilities. 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.

Technical losses are not comparable. Longer stretches of distribution (for example in rural areas) naturally have more technical losses.

Non-technical losses accounted for the remaining approximately 20% of Cemig Distribution's and 70% of Light's energy losses in 2010 in the distribution grid and result from fraud, illegal connections, metering errors and meter defects. 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.

Non-technical losses are partially comparable between electricity companies because they indicate a sector's inefficiencies and the social complexities within the concession area. At the end of 2010, 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 12.99 and 6.56, respectively, compared to 14.09 and 6.75 in 2009. At the end of 2010, the DEC and FEC of Light were 11.33 and 5.76, respectively, compared to 10.08 and 6.18 in 2009.

**Consumers and Billing**

*Consumer Base*

Our distribution and generation business consumers, who are primarily located within our concession area in Minas Gerais and Rio de Janeiro as well as outside these states, 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, 2010, electricity invoiced totaled 42,873 GWh, which includes the energy sold by Cemig Distribution, Cemig Generation and Transmission and by affiliated companies.

For 2010, as compared to 2009, the volume of electric power sold to residential, commercial, rural and other consumers, excluding wholesale-supply consumers, increased by 2.05%, 1.0%, 11.08%, and 0.8% respectively. The industrial consumption increased by 9.67% from 2009 to 2010. The following table provides information regarding the number of our consumers as of December 31, 2010 and consumption by consumer category for the years ended December 31, 2010 and, 2009.

Table of Contents

Consumer Category	Number of Consumers (3) at December 31,	Consumption of Distribution System (GWh) (4)	
	2010	2010	2009
Industrial	87,453(1)	24,826	22,638
Residential	9,534,790	9,944	9,744
Commercial	884,534	6,227	6,197
Rural	543,961	2,467	2,221
Own consumption	1,154(2)	53	51
Other	83,148	3,663	3,635
<b>Total</b>	<b>11,135,040</b>	<b>47,181</b>	<b>44,487</b>

- (1) Includes subsidiaries and affiliated companies.
- (2) Refers to the number of our plants, facilities and offices that use our energy, each of which is considered a consumer pursuant to Aneel regulations.
- (3) The number of consumers corresponds to the total amount of consumers of Cemig Distribution and Light.
- (4) The consumption data includes CEMIG's interest in its subsidiary markets, proportionally.

In 2010, through the expansion of our transmission and distribution systems, Cemig Distribution added and billed 231,921 new final consumers, representing an increase of 3.4% compared to 2009, and Light added and billed 74,674 new final consumers, representing an increase of 1.9%, compared to 2009.

A large proportion of our energy is sold to large industrial consumers. In 2010, ten of our consumers served at high voltages consumed 11,102 GWh, or 25.9% of the total of electricity that we supplied during the year. Our power purchase agreements with industrial consumers have terms of three to eight years on average (a few can reach 10 to 20 years) and contain a take or pay clause for the energy and a minimum demand clause that requires the consumer to pay at least for the contracted demand, which represents the system capacity reserved for that consumer. We believe that this billing method provides us a relatively stable source of revenue.

The following table shows our industrial energy sales volumes by type of industrial consumer as of December 31, 2010, from Cemig Distribution, Cemig Geração and Transmissão, Sá Carvalho S.A., Usina Térmica Ipatinga S.A., Horizontes Energia S.A., Cemig PCH S.A., Usina Termelétrica Barreiro S.A. PCH Cachoeirão and PCH Pipoca:

Industrial Consumers (1)	Energy Sales Volume in GWh	Consumption as a Percentage of Total Industrial Energy Volume
Steel industry	6,227	25.5%
Ferroalloy industry	4,958	20.3%
Mining industry	2,689	11.0%
Chemical industry	2,306	9.4%
Food processing industry	1,550	6.3%

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Cement industry	961	3.9%
Automotive industry	876	3.6%
Others	4,875	20.0%
Total	24,442	100.0%

The following table sets forth the names and related industries of our ten largest industrial consumers in 2010:



Table of Contents**Ten Largest Industrial Consumers**

(listed in order of total GWh of electricity billed by us in 2010)

	<b>Industry</b>
Usinas Siderúrgicas de Minas Gerais S.A.- USIMINAS	Steel
White Martins Gases Industriais Ltda.	Chemical
ArcelorMittal Brasil S.A.	Steel
Rima Industrial S.A.	Ferroalloys
Fiat Automóveis S.A.	Automotive
Vale S.A.	Mining
Samarco Mineração S.A.	Mining
Ligas de Alumínio S.A.- LIASA	Ferroalloy
Companhia Brasileira de Carbureto de Cálcio - CBCC	Ferroalloy
Gerdau Açominas S.A.	Steel

*Billing*

Our monthly billing and payment procedures for electricity supply vary by levels of voltage. Our large consumers with direct connections to our transmission network are generally billed within five weekdays after their meter reading. Payment is required within five weekdays after delivery of the bill. Other consumers receiving medium voltage electricity (approximately 18,800 consumers supplied at a voltage level equal to or greater than 2.3 kV or connected by underground distribution lines) are billed within one or two days of their meter reading and payment is required within five weekdays after delivery of the bill.

Our remaining consumers are billed within five weekdays of their meter reading and payment is required within five weekdays after delivery of the bill or 10 weekdays after delivery of the bill in the case of public sector entities. Bills are prepared from meter readings or on the basis of estimated consumption.

*Seasonality*

Our sales of electricity are affected by seasonality. Usually, an increase in consumption by industrial and commercial consumers occurs in the fourth fiscal quarter due to increases in their activities. The seasonality of rural consumption is usually associated with rainfall periods. During the dry season, between the months of May and November, more electricity is used to irrigate crops. Certain figures representing fiscal quarterly consumption by final consumers from 2008 through 2010, in GWh, are set forth below:

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
2008 (1) (2)	9,948	10,438	11,312	11,228
2009 (1) (2)	9,754	9,711	9,940	10,246
2010 (1) (2)	10,044	10,504	11,068	11,257

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

(2) Does not include supply to other concessionaires.

Light's operations are subject to seasonality variations. Historically, the consumption of energy in Light SESA's concession area is higher in the first and last quarters of the fiscal year, given the higher temperatures during these periods and end-of-year festivities. The chart below refers to Light's quarterly consumption of the total market from 2008 to 2010, in GWh, showing the typical volatility to those periods.

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
2008	5,481	5,211	4,980	5,256
2009	5,558	5,228	4,989	5,716
2010	6,087	5,498	5,144	5,655

Table of Contents

**Competition**

*Contracts with Free Consumers*

We had 221 contracts with Free Consumers as of December 31, 2010. Of these contracts, 24 are with companies located outside the distribution company's concession area and represent 1,945 GWh of energy per year. These contracts with Free Consumers, including Special Consumers, have terms of three to eighteen years and represented a total volume of approximately 18,414 GWh, in 2010.

CEMIG's strategy in the Free Market has been to establish contracts of longer duration, thereby establishing and promoting a long-term relationship with our consumers. We seek to differentiate ourselves in consumer market based on the quality of our service and the added value of Cemig Generation and Transmission. This positioning, together with a sales strategy that seeks to minimize exposure to short-term prices and contracts with a large minimum demand on a take or pay basis, translates into lower risk and greater predictability of the Company's results.

At the end of 2010 we were the largest seller of energy to Free Consumers in the Free Market, with 22.76% of the sales in this segment of the CCEE.

*Concessions*

Each concession that we currently hold is subject to a competitive bidding process upon its expiration. However, in accordance with the Concessions Law, existing concessions may be extended by the Federal Government without a bidding process for an additional period of up to 20 years upon application by the concessionaire, provided that the concessionaire has met minimum performance standards and that the proposal is otherwise acceptable to the Federal Government. On September 22, 2004, we applied to Aneel for a 20-year extension of the concessions of the Emborcação and Nova Ponte hydroelectric plants. On June 14, 2007, the Federal Government approved the extension of the concessions of these power plants for a period of 20 years from July 24, 2005. The related concession contract was amended on October 22, 2008 to reflect the extension granted to Cemig Generation and Transmission.

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

**Raw Materials**

Fluvial water is our main raw material used for the hydroelectrical generation of energy, representing approximately 90% of the total raw materials used. We do not have to pay a price for usage of fluvial water in hydroelectric plants.

## **Environmental Matters**

### *Overview*

Our generation, transmission and distribution activities are subject to comprehensive federal and state legislation relating to the preservation of the environment. The Brazilian Constitution gives the Federal Government, states and municipalities powers to enact laws designed to protect the environment and issue enabling regulations under these laws. While the Federal Government has the power to promulgate general environmental regulation, state governments have the power to enact specific and even more stringent environmental regulation. A violator of applicable environmental laws may be subject to administrative and criminal sanctions, and will have an obligation to repair and/or provide compensation for environmental damages. Administrative sanctions may include substantial fines (from R\$50 to R\$50 million) and suspension of activities. Criminal sanctions applicable to legal entities may include fines and restriction of rights, whereas, for individuals, they may include imprisonment, which can be imposed against executive officers and employees of companies that commit environmental crimes.

Our environmental impact studies are prepared by multi-disciplinary teams, which analyze the environmental impacts of our projects and propose solutions to minimize their effects on the environment. Applicable law in Brazil requires that licenses be obtained in connection with the construction, installation, expansion and operation of certain types of facilities.

We believe that we are in compliance with the relevant laws and regulations in all material aspects.

We are certified under the CEMIG Environmental Management System ( EMS ) for our operations in many municipalities, our materials storage and our logistics warehouses.

Table of Contents

At the end of 2010, seven of our plants were certified under the EMS and six of our plants were certified under ISO 14001. All of CEMIG's power plants with installed capacity greater than 30 MW are certified under the EMS. Together, these plants represent 5,769 MW of CEMIG's installed capacity, and bring the percentage of CEMIG's generating plant that is certified to 89%.

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

In 2010, we invested R\$26.4 million in environmental compliance projects for plant and equipment and in the implementation of new projects, and also spent R\$61.3 million on operational and maintenance expenses for our current activities, such as final disposal of waste, putting environmental management systems in place, audits, planting of riverside forests, fish cultivation, putting tree management and trimming and oil policies in place, environmental education programs, maintenance of conservation units, training and other activities. We also invested R\$3.6 million in environmental research and development projects carried out jointly with universities and research institutes.

*Environmental Licensing*

Brazilian law requires that licenses be obtained for construction, installation, expansion and operation of any facility that utilizes environmental resources, causes environmental degradation, or pollutes or has the potential to cause environmental degradation or pollution or to harm archaeological heritage. Usually, governments of individual states manage the environmental licensing process for facilities that are expected to impact only that state. The Federal Government manages the environmental licensing process for facilities that are expected to have an environmental impact on more than one state and/or are located in two or more states.

Failure to obtain an environmental license to construct, implement, operate, expand or enlarge an enterprise that causes significant environmental impact, such as the energy plants operated and in implementation by CEMIG, is subject to administrative sanctions, such as the suspension of activities and the payment of a fine, ranging from R\$500 to R\$50 million, as well as criminal sanctions, which include the payment of a fine, imprisonment for individuals and restriction of rights for legal entities.

The State of Minas Gerais Environmental Policy Council (*Conselho de Política Ambiental*) ( COPAM ) Regulatory Ordinances Nos. 17, of December 17, 1996, and 23, of October 21, 1997, provide that operational licenses shall be renewed from time to time for periods of four to eight years, depending on the size and pollution potential of the facility.

With the purpose of surveying and saving archaeological assets that have not been previously considered, Ordinance No. 28, of January 31, 2003, issued by the National Historical and Artistic Heritage Institute (*Instituto do Patrimônio Histórico e Artístico Nacional*), or Iphan, provides that renewals of operational licenses for hydroelectric power plants are subject to a condition requiring a favorable opinion from Iphan in relation to archaeological studies on the depletion area of the reservoir, which studies are to be sponsored by the plant operator.

*Corrective Environmental Operation Licensing*

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

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

Table of Contents

Currently, the facilities of Cemig Generation and Transmission that started operations before the Brazilian environmental legislation was passed, and which have not obtained corrective licensing, have now filed applications before the appropriate environmental bodies.

We currently have operating licenses for the following facilities: (i) hydroelectric plants: São Simão, Aimorés, Amador Aguiar I, Amador Aguiar II, Igarapava, Irapé, Itutinga, Miranda, Nova Ponte, Porto Estrela, Rosal, Funil, Queimado, Sá Carvalho and Baguari; (ii) Small Hydroelectric Plants: Joasal, Paciência, Gafanhoto, Pai Joaquim, Rio de Pedras, Santa Luzia, Salto dos Moraes, Poquim and Piçarrão; (iii) thermoelectric plants: Barreiro and Formoso; (iv) the Morro do Camelinho wind power plant and the Praias de Parajuru wind farm; and (v) the Transmission Systems of the Eastern, Triangle and Southeastern Regions of the State of Minas Gerais. Nevertheless, it must be observed that some of these licenses are not currently valid and depend on a renewal process, such as the ones related to Aimorés, Pai Joaquim and Sá Carvalho. In 2010 the licenses of Irapé and the Rio das Pedras Small Hydro Plant were renewed and on March 2, 2011 the license of Rosal was renewed. The renewal of the licenses for Itutinga, Santa Luzia, Salto Moraes and Piçarrão are pending.

Some of the renewal processes of our environmental licenses conducted at the environmental agency of the State of Minas Gerais depend on the decisions regarding Legal Forest Reserves. See Legal Forest Reserves.

Distribution of natural gas by Gasmig through pipelines in Minas Gerais is also subject to environmental control. We believe that all licenses for the regular operation of Gasmig's activities have been obtained. The environmental licenses for operation of the Natural Gas Distribution Network were duly issued by FEAM.

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

**Legal Forest Reserves**

Under Article 1º, § 2º, sub-item III, of Federal Law No. 4,771, of September 15, 1965 (the Federal Forest Code), a Legal Forest Reserve is an area located inside a rural property or holding, other than any area of permanent preservation, that is necessary for the sustainable use of natural resources, conservation or rehabilitation of ecological processes, conservation of biodiversity and for shelter or protection of native fauna and flora.

In Minas Gerais, where the greater part of CEMIG's undertakings is located, State Law No. 14,309, of June 19, 2002, regulated by Decree No. 43,710, of January 8, 2004, which instituted the Forest and Biodiversity Protection Policy, ratified the obligation contained in the Federal Forest Code, requiring the constitution of a Legal Forest Reserve corresponding to 20% of the total area of a rural property, as an instrument for protection of biodiversity and shelter for flora and fauna in the state.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

However, both Federal Law No. 4,771/65 and State Law No. 14,309/02 omit the concept of a rural property or holding. The regulatory concept found in the Brazilian legislation for rural properties is in the Land Statute instituted by Federal Law No. 4,504, of November 30, 1964, in which Article 4, I, defines a rural property as a rustic real estate property, of continuous area, whatever its location, allocated for extractive agricultural, livestock raising or agro-industrial commercial operation.

In the federal sphere, IBAMA's technical licensing team, in the corrective licensing of CEMIG's plants, expressed an opinion, in correspondence sent to the Company, on July 29, 2008, taking a position against the need for the constitution of a Legal Forest Reserve.

In the State of Minas Gerais, with the objective of deciding whether the obligation to constitute a Legal Forest Reserve applies to the electricity sector, a legal opinion was issued by the Office of the General Attorney of the State of Minas Gerais, or AGE, on October 30, 2008, in response to a consultation from the Minas Gerais State Environment and Sustainable Development Department, or SEMAD, and the State's Economic Development Department, or SEDE, presenting the opinion that allocation of a Legal Forest Reserve is obligatory for undertakings of the electricity sector, both for those under construction and for those to be put in place in the future.



Table of Contents

Supported by several legal opinions, SEDE expressed a position against the applicability of the obligation to constitute Legal Reserves to undertakings of the electricity sector located in rural areas, and resumed their discussions with the SEMAD about this obligation.

In agreement with the opinion put forward by SEDE, CEMIG supports the view that it is not obligated to constitute a Legal Forest Reserve for its undertakings, based on the following arguments:

1. The undertakings of the electricity sector are public utility activities, operating commercially under federal concession or authorization, for commercial operation of hydroelectric potential, and transmission and distribution of electricity, and are certainly not characterized as being a rural property or possession.

2. The acquisition of the real estate properties for putting in place the undertakings occurs as a function of the concession authorization by the grantor, through Aneel as an intermediary, and is carried out on a temporary basis, since at the end of the concession or authorization, the assets revert to public ownership.

The environmental impacts caused to biodiversity by the implementation of the electricity sector's undertakings have already been compensated. Examples of the environmental compensation specified in Brazilian legislation, already applying to the sector, are: (I) the Environmental Compensation specified by Federal Law No. 9,985, of July 18, 2000 (the SNUC Law); (II) the Forest Compensation for suppression of vegetation or intervention in an area of permanent preservation, specified in §4° of Article 4 of Federal Law No. 4,771, of September 15, 1965 (including by Provisional Measure 2166-67, of 2001); (III) the Environmental Compensation for cutting or suppression of the Atlantic Forest biome, under Federal Law No. 11,458, of December 22, 2006; and (IV) the Forest Charge for removal of vegetation for installation of the undertakings, as specified in State Law No. 4,747, of May 9, 1968.

4. The principle of non bis in idem cannot thus be violated. Such an obligation could characterize a double charge imposed on concession holders. CEMIG referred his understanding to SEDE, presenting arguments against the Legal Reserves provision obligation.

SEMAD, in a letter to the AGE dated as of May 14, 2010, requested reconsideration of AGE's legal opinion dated October 30, 2008. The AGE has not yet replied to SEMAD's letter.

Currently, discussions are taking place within the Brazilian Congress regarding the applicable law. Changes in Brazilian legislation or a new opinion of the AGE requiring a Legal Forest Reserve would result in additional cost to the Company, which cannot currently be estimated at this moment.

*Compensation Measures*

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

According to Federal Law No. 9,985, of July 18, 2000, and corresponding Decree No. 4,340, of August 22, 2002, the companies whose activities are deemed to cause high environmental impacts are required to invest in protected areas in order to offset those impacts. Each company shall have its environmental compensation stipulated by the relevant environmental agency, depending on the specific degree of pollution or harm to the environment resulting from its activities.

Federal Decree No. 6,848/2009, issued on May 14, 2009, and State of Minas Gerais Decree No. 45.175, issued on September 17, 2009, regulate the methodology for defining compensation measures. Accordingly up to 0.5% of the total amount invested in the implementation of a project that causes significant environmental impact must be reverted for compensation measures. The exact amount of compensation measures will be defined by the environmental agency, based on the project's specific degree of pollution and environmental harm.

State Decree No. 45.175/2009, of September 18, 2009 also indicated that the compensation charge shall apply retroactively to projects implemented before the enactment of the current legislation. The retroactive application of the compensation charge is being contested by a number of companies in Minas Gerais and is being discussed among SEMAD, the AGE and the Minas Gerais Industrial Federation. We have not yet assessed the effects that such legislation will have on CEMIG, however, its enforcement would result in additional costs for our operations.

### *Fishways*

Among other environmental programs, we are operating and developing the Fishways program. The dams at each of our hydroelectric generation facilities can endanger fish that inhabit the adjoining reservoirs. To reduce the impact of these facilities, fish

Table of Contents

that pass through our dams will be redirected to fishways, through which they can pass safely. Currently, for Salto Moraes, Igarapé, Funil, Baguari, Aimorés and Igarapava plants, fishway facilities have already been implemented by CEMIG and its partners.

There has been no final decision by the environmental authorities regarding the obligation of building fishway projects at CEMIG's hydroelectric plants; however, there is a possibility that future decisions by the environmental authorities, changes in the environmental legislation, or even new information obtained from the studies that are currently in progress may lead to a need for the construction of fishways at all of CEMIG's hydroelectric plants, which, in its turn, may cause additional costs for CEMIG's operations, that have not yet been assessed.

*Fish Management*

In view of its policy for environmental conservation and sustainable development, CEMIG carries out numerous procedures to mitigate accidents involving fish in its hydroelectric power plants, such as use of sonar and counting to detect shoals; monitoring of oxygen in solution; and use of teams of professional divers to assess shoals during activities with greater environmental risk, such as startup and shutdown of rotors. Also, we are currently developing research projects in partnership with universities to study more effective techniques to control the impact of our operations on fish.

In spite of these efforts, two incidents occurred, one in 2006 and one in 2007, at the Três Marias Hydroelectric Power Plant, resulting in the death of approximately 17 tons of fish in 2007 due to lack of oxygenation, according to the State Forests Institute and estimates by the Environmental Police (8.2 tons by our estimate). The volume of dead fish was not estimated or measured in 2006. As a result, the State Forests Institute imposed two fines on us, totaling approximately R\$5.5 million, which currently corresponds to R\$7.7 million. We paid 50% of the fine and the rest is being negotiated with the environmental authority for application in research projects. On April 8, 2010, CEMIG and the Public Attorneys' Office of Minas Gerais State signed a Conduct Adjustment Commitment (TAC), corresponding to the amount of R\$6.8 million, providing for compensatory measures related to the occurrence of fish deaths, measures for prevention of leakage of oil, and measures for environmental improvement in the area of influence of the Três Marias power plant, in Três Marias, Minas Gerais.

Although the amount is not a material liability for us, we are implementing an environmental project, named Live Fish (*Peixe Vivo*) in the affected region as a way of responding to the event and reaffirming our commitment to economic and social development of the regions where we operate and where our projects are located. Fish in the exit canals of several of our plants are being monitored by specialist biologists, with the objective of becoming familiar with the dynamics of fish populations over time, the periods of their greatest activity during the day, and the locations of their greatest density. With this information, more effective techniques may be developed to control the impact of the operation of the plants on fish. CEMIG has spent R\$2.7 million in 2010 for the development of research projects linked to the Peixe Vivo program.

In 2008, two research projects were contracted for continuous monitoring of fish densities and environmental conditions in strategic stretches of the drainage basins influenced by CEMIG's plants; studying of aspects of the biology (reproduction, feeding, distribution, migration, etc.) of the fish species most affected by the procedures of maintenance of the generating units; creation of standardized databases for the information generated by the monitoring of the fish populations that will be carried out at CEMIG's plants; determination of temporal and spatial variations in the abundance of fish upstream from the plants and correlation with the water flow and quality factors that can govern their behavior, making it possible to take measures to reduce the risk of accidents from fish entering suction tubes, and also to facilitate the appropriate choice of locations for fish transposition mechanisms.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

CEMIG has a hydroelectric operation on the Pandeiros River in the municipality of Januária, in the State of Minas Gerais, named the Pandeiros Small Hydro Plant, operating since 1958, with installed generating capacity of 4.2 MW. Due to the environmental characteristics of the Pandeiros river and its importance as a location for the reproduction of fish that populate the São Francisco River, Minas Gerais State passed various items of legislation in 1995 and subsequent years for the protection of the river, which affected normal operation of the Pandeiros plant.

In October 2007, at the end of a long drought, fish deaths occurred in a lake associated with the Pandeiros River, 31 miles downstream from the Pandeiros plant. Since the area is downstream from the Pandeiros plant, the Minas Gerais State Forests Institute associated the problem with the operation of the plant, and, together with the Minas Gerais State Public Attorneys Office, brought a legal action against CEMIG to provide technical explanations about the event. In accordance with State Forests Institute Notice No. 251016, of October 18, 2007, the Pandeiros plant was indicted and its operations were ceased.

CEMIG hired specialists who issued two technical reports to assess the matter, from the points of view of river flows and fish populations, and sent these studies to the State Forests Institute and to the Public Attorneys Office for consideration. Both reports concluded that the fish deaths resulted from natural causes arising from the natural dynamics of the Pandeiros River, relieving CEMIG of any responsibility for the events. Nevertheless, CEMIG entered into a Commitment Agreement (*Termo de Compromisso*, or TC )

Table of Contents

with the State Forests Institute and to the Public Attorneys Office. The TC sets forth several measures that must be adopted by CEMIG, amounting to R\$8 million over 10 years. Among the measures provided for in the TC, there is the management of a Conservation Unit (*Unidade de Conservação*, or UC) and the establishment of a consensual solution for the lawsuit filed by the State of Minas Gerais Public Attorneys Office.

Operations at the Pandeiros plant have not yet resumed, and the competent environmental agency refused to grant the corrective environmental operation license for this facility, on September 19, 2008.

**Urban Occupation of Rights of Way and Reservoir Banks**

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

*Transmission Lines* We have easements for our transmission network over land with approximately 13,670 miles in length. A significant portion of such land is occupied by unauthorized constructions, including residential constructions. This type of occupation causes risks of electric shock and accidents involving local residents, and constitutes an obstacle to maintenance of our electricity system. We are currently seeking a solution for this problem, which could involve either removal of these occupants, or improvements that would make it possible to maintain our electricity system safely and efficiently. The Invasion Risk in the Transmission Path Monitoring Committee was created to mitigate these risks by monitoring and recording invasions and by taking action to prevent invasions on the safety paths of the transmission lines. A number of measures have been adopted, including: contracting of a company for systematic inspection and implementation of security measures and works to minimize risks; development of the Geomape project, which, with the use of geoprocessing techniques and laser technology, generates high resolution images aiming to improve and update the mapping of invasions and registry of the occupants; diagnose of invasion risks in order to classify areas as of high, medium or low invasion risk, to support defensive actions of inspection and prevention of invasions; education of the communities about the risks of accidents involving electricity and our transmission lines; creation of community vegetable gardens in the transmission line paths; and removal of occupation of the transmission paths through working agreements with local housing and other authorities.

*Reservoir Areas* We have implemented safety measures to protect our electricity generation facilities against invasions, using security posts, mobile patrols and electronic vigilance systems (SVE), as appropriate. Invaders located inside the facilities are detained and taken to police stations, where police complaints are filed. There are signs on the banks of the reservoirs of our hydroelectric generation facilities, indicating ownership. Invaders of the banks of the reservoirs are reported by periodic inspections by the mobile patrol units operating on the reservoir banks. We frequently have to take legal action to recover possession of invaded areas. Due to the vast area and number of reservoirs, we are continually subjected to new trespasses and occupation of the banks of the reservoirs by unauthorized constructions. However, we are employing our best efforts to prevent these invasions and any environmental damage to the Permanent Preservation Areas (*Áreas de Preservação Permanente*), or APPs, around the reservoirs.

**The Carbon Market**

We believe Brazil has significant potential to generate carbon credits arising from clean energy projects that comply with the Clean Development Mechanism, or CDM. Every year, we seek to quantify our emissions and to publish our main initiatives in reduction of greenhouse gas emissions, by means, for example, of the Carbon Disclosure Project.

CEMIG has CDM projects at various stages of development, including six Small Hidroelectric Plants with a capacity of 81MW and a hidroelectric plant with a capacity of 140MW. CEMIG has a 49% interest in each of these projects. So far no carbon credits have been commercialized, since these projects have not yet reached the stage of issuance of Reduced Emission Certificates (*Certificados de Emissão Reduzida*), or CERs.

In addition, we are developing, through Efficientia, a CDM project, for cogeneration of electricity from blast furnace gases in the steel sector, with Siderúrgica Pitanguí. This project has been approved by the Interministerial Commission on Global Climate

Table of Contents

Change (*Comissão Interministerial de Mudança Global do Clima*), or CIMGC and is at the approval phase with the Executive Council of the United Nations.

**Operational Technologies**

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

*Load Dispatch Center*

CEMIG's System Operation Center (*Centro de Operação do Sistema*), or COS, located at our head office in Belo Horizonte, is the nerve center of our operations. It coordinates the operations of our entire electricity and energy system, in real time, providing operational integration of the generation and transmission of our energy. It also provides the link with other generation, transmission and distribution companies. The supervision and control executed by the COS now extends to more than 47 extra high and high voltage substations and approximately 28 major generating power plants.

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

*Distribution Operation Center*

Our distribution network is managed by a Distribution Operation Center (*Centro de Operações de Distribuição*), or COD, located in Belo Horizonte. The COD monitors and coordinates our distribution network operations in real time. The COD is responsible for the supervision and control of 366 distribution substations, 282,061 miles of medium voltage distribution lines, 10,621 miles of sub-transmission lines and 6.8 million consumers in our concession area, comprising 774 municipalities of Minas Gerais.

We provided an average of 13,027 services a day in 2010. The COD is certified according to ISO Quality Standard 9001: 2000. There are various systems in use to automate and support the COD's processes including: trouble call, field crew management, distribution substation supervision and control, restoration of power, emergency switching, network disconnection, and inspection. Technologies including a geographic information system and satellite data communication help to reduce consumer service restoration time and provide better consumer service. These are devices, installed along our distribution network, that sense and interrupt fault currents, and automatically restore service after momentary outages, improving operational performance and reducing restoration time and costs.

*Geospatial Information & Technology*

The operational and engineering processes of our business are strongly supported by geo-referenced information management technologies, making the planning, construction, operation and maintenance of the generation, transmission and distribution network more efficient. Additionally, the use of mobile technologies reduces costs and allows us to provide more efficient services to our consumers.

*Internal Telecommunications Network*

We believe we have one of the largest telecommunication networks among Brazilian electric power companies. It includes high performance microwave links with more than 231 communication stations, an optical system with 1,557 miles of optical fibers and a mobile communication system with 811 radios including 644 trunking and VHF radios and 167 UHF and VHF portable radios. A total of 420 mobile radios have data interface to mobile terminals installed in vehicles for dispatch systems (operation and maintenance), which also have 940 mobile terminals connected through satellites.

*Corporate Data Network*

Our corporate data network has 227 sites in 142 towns in Minas Gerais. The physical and logical architecture of the network employs security resources such as firewalls, Intrusion Prevention Systems (IPSs), and anti-virus and anti-spam systems, which are continually updated to protect information against unauthorized access, in compliance with ISO 27000. A system of event logs makes it possible to investigate occurrences and also guarantee a historical record base to meet legal requirements.



Table of Contents

*IT Governance Program*

Our Information Technology Governance Program aims to continually align IT with our business, adding value by applying technology information, proper management of resources, risk management and compliance with legal, regulatory and Sarbanes-Oxley requirements.

Since 2008, our information technology Project Management Office (or PMO) is responsible for ensuring that the management of information technology projects is systematic, using dedicated software methodology, processes and tools.

Considering the central role of Information Technology Governance in our business, a dedicated management unit was created in 2009 for concentrating, planning and carrying out all the actions that are specific to information technology governance, including strategic planning, legal and regulatory compliance, quality management, budget and financial management, services management and project management.

*Call Centers*

We have one call center, in Belo Horizonte. Our consumers can use a toll-free number to get information on their accounts and report service problems. The call center is integrated with the technologies available in the COD, allowing us to give consumers up-to-date information on service issues. The call center has modern facilities, with a staff of over 1,300, and is able to receive about 75,000 calls per day. Consumers can also contact us by e-mail, by fax or via our website. As an indication of the service quality provided, our call center has had ISO 9001 Quality Certification since 1999.

*Commercial Management System*

We have consolidated an efficient customer care system, based on our ERP platform and totally integrated into our ERP and BI that support our decision-making processes. The CCS serves approximately 7 million consumers of high, medium and low voltage. The system is a competitive tool, adding safety, quality and productivity to CEMIG's business processes, and adapts itself with great efficiency and speed to legal, regulatory and market changes and requirements.

*Maintenance and Repair Systems*

The 10,460 miles of high voltage distribution lines in Cemig Distribution's network, operating at 34.5 kV to 161 kV, are supported by approximately 52,419 structures, mainly made of metal. Cemig Generation and Transmission's network has 3,085 miles of high voltage transmission lines, supported by approximately 11,676 structures. The majority of the service interruptions to our distribution and transmission lines are due to lightning, fire, vandalism, wind, and corrosion. The entire high voltage transmission line systems of both Cemig Distribution and Cemig Generation and Transmission are inspected once a year, using a helicopter equipped with a Gimbal, which is a gyro-stabilized system

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

consisting of conventional and infra-red cameras, allowing for simultaneous visual and thermographic (infra-red) inspections. Land-based inspections are also carried out at intervals of between one and three years, depending on the line characteristics, such as time in operation, number of outages, type of structure, and the line's importance to the electricity system as a whole.

We use modern modular aluminum structures to minimize the impact of emergencies involving fallen structures. Most of our maintenance work on transmission lines is done using live-wire methods. Being the first company in Brazil to use bare-hand, live-wire techniques in the maintenance of transmission lines and substations, we have accumulated over 33 years of experience in this area. We have a well-trained staff and special vehicles and tools to support live- and dead-wire activities.

Our set of spare equipment (transformers, breakers, arresters etc) and mobile substations are of great importance in the prompt reestablishment of power to our customers in case of emergencies involving failed substations. In December 2008, as a result of a partnership with ABB, we developed the first mobile green substation of 138/13.8 kV and 15 MVA, which is completely insulated with vegetable oil, becoming a pioneer in its use.

Considering the age of our facilities, a structural program for their modernization is crucial to maintain desired levels of cash flow. We have an update program for our plants in place, with total planned investments of R\$1.7 billion in the next 15 years.

### *Information Security Management*

Information security, a permanent concern of ours, is ensured by a management system based on the Brazilian Standard (ABNT) NBR ISO/IEC 27001:2006, and aligned with the best market practices. Our information security management system includes processes for policy, risk, communication, information classification and information security management and control. In

Table of Contents

addition, recurring actions for improvement in processes, communication, awareness and training strengthen the Company's information security practices.

**Management Tools**

At the end of 2010, CEMIG updated and improved its Integrated Corporate and Financial Management System, or ERP, on its SAP platform, which includes the business processes related to finance, purchasing, sales, materials, services and human resources. The ERP is a competitive tool, adding safety, quality and productivity to CEMIG's business processes, and adapts quickly to legal, regulatory and market changes and requirements.

The ERP update included the implementation of Business intelligence solutions that provide the Board of Directors and the Executive Board with documents and other information to assist in their decision-making processes, and make it available aiming mainly to serve the Board of Directors and the Executive Board through preparation of management reports and by providing other management information necessary for planning, control and decision-making.

*Risk Management*

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

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

Our Corporate Risk Management System aims to achieve the following: compliance with the objectives set by the strategic plan; create awareness among shareholders of the possible events that could constitute a risk of loss of value; structure the company to be able to take proactive stances in relation to its risk environment; provide the company's executives with a methodology and tools for effective management of risk, including the ability to aggregate individual risks, the ability to compare risks in different business units and a tool to accurately evaluate the measures introduced to minimize risks; provide other areas of strategic management with input concepts and procedures, and factors that strengthen the company's organizational control infrastructure.

CEMIG is working to achieve the major risk management objective of an open environment conducive to effective communications about risks and risk management up, down and across the enterprise, so that a truly holistic, integrated, proactive, forward-looking and process-oriented approach is taken to assess all key business risks and opportunities, not only those of a financial nature.

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

CEMIG's risk management also has the benefit of a Financial Risk Management Committee, which was created (i) to monitor the financial risks related to volatility and trends of the inflation indices, exchange rates and interest rates that affect our financial transactions, and which could negatively affect the Company's liquidity and profitability, and (ii) to implement guidelines for proactive operation in relation to the environment of financial risks when implementing action plans.

The next step we intend to take is to improve the Corporate Risk Management System, with the assistance of a consulting firm, by developing new products and mathematical and statistical methods used to calculate and monitor the Corporate Risks Matrix's risk positions, thereby increasing transparency and safety in strategic decisions.

Table of Contents

**Properties, Plant, Equipment and Intangible Assets**

Our principal properties consist of the power generation plants and transmission and distribution facilities described in this Item 4. Our net book value of total property, plant and equipment and intangible assets, including our investment in certain consortia that operate electricity generation projects, including projects under construction, was R\$13,033 million at December 31, 2010. Generation facilities represented 59.0% of this net book value, intangible assets represented 36.9% of this net book value (distribution facilities on intangible assets represented 32.5% and other intangible 4.4%) and other miscellaneous property and equipment, including transmission and telecommunication facilities, represented 4.1%. The average annual depreciation rate applied to these facilities was 2.5% for hydroelectric generation facilities, 12.7% for administration facilities, 6.7% for telecommunication facilities and 4.0% for thermoelectric facilities. Apart from our distribution network, no single one of our properties produced more than 10% of our total revenues in 2010. Our facilities are generally adequate for our present needs and suitable for their intended purposes. We have rights of way for our distribution lines, which are our assets and do not revert to the landowner upon expiration of our concessions.

**The Brazilian Power Industry**

*General*

Traditionally, in the Brazilian electricity sector, generation, transmission and distribution activities were conducted by a small number of companies that had always been owned by either the Federal Government or State Governments. In the past, several companies controlled by the state were privatized, in an effort to increase efficiency and competition. The Fernando Henrique Cardoso administration (1995-2002) stated its objective to privatize the state-controlled part of the electricity sector, but the Luis Inácio Lula da Silva administration (2003-2010) ended this process and implemented a New Industry Model for the Brazilian electricity sector as set forth in Law No. 10,848, of March 15, 2004, or The New Industry Model Law.

*The New Industry Model*

The main objectives of the New Industry Model are to guarantee security of supply and reasonableness of rates. To guarantee supply, The New Industry Model Law requires (a) that distributors contract their entire loads, and be responsible for making realistic projections of demand requirements and (b) that the construction of new hydroelectric and thermal plants be determined in ways that best balance security of supply and reasonableness of rates. To achieve reasonable rates, The New Industry Model Law requires (a) all purchases of electricity by distributors occur by auction, based on the lowest-rate criterion; (b) contracting be through the ACR, or the Pool system; and (c) contracting of load be separated into two types of transactions which will always be by auction: (i) contracting of the electricity of the new plants, which targets expansion; and (ii) contracting of the electricity of the existing plants, which targets the existing electricity demand.

The New Industry Model created two environments for the purchase and sale of electricity: (i) the ACR, or the Pool, which contemplates the purchase by distribution companies through public auctions of all energy necessary to supply their consumers; and (ii) the ACL, which encompasses purchase of electricity by non-regulated entities (such as Free Consumers and energy traders). Distributors will be allowed to operate only in the regulated environment, whereas generators may operate in both, maintaining their competitive characteristics.

Expansion requirements of the sector are evaluated by the Federal Government through the Ministry of Mines and Energy, or MME. In order to better organize the electric energy sector, two entities have been created: (i) the Energy Research Company, or EPE, a state-controlled company responsible for planning the expansion of generation and transmission; and (ii) the Electric Energy Trading Chamber (*Câmara de Comercialização de Energia Elétrica*), or CCEE, a private company, which is the successor of the Wholesale Energy Market (Mercado Atacadista de Energia Elétrica) ( MAE ), responsible for the accounting and settlement of short-term energy sales. The CCEE is also responsible, through delegation by Aneel, for organizing and conducting the Pool public power auctions, in which all distributors purchase energy.

The New Industry Model eliminated self-dealing, forcing distributors to purchase electricity at the lowest available prices rather than buying electricity from related parties. The New Industry Model also exempted contracts executed prior to the enactment of the law, in order to provide regulatory stability to transactions carried out before it was enacted.

The electricity arising from (1) low capacity generation projects located near the consumption points (such as certain co-generation plants and the Small Hydroelectric Power Plants), (2) plants qualified under the Proinfa Program, (3) Itaipu and (4) purchase and sale agreements entered into before the New Industry Model Law, are not subject to the public auctions for the supply of electricity at the Pool. The electricity generated by Itaipu, located on the border of Brazil and Paraguay, is traded by Eletrobrás and the Federal Government, through Aneel, and determines the volumes that shall be mandatorily purchased by each distribution concessionaire. The rates at which the Itaipu generated electricity is traded are denominated in U.S. dollars and established by Aneel pursuant to a treaty between Brazil and Paraguay. As a consequence, Itaipu rates rise or fall in accordance with

Table of Contents

the variation of the U.S. Dollar/real exchange rate. Changes in the price of Itaipu generated electricity are, however, subject to a cost recovery mechanism.

*Challenges to the Constitutionality of the New Industry Model Law*

The New Industry Model Law is currently being challenged on constitutional grounds before the Brazilian Supreme Court. The Federal Government moved to dismiss the actions arguing that the constitutional challenges were moot because they related to a provisional measure that had already been converted into law. To date, the Brazilian Supreme Court has not reached a final decision upon the merits of such lawsuit and we do not know when such decision may be reached. Therefore, the New Industry Model Law is currently in force. Regardless of the Supreme Court's final decision, certain portions of the New Industry Model Law relating to restrictions on distributors performing activities unrelated to the distribution of electricity, including sales of energy by distributors to Free Consumers and the elimination of agreements between related parties are expected to remain in full force and effect.

*Coexistence of two Electricity Trading Environments*

Under the New Industry Model Law, electricity purchase and sale transactions are carried out in two different market segments: (1) the regulated market, or the Pool, which contemplates the purchase by distribution companies through public bids of all electricity necessary to supply their consumers and (2) the free market, which encompasses purchase of electricity by non-regulated entities (such as the Free Consumers and energy traders).

*The Regulated Market (the ACR or the Pool)*

In the regulated market, distribution companies purchase electricity for their captive consumers through public auction regulated by Aneel and conducted by CCEE.

Energy purchases will take place through two types of bilateral contract: (i) Energy Agreements (*Contrato de Quantidade de Energia*) and (ii) Capacity Agreements (*Contratos de Disponibilidade de Energia*). Under an Energy Agreement, a generator commits to supply a certain amount of electricity and assumes the risk that electricity supply could be adversely affected by hydrological conditions and low reservoir levels, among other conditions, that could interrupt the supply of electricity, in which case the generator will be required to purchase the electricity elsewhere in order to comply with its supply commitments. Under a Capacity Agreement, a generator commits to make a certain amount of capacity available to the ACR. In this case, the revenue of the generator is guaranteed and the distributor must assume the hydrological risk. However potential additional costs of the distributors are passed on to consumers. Together, these agreements comprise the energy purchase agreements in the ACR (*Contratos de Comercialização de Energia no Ambiente Regulado*), or CCEARs.

Under the New Industry Model Law, the estimate of demand from distributors is the principal factor in determining how much electricity the system as a whole will contract. Under the new system, distributors are required to contract 100% of their projected electricity needs, unlike the 95% under the former regulatory framework.

The regulation under the New Industry Model Law stipulates that distribution companies that contract less than 100% of their total captive consumption may be subject to fines. There are mechanisms to reduce this possibility, such as the purchase of energy from other distribution companies whose energy purchases exceeded forecasted demand, or purchase energy in auctions during the year. Any remaining shortfall from 100% of total captive consumption can be bought at the spot market price and the concessionaire would be subject to a penalty payment equivalent to the shortfall multiplied by the reference value rate established by Aneel. If a company contracts more than 103% of its captive consumption, it would be subject to price risk if it sells this energy in the spot market in the future. To reduce such price risk, a company may reduce the purchase contracts in the existing energy auction by up to 4% each year, and reduce those contracts due to loss of consumers that became free and are supplied by generators directly. Any surplus may be negotiated in the spot market.

According to the New Industry Model Law, electricity distribution concessionaires will be entitled to pass on to their respective consumers, in costs related to electricity purchased through public bids, limited to the equivalent of 103% of their verified annual load, as well as any taxes and industry charges related to the public bids.

*The Free Market (the ACL )* In the free market, electricity is traded between generation concessionaires, IPPs (Independent Power Producer), self-generators, energy traders, importers of energy and Free Consumers. The free market also includes existing bilateral contracts between generators and distributors until they expire. Upon expiration, such contracts must be executed under the New Industry Model Law.



Table of Contents

A consumer that is eligible to choose its supplier, known as a potentially free consumer, and that has a contract with a distribution company for an undetermined duration, may only be able to purchase electricity from other suppliers in the year following the declaration of its intention to terminate such contract, which is required to be sent to the distributor at least 15 days before the day such distributor is required to state its electricity needs for the next auction, except as otherwise provided in the contract.

Potentially free consumers are those whose demand exceeds 3 MW at a voltage equal to or higher than 69kV or at any voltage level, so long as the supply began after July 1995. In addition, consumers with contracted demand equal to or greater than 500kW may be serviced by suppliers other than their local distribution company if they move to energy from alternative energy sources, such as wind, biomass or Small Hydroelectric Plants.

Once a consumer has opted for the free market, it may only return to the regulated system once it has given the distributor of its region five years notice, provided that the distributor may reduce such term at its discretion, except for special consumers, which must provide 180 days notice. This extended notice period seeks to assure that, if necessary, the distributor can purchase additional energy to supply the re-entry of Free Consumers into the regulated market. In addition, distributors may also reduce the amount of energy purchased according to the volume of energy that they will no longer distribute to free consumers. State-owned generators may sell electricity to Free Consumers, but as opposed to private generators, they are obliged to do so through an auction process.

In the past, high tension consumers who purchase their electricity from distributors in the regulated market did it at a subsidized price. This subsidy, known as the cross-subsidy, was gradually eliminated by Aneel, and is now terminated. The potentially free consumers are required by law to enter into separate contracts for the connection and use of the transmission or distribution lines and for the purchase of power.

*Restricted Activities of Distributors*

Distributors in the National Interconnected Power System (*Sistema Interligado Nacional*), or SIN, or the Brazilian Grid, are not permitted to (1) develop activities related to the generation or transmission of electricity, (2) sell electricity to Free Consumers, except for those in their concession area and under the same conditions and rates maintained with respect to captive consumers in the ACR, (3) hold, directly or indirectly, any interest in any other company, except interest in entities incorporated for raising, investment and management of funds necessary for the distributor or its controlled, controlling or under common control companies, corporation or partnership or (4) develop activities that are unrelated to their respective concessions, except for those permitted by law or in the relevant concession agreement.

*Elimination of Self-Dealing*

Since the purchase of electricity for captive consumers will be performed through the ACR, the so-called self-dealing, when distributors were permitted to meet up to 30% of their electricity needs through electricity that was acquired from affiliated companies, is no longer permitted, except in the context of agreements that were duly approved by Aneel before the enactment of the New Industry Model Law. Distributors may, however, make purchases from affiliated companies if the distributor participates in the public bidding process through the ACR, and the generator that bids the lowest price is an affiliated party.

*Contracts Executed prior to the New Industry Model Law*

The New Industry Model Law provides that the contracts executed by electricity distribution companies and approved by Aneel before the enactment of the New Industry Model Law will not be amended to reflect any extension in their terms or modification in prices or volumes of electricity already contracted.

*Reduction of the Level of Contracted Electricity*

Decree No. 5,163/04, which regulates the trade of electricity under the New Industry Model Law, allows distribution companies to reduce their CCEARs: (1) to compensate for the exit of Potentially Free Consumers from the regulated market, pursuant to a specific declaration delivered to MME, (2) by up to 4.0% per year of the initial contracted amount due to market deviations from the estimated market projections, at the distribution companies' discretion, beginning two years after the initial electricity demand was declared and (3) in the event of increases in the amounts of electricity acquired pursuant to contracts entered into before March 17, 2004. This reduction can be made only with CCEARs of existing power plants.

The circumstances in which the reduction of the level of contracted electricity will occur will be duly set forth in the CCEARs, and may be exercised at the sole discretion of the distribution company and in compliance with the provisions described above and Aneel regulations.

Table of Contents

Pursuant to Aneel's regulations, the reduction of the level of contracted energy under the CCEARs of existing energy shall be preceded by the so-called Mechanism of Compensation of Surplus and Deficits, or MCS D, by means of which distribution companies which have contracted energy in excess of their demand may assign a portion of their CCEARs to distribution companies which have contracted less energy than needed to meet their consumer's demand.

*Limitation on Pass-Through*

The New Industry Model now also limits the pass-through of costs of electricity to final consumers. The Annual Reference Value corresponds to the weighted average of the electricity prices in the A-5 and A-3 auctions, calculated for all distribution companies, and creates an incentive for distribution companies to contract for their expected electricity demands in the A-5 auctions, where the prices are expected to be lower than in

A-3 auctions. The Annual Reference Value will be applied in the first three years of the power purchase agreements from new power generation projects. After the fourth year, the electricity acquisition costs from these projects will be allowed to be fully passed-through. The decree establishes the following limitations on the ability of distribution companies to pass through costs to consumers:

- no pass-through of costs for electricity purchases that exceed 103% of regulatory demand;
- limited pass-through of costs for electricity purchases made in an A-3 auction, if the volume of the acquired electricity exceeds 2.0% of the demand verified in A-5 auctions;
- limited pass-through of electricity acquisition costs from new electricity generation projects if the volume re-contracted through CCEARs of existing generation facilities is below a Contracting Limit defined by Decree No. 5,163;
- electricity purchases from existing facilities in the A-1 auction are limited to 1.0% of distribution companies' demand, plus the replacement, defined as the amount of energy needed to replace the power from power purchase contracts that expire in the current year. If the acquired electricity in the A-1 auction exceeds the limit, pass-through of costs of the exceeding portion to final consumers is limited to 70.0% of the average value of such acquisition costs of electricity generated by existing generation facilities. The MME will establish the maximum acquisition price for electricity generated by existing projects;
- electricity purchases in market adjustment auctions are limited to 1.0% of a distribution concessionaire's total demand (except for the years 2008 and 2009, when the limit was 5%) and pass-through of costs is limited to Annual Reference Value; and
- if distributors fail to comply with the obligation to fully contract their demand, the pass-through of the costs from energy acquired in the short-term market will be the equivalent to the lower of the PLD or the Annual Reference Value.

*Rationing Under The New Industry Model Law*

The New Industry Model Law establishes that, in a situation where the Federal Government decrees a compulsory reduction in the consumption of electricity in a certain region, all energy amount agreements in the regulated market, registered within the CCEE in which the buyer is located, shall have their volumes adjusted in the same proportion to the consumption reduction.

*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 (*Índice Geral de Preços do Mercado*), or IGP-M index. The average annual rate adjustment includes components such as the inter-year variation of Parcel A 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.

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

Table of Contents

scope of each company's concession and (ii) determining the X factor, which is calculated based on expected productivity gains from increases in scale, labor costs and the grid investment amount planned by the distribution company during the five-year period.

For more detailed information, see Item 5. Operating and Financial Review and Prospects Rates for the Use of the Distribution and Transmission Systems.

Anel 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, or TUSD, and the rate for the use of the transmission grid, or Transmission Usage Rates, or 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.

*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. We make all efforts to negotiate with the communities before applying to the judiciary.

*The Brazilian Electricity System Overview*

Brazil's power production and transmission is a large-scale hydroelectric and thermal system made up predominantly of hydroelectric power stations, with multiple owners. The Brazilian Grid is comprised of companies in the southern, southeastern, west-central, and northeastern regions and part of the northern region of Brazil. Only 3.4% of the country's electricity production capacity is not connected to the Brazilian Grid, in small isolated systems located mainly in the Amazon region. Brazil's abundant hydrological resources are managed through storage reservoirs. It is estimated that Brazil has a hydroelectric power generation potential close to 243,362 MW, of which only 33.67% has been developed or is under construction, according to Eletrobrás studies consolidated in December 2010.

Brazil has an installed capacity in the interconnected power system of 101.33 GW, approximately 75% of which is hydroelectric. This installed capacity includes half of the installed capacity of Itaipu—a total of 14,000 MW owned equally by Brazil and Paraguay. There are approximately 55,000 miles of transmission lines with voltages equal to or higher than 230 kV in Brazil.

Approximately 38% of Brazil's installed generating capacity and 56% of Brazil's high voltage transmission lines are operated by Eletrobrás, a company owned by the Federal Government. Eletrobrás has historically been responsible for implementing electric policy, conservation and

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

environmental management programs. The remaining high voltage transmission lines are owned by state-controlled or local electric power companies. Distribution is conducted by approximately 60 state or local utilities, a majority of which have been privatized by the Federal Government or state governments.

### *Historical Background*

The Brazilian Constitution provides that the development, use and sale of energy may be undertaken directly by the Federal Government or indirectly through the granting of concessions, permissions or authorizations. Historically, the Brazilian power industry has been dominated by generation, transmission and distribution concessionaires controlled by the Federal and state governments. Since 1995, the Federal Government has taken a number of measures to restructure the power industry. In general, these measures were aimed at increasing the role of private investment and eliminating foreign investment restrictions, thus increasing overall competition in the power industry.

In particular, the Federal Government has taken the following measures:

- The Brazilian Constitution was amended in 1995 to authorize foreign investment in power generation. Prior to this amendment, all generation concessions were held either by a Brazilian individual or an entity controlled by Brazilian individuals or by the Federal or state governments.
  
- The Federal Government enacted Law in 1995 that:

Table of Contents

- required that all concessions for the provision of energy-related services be granted through public bidding processes;
- gradually allowed certain electricity consumers with significant demand (generally greater than 3 MW), referred to as Free Consumers, to purchase electricity directly from suppliers holding a concession, permission or authorization;
- provided for the creation of generation entities, or Independent Power Producers, which, by means of a concession, permission or authorization, may generate and sell all or part of their electricity to Free Consumers, distribution concessionaires and trading agents, among others;
- granted Free Consumers and electricity suppliers open access to all distribution and transmission systems; and
- eliminated the need for a concession to construct and operate power projects with capacity from 1 MW to 30 MW, or Small Hydroelectric Power Plants.
- Beginning in 1995, a portion of the controlling interests held by Eletrobrás and various states in generation and distribution companies were sold to private investors. At the same time, certain state governments also sold their stakes in major distribution companies. While the majority of the distribution companies have been privatized, most generation capacity is still controlled by Eletrobrás, by means of its subsidiaries Chesf, Eletronorte and Furnas.
- In 1998, the Federal Government enacted Law No. 9,648, or the Power Industry Law, to overhaul the basic structure of the electricity industry. The Power Industry Law provided for the following:
  - the establishment of a self-regulated body responsible for the operation of the short-term electricity market, or the Wholesale Energy Market, which replaced the prior system of regulated generation prices and supply contracts;
  - a requirement that distribution and generation companies enter into initial energy supply agreements, or the Initial Contracts, generally take or pay commitments, at prices and volumes approved by Aneel. The main purpose of the Initial Contracts was to ensure distribution companies have access to a stable electricity supply at prices that guarantee a fixed rate of return for the electricity generation companies during the transition period leading to the establishment of a free and competitive electricity market;
  - the creation of the National Integrated System Operator (*Operador Nacional do Sistema*, or ONS), a non-profit, private entity responsible for the operational management of the generation and transmission activities of the interconnected power system; and

- the establishment of public bidding processes for concessions for the construction and operation of power plants and transmission facilities, in addition to the bidding process requirements under the Concessions Law and the Law No 9.074 enacted on July 7, 1995.
  
- On March 15, 2004, the Federal Government enacted Law No. 10,848, or the New Industry Model Law, in an effort to further restructure the power industry with the ultimate goal of providing consumers with secure electricity supplies combined with low rates. On July 30, 2004 the Federal Government published Decree 5,163, governing the purchase and sale of electricity under the New Industry Model Law, as well as the granting of authorizations and concessions for electricity generation projects. These include rules relating to auction procedures, the form of power purchase agreements and the method of passing costs through to final consumers.

*Rationing and Extraordinary Rate Increases*

Below average rainfall in the years preceding 2001 resulted in low reservoir levels and low hydroelectric capacity in the Southeast, Central West and Northeast regions. A program known as the Electricity Rationing Program, that lasted from June 2001 until February 2002, was designed by Electricity Crisis Management Chamber (*Câmara de Gestão da Crise de Energia Elétrica*), or GCE, to solve this problem and establish normal levels for reservoirs. As a result of the end of the rationing measures, the Federal Government terminated the GCE and created the Electricity Sector Management Committee (*Câmara de Gestão do Setor Elétrico*), or CGSE, as coordinator of the electricity sector revitalization measures. The General Agreement of the Electricity Sector was created to



Table of Contents

provide for compensation for rationing-related losses to generation and distribution companies in Brazil and restore the economic equilibrium of the concession agreements. An extraordinary rate increase, or RTE, applicable to final consumers would compensate both generators and distributors for such rationing-related losses. The RTE also covers financial losses from January 2001 to October 2001, resulting from those costs that are beyond the control of the distributor, referred to as Parcel A costs, as well as losses of generators incurred as a result of payment of free energy costs above the Initial Contract average price.

BNDES created a special program to finance 90% of the amounts recoverable by means of the RTE. The loans are repayable over the rate increase collection period.

In April 2003, the Federal Government, fearing that rate increases may contribute to overall inflation in Brazil, decided to delay a rate increase to which distribution companies were entitled under Aneel resolutions to recover intra-annual variation of Parcel A costs. On November 11, 2003, the Federal Government implemented an emergency program designed to compensate distribution companies for the losses incurred due to the non-consideration of the intra-annual variation of Parcel A costs on occasion of the annual rate readjustments that took place from April 2003 to April 2004. Such program guaranteed to the applicable companies a loan from BNDES under special conditions.

*Concessions*

The companies or consortia that wish to build or operate facilities for generation, transmission or distribution of electricity in Brazil must apply to the MME or to Aneel, by delegation of MME, as granting authority, for a concession, permission or authorization, as the case may be. Concessions grant rights to generate, transmit or distribute electricity in the relevant concession area for a specified period. This period is usually 35 years for new generation concessions, and 30 years for new transmission or distribution concessions. For the renewal of existing concessions, the period is usually 20 years for distribution, 20-30 years for transmission, depending on the contract, and the period for generation depends on the contracts. An existing concession may be renewed at the granting authority's discretion.

The Concession Law establishes, among other things, the conditions that the concessionaire must comply with in rendering electricity services, the consumer's rights and the obligations of the concessionaire and the granting authority. Furthermore, the concessionaire must comply with regulations in force governing the electricity sector. The main provisions of the Concession Law are summarized as follows:

*Adequate Service* The concessionaire must render an adequate service to satisfy, among other things, regularity, continuity, efficiency, safety and accessibility of the service.

*Use of Land* The concessionaire may use public land or request the granting authority to declare the public interest of private real estate, so as to benefit the concessionaire. In such case the concessionaire shall compensate the affected owners.

*Strict Liability* The concessionaire is strictly liable for all damages arising from the performance of its services and caused to consumers, to third parties or to the granting authority.

*Changes in Controlling Interest* The granting authority must previously approve any direct or indirect change in the concessionaire's controlling interest.

*Intervention by the Granting Authority* The granting authority may intervene in the concession, by means of a presidential decree, to ensure the concessionaire's adequate performance of services, as well as the full compliance with applicable contractual, regulatory and legal provisions in case the concessionaire fails to do so. Within 30 days after the decree date, the granting authority's representative is required to commence an administrative proceeding in which the concessionaire is entitled to due process of law. During the term of the administrative proceeding, a person appointed by the granting authority's decree becomes responsible for carrying on the concession. If the administrative proceeding is not completed within 180 days after the decree date, the intervention ceases and the concession is returned to the concessionaire. The concession is also returned to the concessionaire if the granting authority's representative decides not to terminate the concession and the concession term has not yet expired.

*Termination of the Concession* The concession termination agreement may be terminated through expropriation and/or forfeiture. Expropriation is the early termination of a concession for reasons related to the public interest that must be expressly declared by law and based on public interest grounds. Following the expropriation, the concessionaire is entitled to receive an indemnification, which may or may not adequately compensate investments made by the concessionaire in expropriated assets that have not been fully amortized or depreciated by the time of the expropriation. Forfeiture must be declared by the granting authority after Aneel, or MME, has made a final administrative ruling that the concessionaire has failed to adequately perform its obligations under the concession agreement. The concessionaire is entitled to due process of law in the administrative proceeding declaring the

Table of Contents

forfeiture of the concession and can resort to the courts. The concessionaire is entitled to receive an indemnification for the investments made by the concessionaire in expropriated assets that have not been fully amortized or depreciated, after deduction of any amounts corresponding to outstanding fines and damages due by the concessionaire.

*Expiration* When the concession expires, all assets, rights and privileges that are materially related to the rendering of the electricity services revert to the Brazilian government. Following the expiration, the concessionaire is entitled to receive an indemnification for the investments made by the concessionaire in expropriated assets that have not been fully amortized or depreciated by the time of the expiration, net of special obligation.

*Penalties* Aneel's Resolution 63, enacted on May 12, 2004, as amended governs the imposition of sanctions against the operators in the electricity sector, defines conduct constituting violations of the law and classifies the appropriate penalties based on the nature and gravity of the violation (including warnings, fines, temporary suspension from the right to participate in bidding procedures for new concessions, licenses or authorizations and forfeiture). Depending on the violation, the fines can be up to two per cent of the amount invoiced by the concessionaires in the 12-month period preceding any assessment notice. Some infractions that may result in fines relate to the failure of the operator to request Aneel's approval in case of:

- Execution of contracts with related parties in the cases provided by regulation;
  
- Sale or assignment of the assets or revenues related to the services rendered as well as the imposition of any encumbrances (including any security, bond, guarantee, pledge and mortgage) on them or any other assets related to the concession or the revenues of the electricity services; and
  
- Changes in controlling interest of the holder of the authorization or concession.

*Principal Regulatory Authorities*

*National Energy Policy Council - CNPE*

In August 1997, the National Energy Policy Council (*Conselho Nacional de Política Energética*), or CNPE, was created to advise the Brazilian president regarding the development and creation of the national energy policy. The CNPE is presided over by the MME, and the majority of its members are officials of the Federal Government. The CNPE was created to optimize the use of Brazil's energy resources and to assure the supply of electricity to the country.

*Ministry of Mines and Energy MME*

The MME is the Federal Government's primary regulator of the power industry. Following the adoption of the New Industry Model Law, the Federal Government, acting primarily through the MME, undertook certain duties that were previously under the responsibility of Aneel, including the drafting of guidelines governing the granting of concessions and the issuance of directives governing the bidding process for concessions relating to public services and public assets.

*National Electric Energy Agency Aneel*

The Brazilian power industry is regulated by Aneel, an independent federal regulatory agency. After enactment of the New Industry Model Law, Aneel's primary responsibility is to regulate and supervise the power industry in line with the policy to be dictated by MME and to respond to matters which are delegated to it by the Federal Government and or MME. Aneel's current responsibilities include, among others:

- administering concessions for electricity generation, transmission and distribution activities, including the approval of electricity rates;
- enacting regulations for the electricity industry;
- implementing and regulating the exploitation of energy sources, including the use of hydroelectric energy;
- promoting the public bidding process for new concessions;
- settling administrative disputes among electricity generation entities and electricity purchasers; and

Table of Contents

- defining the criteria and methodology for the determination of transmission rates.

*National System Operator ONS*

The ONS was created in 1998 as a non-profit private entity comprised of Free Consumers and energy utilities engaged in the generation, transmission and distribution of electricity, in addition to other private participants such as importers and exporters. The New Industry Model Law, granted the Federal Government the power to appoint three directors of the ONS, including the Director-general. The primary role of the ONS is to coordinate and control the generation and transmission operations in the interconnected power system, subject to Aneel's regulation and supervision. The objectives and principal responsibilities of the ONS include, among others:

- planning and scheduling of the operation and the centralized dispatching of the generation in order to optimize the interconnected power system;
- supervision and coordination of the electric system operation centers;
- supervision and control of the national interconnected power system and the international interconnections;
- retaining and managing of the electric energy transmission services and respective access conditions, as well as the ancillary services;
- proposing to Aneel the expansion and reinforcement of the basic transmission grid; and
- submitting rules for the operation of the transmission system for Aneel's approval.

*Electric Energy Trading Chamber CCEE*

The CCEE replaced the Wholesale Energy Market pursuant to the new rules set forth under the New Industry Model Law. One of the main roles of the CCEE is to conduct public auctions in the regulated market, including the auction of existing electricity and new electricity. Additionally, the CCEE is responsible, among other things, for (1) registering the volume of all the energy purchase agreements within the regulated market (*Contratos de Comercialização de Energia no Ambiente Regulado*), or CCEAR, and the agreements resulting from the free market, and (2) the

accounting for and clearing of short-term transactions.

Under the New Industry Model Law, the price of electricity bought or sold in the spot market, known as the Price of Liquidation of Differences (*Preço de Liquidação de Diferenças*), or PLD, takes into account factors similar to the ones used to determine the Wholesale Energy Market spot prices prior to the New Industry Model Law. Among these factors, the variation of the PLD will be mainly linked to the equilibrium between the market supply and demand for electricity as well as the impact that any variation on this equilibrium may have on the optimal use of the electricity generation resources by the ONS.

The CCEE is comprised of power generation, distribution, trading agents and free consumers, and its board of directors is comprised of four members appointed by these agents and one by the MME, who is the chairman of the board of directors.

*Energy Research Company EPE*

On August 16, 2004, the Federal Government enacted the decree that created the Electricity Research Company, or EPE, a state-owned company, which is responsible for conducting strategic research on the energy industry, including, among others, electric energy, oil, gas, coal and renewable energy sources. EPE is responsible for (i) studying projections of the Brazilian energy matrix, (ii) preparing and publishing the national energy balance, (iii) identifying and quantifying energy resources and (iv) obtaining the required environmental licenses for new generation concessionaires. The research carried out by EPE will be used to subsidize MME in its policymaking role in the domestic energy industry. EPE is also responsible for approving the technical qualification of new electric energy projects to be included in the related auctions.

*The Electricity Sector Monitoring Committee CMSE*

Decree 5,175, of August 9, 2004, established the Electricity Sector Monitoring Committee, or CMSE, which acts under the direction of the MME. The CMSE is responsible for monitoring and permanently evaluating the continuity and security of the electricity supply conditions and for indicating necessary steps to correct identified problems.

Table of Contents

*Ownership Limitations*

In 2000, through Resolution No. 278, Aneel established limits, no longer in force, on the concentration of certain services and activities within the power industry. Under these limits, with the exception of companies participating in the National Privatization Program (which need only comply with such limits once their final corporate restructuring is accomplished) no power company (including both its controlling and controlled companies) may (1) own more than 20% of Brazil's installed capacity, 25% of the installed capacity of the South/Southeast/Central-West region or 35% of the installed capacity of the North/Northeast region, except if such percentage corresponds to the installed capacity of a single generation plant, (2) own more than 20% of Brazil's distribution market, 25% of the South/Southeast/Central-West distribution market or 35% of the North/Northeast distribution market, except in the event of an increase in the distribution of electricity exceeding the national or regional growth rates or (3) own more than 20% of Brazil's trading market with final consumers, 20% of Brazil's trading market with non-final consumers or 25% of the sum of the above percentages.

On November 10, 2009, Aneel issued Resolution No. 378, which revoked and replaced Resolution No. 278/2000 and established that Aneel, upon identifying an act that may cause unfair competition or may result in relevant market control, must notify the Secretariat of Economic Law (Secretaria de Direito Econômico) (SDE) of the Ministry of Justice, pursuant to art. 54 of Law No. 8,884 of June 11, 1994. After the notification, the SDE must inform the antitrust authority Conselho Administrativo de Defesa Econômica (CADE). If necessary, the SDE will require Aneel to analyze the aforementioned acts. CADE will decide if there should be any punishment regarding those acts, which may vary from pecuniary penalties to the split of the company, pursuant to articles 23 and 24 of the abovementioned law.

*Incentives for Alternative Sources of Power*

In 2000, a Federal decree created the Thermolectric Priority Program (*Programa Prioritário de Termoelectricidade*), or PPT, for purposes of diversifying the Brazilian energy matrix and decreasing its strong dependency on hydroelectric plants. The benefits granted to thermolectric plants under the PPT include (1) guaranteed gas supply for 20 years, (2) assurance of the application of the normative value by distribution companies who purchase their electricity for 20 years, according to regulation from Aneel, thereby assuring that costs related to the acquisition of the electricity produced by thermolectric plants will be transferred to rates and (3) guaranteed access to a BNDES special financing program for the power industry.

In 2002, the Proinfa was established by the Federal Government to create certain incentives for the development of alternative sources of energy, such as wind energy projects, Small Hydroelectric Power Plants and biomass projects. Under the Proinfa Program, Eletrobrás will purchase the electricity generated by these alternative sources for a period of 20 years and will pass it on to distributors. . At the end of 2010, the Proinfa Program resulted in a contracted capacity of 3,412 MW contracted, according to Aneel, but only 1,543 MW of the contracted capacity are effectively under operation or construction.

Law 9,427/96, as amended by Law 10,762/03, further established that hydroelectric plants with an installed capacity of 1MW or less, generation plants classified as Small Hydroelectric Plants, and those with qualifying solar, wind, biomass or cogeneration sources, with an injected capacity of 30MW or less, used for independent production or self-production, will have the right to a discount of at least 50% on the rates for use of the transmission and distribution systems, charged on production and consumption of the energy sold. This legal provision was regulated by Aneel through its Resolutions 077/2004, 247/2006 and 271/2007.

*Regulatory Charges*

*Global Reversion Fund and Public Use Fund RGR and UBP*

In certain circumstances, power companies are compensated for assets used in connection with a concession if this concession is eventually revoked or is not renewed. In 1971, the Brazilian Congress created a Global Reversion Fund (*Reserva Global de Reversão*), or RGR, designed to provide funds for such compensation. In February 1999, Aneel revised the assessment of a fee requiring all distributors and certain generators operating under public service regimes to make monthly contributions to the RGR at an annual rate equal to 2.5% of the company's fixed assets in service, but not to exceed 3.0% of total operating revenues in any year. In recent years, the RGR has been used principally to finance generation and distribution projects.

The Federal Government has imposed a fee on IPPs reliant on hydrological resources, except for Small Hydroelectric Power Plants and generators under the public services regime, similar to the fee levied on public-industry companies in connection with the RGR. IPPs are required to make contributions to the Public Use Fund (*Fundo de Uso de Bem Público*), or UBP, according to the rules of the corresponding public bidding process for the granting of concessions. Eletrobrás received the UBP payments until December 31, 2002. All payments to the UBP since December 31, 2002 are paid directly to the Federal Government.



Table of Contents

*Fuel Consumption Account CCC*

Distribution companies must contribute to the Fuel Consumption Account (*Conta de Consumo de Combustível*), or CCC. The CCC was created in 1973 to generate financial reserves to cover elevated costs associated to the increased use of thermoelectric energy plants, in the event of a rainfall shortage, given the higher marginal operating costs of thermoelectric energy plants compared to hydroelectric energy plants. Each energy company is required to contribute annually to the CCC. The annual contributions are calculated on the basis of estimates of the cost of fuel needed by the thermoelectric energy plants in the following year. The CCC, in turn, reimburses energy companies for a substantial portion of the fuel costs of their thermoelectric energy plants. The CCC is administered by Eletrobrás.

In February 1998, the Federal Government provided for the phasing out of the CCC. Subsidies from the CCC were phased out over a three-year period beginning in 2003 for thermoelectric energy plants constructed prior to February 1998 and currently belonging to the Brazilian Grid. Thermoelectric energy plants constructed after that date will not be entitled to subsidies from the CCC. In April 2002, the Federal Government established that subsidies from the CCC would continue to be paid to those thermoelectric plants located in isolated systems for a period of 20 years in order to promote generation of electricity in these regions.

*Charge for the Use of Water Resources*

With the exception of Small Hydroelectric Power Plants, all hydroelectric utilities in Brazil must pay fees to Brazilian states and municipalities for the use of hydrological resources. Such amounts are based on the amount of electricity generated by each utility and are paid to the states and municipalities where the plant or the plant's reservoir is located.

*Energy Development Account CDE*

In 2002, the Federal Government instituted the Energy Development Account (*Conta de Desenvolvimento Energético*), or CDE, which is funded through annual payments made by concessionaires for the use of public assets, penalties and fines imposed by Aneel and, since 2003, the annual fees to be paid by agents offering electricity to final consumers, by means of a charge to be added to the rates for the use of the transmission and distribution systems. These fees are adjusted annually. The CDE was created to support the (1) development of electricity production throughout the country, (2) production of electricity by alternative energy sources and (3) universalization of energy services throughout Brazil. The CDE shall be in effect for 25 years and shall be managed by Eletrobrás.

The New Industry Model Law establishes that the failure to pay the contribution to RGR, Proinfa Program, the CDE, the CCC, or payments due by virtue of purchase of electricity in the regulated market will prevent the non-paying party from receiving a rate readjustment (except for an extraordinary revision) or receiving resources arising from the RGR, CDE or CCC.

*Aneel Inspection Charge*

Energy Services Inspection Charge, or TFSEE, is an annual tax charged by Aneel for its administrative and operational costs. The tax is calculated based on the type of service provided (including independent production), and is proportional to the size of the concession, permission or authorization. The TFSEE is limited to 0.5% of the annual economic benefit, considering the installed capacity, earned by the concessionaire, permit holder or authorized party and must be paid directly to Aneel in 12 monthly installments.

*Energy Reallocation Mechanism*

The Energy Reallocation Mechanism (Mecanismo de Realocação de Energia), or MRE, attempts to mitigate the risks involved in the generation of hydroelectric power by mandating that all hydrogenerators share the hydrological risks within the Brazilian Grid. Under Brazilian law, the revenue arising from the energy sales by generators does not depend on the amount of energy they in fact generate, but rather on what is called Guaranteed Energy or Assured Energy of each plant. The Guaranteed or Assured Energy, a standard expressed in Megawatts, is calculated by the MRE for each plant, in accordance with studies conducted by EPE, taking into account the probabilities for average hydrological levels over the long term. The Guaranteed or Assured Energy is indicated in each concession agreement.

Any imbalances between the power energy actually generated and the Assured Energy is covered by the MRE. In other words, the MRE reallocated the energy, transferring surplus from those who generated in excess of their Assured Energy to those who generated less than their Assured Energy. The volume of electricity actually generated by the plant, either more or less than the Assured Energy, is priced pursuant to an Energy Optimization Tariff which covers the operation and maintenance costs of the plant. This revenue or additional expense will be accounted for on a monthly basis by each generator.

Table of Contents

Although the MRE is efficient to mitigate the risks of individual plants that have adverse hydrological conditions in a river basin, it does not succeed in mitigating this risk when low hydro levels affect the Sistema Interligado Nacional (SIN) or National Interconnected System ( System ) as a whole or large regions of it. In extreme situations, even with the MRE, generation of the entire System won't attain the level of the Assured Energy and hydro generators may be exposed to the spot market. In these situations, the shortage in hydro resources is going to be compensated by greater use of thermal generation and spot prices will be higher

*Rates for the Use of the Distribution and Transmission Systems*

Aneel oversees rate regulations that govern access to the distribution and transmission systems and establish rates (i) for the use of the local distribution grid, or Distribution Usage Rates, or TUSD, and (ii) for the use of the interconnected transmission grid, or Transmission Usage Rates, or TUST. Additionally, distribution companies of the South/South-East interconnected system pay specific charges for the transmission of electricity generated at Itaipu. In recent years, the Federal Government has had a goal of improving the national transmission system, and as a result, certain transmission companies have engaged in significant expansion programs, which have been paid for by increases in transmission rates and charges. The increase in transmission rates and charges paid by distribution concessionaires are passed on to their respective consumers through Annual Rate Adjustments. The following is a summary of each rate or charge:

*TUSD*

The TUSD is paid by generation companies and customers for the use of the distribution system of the distribution concessionaire to which they are connected. It is readjusted annually according to an inflation index and the variation of costs for the transmission of energy and regulatory charges. The amount to be paid by the user connected to the distribution system is calculated by multiplying the amount of electricity contracted with the distribution concessionaire for each connection point, in kW, by the rate in R\$/kW which is set by Aneel.

*TUST*

The TUST is paid by generation companies and Free Consumers for the use of the basic transmission grid to which they are connected. It is adjusted annually according to an inflation index and the annual revenue of the transmission companies adjustment. According to criteria established by Aneel, owners of the different parts of the transmission grid were required to transfer the coordination of their facilities to the ONS in return for receiving regulated payments from the transmission system users. Network users, including generation companies, distribution companies and Free Consumers, have signed contracts with the ONS entitling them to use the transmission grid in return for the payment of TUST. Other parts of the grid that are owned by transmission companies but which are not considered part of the transmission grid are made available directly to the interested users who pay a specified fee.

*Distribution*

Distribution rates are subject to review by Aneel, which has the authority to adjust and review rates in response to changes in electricity purchase costs and market conditions. When adjusting distribution rates, Aneel divides the costs of distribution companies between (1) costs that are

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

beyond the control of the distributor, or Parcel A costs, and (2) costs that are under the control of the distributor, or Parcel B costs. The rate adjustment is based on a formula that takes into account the division of costs between the two categories.

Parcel A costs include, among others, the following:

- Regulatory Charges (RGR, CCC, CDE, TFSEE and Proinfa);
- Costs of electricity purchased for resale (CCEAR, Itaipu's Energy, PROINFA and bilateral agreements); and
- Transmission's charge (TUST, TUSD, Transport of Electricity from Itaipu, Use of Sites for Connection and ONS).

The pass-through of electricity purchase costs under supply agreements negotiated before the enactment of the New Industry Model Law is subject to a ceiling based on a normative value established by Aneel for each different source of energy (such as hydroelectric, thermoelectric and alternative sources of energy). The normative value applied to the supply contracts is adjusted annually in order to reflect increases in costs incurred by generators. Such adjustment takes into account (1) inflation, (2) costs incurred in hard currency and (3) fuel related costs (such as supply of natural gas). Costs incurred in IGP-M shall correspond to at least 25% of all costs incurred by generators.

Parcel B costs are those that are within our control and include, among others:

Table of Contents

- return on investment related to the concession area and its expansion;
- taxes on revenue;
- depreciation costs; and
- operation and maintenance costs of the distribution system.

On March 29, 2010, CEMIG announced, through the release of a Relevant Fact Notice, the execution, jointly with its subsidiary Cemig Distribution, of the third amendment to concession agreements No. 002/1997, 003/1997, 004/1997 and 005/1997 which changed how the annual rate adjustment is calculated in order to promote the neutralization of Parcel A.

Each distribution company's concession agreement provides for an annual rate adjustment (*reajuste*). In general, Parcel A costs are fully passed through to consumers. Parcel B costs, however, are restated for inflation in accordance with General Market Price Index (Índice Geral de Preços do Mercado), or IGP-M index, adjusted by an X Factor. Electricity distribution companies, according to their concession contracts, are also entitled to periodic revisions (*revisão periódica*). These revisions are aimed at (1) assuring necessary revenues to cover efficient Parcel B operational costs and adequate compensation for investments deemed essential for the services within the scope of each company's concession and (2) determining the X factor, which is based on two components (i) Xa, which is a factor based on the difference between the IPCA and IGP-M inflation indexes multiplied by our total personnel costs (since our labor increases are based on the IPCA and our tariff increases are based on the IGP-M) and is set each year; and (ii) Xe, which is a factor based on our productivity gains over a five-year period and is set every five years.

The X factor is used to adjust the proportion of the change in the IGP-M index that is used in the annual adjustments. Accordingly, upon the completion of each periodic revision, application of the X factor requires distribution companies to share their productivity gains with final consumers.

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

**Item 4A. Unresolved Staff Comments**

Not Applicable.

**Item 5. Operating and Financial Review and Prospects**

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

*Statement of Compliance*

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRS ), as issued by the International Accounting Standards Board (IASB). These are the Company's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 - *First time adoption of International Financial Reporting Standards* has been applied..

*Basis of measurement*

The consolidated financial statements have been prepared based on the historical costs, basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value;
- financial assets at fair value through profit or loss are measured at fair value; and
- available-for-sale financial assets are measured at fair value.

The consolidated financial statements are presented in *reais*, which is the Company's functional currency.

Table of Contents

*Use of estimates and judgment*

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised, and in any future periods affected.

The Company believes that the following accounting policies reflect management's most critical judgments, estimates and assumptions that are important to its business operations and the understanding of its results:

- allowance for doubtful accounts;
- deferred income tax and social contribution;
- account receivable from the Minas Gerais State Government;
- depreciation;
- amortization;
- employee post-retirement benefits;
- provisions; and
- unbilled electric energy supplied.

*Exemptions*

IFRS 1 allows first-time adopters certain exemptions from the general requirements contained in IFRS. The Company opted to apply the following exemptions to the retrospective application of IFRS:

*Service Concession Arrangements IFRIC-12.* The Company considered it impractical to apply the IFRIC 12 retrospectively due to the volume and maturity of its distribution assets in Cemig Distribution and Light SESA and its transmission assets in Cemig Generation and Transmission, which are referred to herein as older concessions. As a result, the accounting balances for these assets on the transition date (January 1, 2009)

were used.

*Property, Plant and Equipment IAS-16* The standard encourages the establishment, in the first-time adoption of IFRS, of a fair value for those relevant assets or groups of assets in operation and which have a book value substantially less than or more than their fair value. The Company made a valuation adjustment to fair value for its older generation assets belonging to Cemig Generation and Transmission, Rosal, Sá Carvalho, Light and Cemig PCH, recorded to accumulated other comprehensive income.. For its other generation assets, the Company has determined the carrying amounts to be the historical cost less any accumulated depreciation and any accumulated impairment losses.

*Business Combinations IFRS-3* The Company did not apply IFRS 3 Business Combinations on a retrospective basis for business combinations that took place on dates prior to the transition date (January 1, 2009).

### **Recently Issued IFRS Standards**

Below is a description of the alterations in IFRS not yet adopted in Brazil which might impact our consolidated financial statements, and the possible effects of which are still being evaluated by us:

- *IFRS 9 Financial Instruments* effective starting on January 1, 2013. This standard simplifies the model for measurement of financial assets and establishes two main categories of measurement: amortized cost and fair value. Any alterations in the fair value of liabilities valued at fair value would not have an income statement effect, because they would be recognized in the accumulated other comprehensive income.
- *IFRIC 14 Limit of the Defined Benefit Asset, Minimal Requirements for Provision of Funding, and their Interaction* effective starting on January 1, 2011. This interpretation removes the unintentional consequences that arise from treatment of early payment, in which there is a minimum requirement for provision of funding. The results of early payments of contributions in certain circumstances are recognized as an asset, instead of an expense. This was made effective starting on January 1, 2011. This alteration will not have an impact on the Company's consolidated financial statements



Table of Contents

- IAS 32 Financial Instruments effective for fiscal years starting on or after February 1, 2010. This change in the standard, issued in October 2009, provides authoritative guidance for accounting for share rights denominated in a currency other than the issuer's functional currency. Provided that certain conditions are met, share rights are now required to be classified as equity, independently of the currency in which the exercise price is denominated. Previously, the shares were required to be accounted for and classified as derivative liabilities. The alteration applies retrospectively, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. This alteration will not have an impact on the Company's consolidated financial statements.

**Principal Factors Affecting our Financial Condition and Results of Operations***Analysis of Electricity Sales and Cost of Electricity Purchased*

Electricity rates in Brazil, related to electricity distribution companies sales to captive customers, are set by Aneel, which has the authority to readjust and review rates in accordance with the applicable provisions of the concession contracts. See Item 4. The Brazilian Power Industry Rates.

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

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

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

	Year ended December 31,	
	2010	2009
<b>Electricity Sales:</b>		
Average rate to final consumers (R\$/MWh)		
Industrial rate	158.53	170.34
Residential rate	485.97	474.68
Commercial rate	436.41	442.14
Rural rate	256.23	257.68
Public services rate and others	319.99	322.38
<b>Total sales to final consumers (GWh)</b>		
Industrial consumers	24,826	22,638

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Residential consumers	9,944	9,744
Commercial consumers	6,227	6,197
Rural consumers	2,467	2,221
Public services and other consumers	3,664	3,635
Average rate (R\$/MWh)	283.31	297.81
Total revenues (millions of R\$)	13,352	13,233
Sales to distributors:		
Volume (GWh)	14,205	13,860
Average rate (R\$/MWh)	101.72	117.89
Total revenues (millions of R\$)(1)	1,445	1,634
<b>Electricity Purchases from Itaipu:</b>		
Volume (GWh)	8,590	8,889
Average cost (R\$/MWh)(2)	105,88	122,28
Total cost (millions of R\$)	909,53	1.086,95

---

(1) Does not include R\$157 million and R\$142 million relating to energy transactions on the CCEE and sales under the Proinfra Program during 2010 and 2009 respectively.

Table of Contents

(2) Includes energy transportation costs.

*Distribution Rates*

Our results of operations in the past have been significantly affected by fluctuations in the levels of rates that Cemig Distribution and Light are permitted to charge for the generation and distribution of electricity. The rate-setting process in Brazil has historically been influenced by government attempts to control inflation. With the restructuring of the electric power sector in Brazil that commenced in 1995 and under the terms of the renewal of the concession agreement that we signed with Aneel in 1997, the process by which rates are set has changed to a significant degree.

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

Aneel issued Resolution No. 797 on April 7, 2009, which established Cemig Distribution's average annual rate adjustment of 20.81%. The components of this increase were as follows: (i) a 15.01% increase due to the Rate Adjustment Index; (ii) a 4.15% increase due to intra-annual variation of fixed costs; (iii) a 3.47% decrease due to the difference between the provisional and the final result of the second periodic revision; (iv) a 3.47% increase due to the anticipation of subsidies on rates granted to some types of consumers and (v) a 1.65% increase due to other financial adjustments.

On April 6, 2010 Aneel established Cemig Distribution's average annual rate adjustment of 7.58%. The components of this increase were as follows: (i) a 3.41% increase due to the Rate Adjustment Index; (ii) a 1.45% decrease due to intra-annual variation of fixed costs; (iii) a 6.35% increase due to the anticipation of subsidies on rates granted to certain consumers and (iv) a 5.59% decrease due to other financial adjustments.

On April 5, 2011 Aneel established Cemig Distribution's average annual rate adjustment of 10.47%. The components of this increase were as follows: (i) a 8.08% increase due to the Rate Adjustment Index; (ii) a 1.06% decrease due to intra-annual variation of fixed costs; (iii) a 5.03% increase related to the advancement of subsidies on rates applicable to certain consumers and (iv) a 1.58% decrease due to other financial adjustment.

The 2011, 2010 and 2009, Cemig Distribution's average annual rate adjustments and revision with their respective components are presented in the table below:

	2011	2010	2009
<b>Average annual/periodic rate adjustment</b>	10.47%	7.58%	20.81%
<b>Components</b>			
Rate adjustment index	8.08%	3.41%	15.01%

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Deferred regulatory asset			7.38%
Intra-annual variation of fixed costs (CVA)	1.06%	(1.45)%	4.15%
Adjustment related to the re-issuing of the second periodic revision			(3.47)%
Advancement of subsidies on rates	5.03%	6.35%	3.47%
Other financial adjustments	1.58%	(5.59)%	1.65%

On November 4, 2009, Aneel established Light s average annual rate adjustment of 5.65%. The components of this increase were as follows: (i) a 0.88% increase due to the Rate Adjustment Index; (ii) a 4.72% increase due to intra-annual variation of fixed costs; (iii) a 1.42% increase related to the advancement of subsidies on rates applicable to certain consumers and (iv) a 1.37% decrease due to other financial adjustment.

On November 3, 2010, Aneel established Light s average annual rate adjustment of 6.88%. The components of this increase were as follows: (i) a 8.21% increase due to the Rate Adjustment Index; (ii) a 0.76% increase due to intra-annual variation of fixed costs; (iii) a 1.65% increase related to the advancement of subsidies on rates applicable to certain consumers and (iv) a 3.73% decrease due to other financial adjustment.

The annual rate adjustment of 2011 will be on November 7.

The 2011, 2010 and 2009, Light s average annual rate adjustments and revision with their respective components are presented in the table below:

	2011	2010	2009
<b>Average annual/periodic rate adjustment</b>		6.88%	5.65%
<b>Components</b>			
Rate adjustment index		8.21%	0.88%
Deferred regulatory asset			
Intra-annual variation of fixed costs (CVA)		0.76%	4.72%
Adjustment related to the re-issuing of the second periodic revision			
Advancement of subsidies on rates		1.65%	1.42%
Other financial adjustments		(3.73)%	(1.37)%

Table of Contents

*Transmission Rates*

The revenue adjustment of the electricity transmission grids owned by CEMIG, as specified by the concession contract, occurs annually in June. The concession contract also establishes a four-year period between periodic revisions.

In 2009, Aneel performed our first periodic revision with the results being retroactive to 2005, since the methodology and rules to be applied by Aneel were previously in development. The results reflect a reassessment of the entire asset base of Cemig Generation and Transmission and a review of permitted operational costs. Aneel issued Resolution No. 836 on June 23, 2009 setting forth the results for the utility's transmission revenue requirement. The revision allowed an annual revenue increase of 5.35% which was retroactive to 2005.

In 2010, Aneel approved the results for the second periodic revision, again with a reassessment of the entire asset base of Cemig Generation and Transmission. The results were released through Resolution No. 988, on June 18, 2010 defining a decrease in the annual revenue of 15.88%. The readjustment is retroactive to 2009, since the regulator had been working on the definition of the rules to be applied for this revision.

The concession contract provides that the revenue requirements are restated for inflation annually in accordance with the General Market Price Index, IGP-M. This IGP-M index rose 4.18% from June 2009 to May 2010 increasing the revenue for the 2010-2011 cycle.

*Power Rationing and Government Measures to Compensate Electric Utilities*

Low amounts of rainfall in 2000 and early 2001, vigorous growth in demand for energy and Brazil's significant dependence on electricity generated from hydrological resources resulted in abnormally low water levels in many reservoirs that are used to power Brazil's major hydroelectric generation facilities. In May 2001, the Federal Government announced several measures requiring reductions in electricity consumption in response to these conditions (the Electricity Rationing Plan). The power rationing measures ultimately ceased on February 28, 2002.

On December 12, 2001, the Federal Government authorized the creation of the General Agreement of the Electricity Sector. The General Agreement of the Electricity Sector provides that electric power distribution and generation companies in Brazil, such as us, will be compensated for revenue losses caused by the reduction in amounts of energy sold and the purchase of energy on the CCEE, as applicable, due to the Federal Government-mandated rationing measures. Compensation is made by means of an extraordinary increase in the energy rate applicable to future power sales and companies are entitled to use this increased rate for an average period of 74 months, which ended in March 2008.

*Impact of Our Account Receivable from the Minas Gerais State Government*

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

We have an account receivable from the State Government, referred to as the CRC Account, that totaled R\$1,837 million as of December 31, 2010. Our liquidity is affected by payments made by the State Government in connection with the CRC Account. The agreement between CEMIG and the State Government that governs the CRC Account receivable is referred to as the CRC Account Agreement. The CRC Account Agreement has been amended five times, as described below.

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

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

Given the prior default by the State Government in the payment of amounts due under the CRC Account Agreement since 2001, and in order to ensure the full payment to us of the installments due by the State Government under the CRC Account balance, the Fourth Amendment to the CRC Account Agreement was signed on January 23, 2006. Under the Fourth Amendment, the State

Table of Contents

Government irrevocably agreed to pay the outstanding CRC Account balance, corresponding to R\$2,942 million at December 31, 2004, plus interest, by authorizing CEMIG to retain 65% of the ordinary dividends and interest on capital due to the State Government. The outstanding balance is subject to monetary correction for inflation by the variation in the IGP-DI inflation index and will bear interest at 8.18% per year, compounded semi-annually.

Under the Fourth Amendment to the CRC Account Agreement, the State is required to make 61 semi-annual payments due on June 30 and December 31 of each year. The Fourth Amendment applies retroactively to December 31, 2004, at which time there was an outstanding balance of R\$2,941.6 million under the CRC Account, with the first payment date being June 30, 2005 and the final payment being due on June 30, 2035. The semi-annual payments will be adjusted for inflation by the IGP-DI inflation index. The 65% of dividends and interest on capital retained by CEMIG are to be applied in the following order: (i) the settlement of any past due installments, (ii) the settlement of the installment relating to the half-year in which dividend or interest on capital takes place, (iii) pre-payment of up to two installments and (iv) amortization of the outstanding balance due under the CRC Account.

A Fifth Amendment to the CRC Account Agreement was executed by CEMIG and the State Government on September 12, 2007. The Fifth Amendment adjusts the outstanding balance of the CRC Agreement to R\$2,839.5 million 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. Approval for the Fifth Amendment to the CRC Account Agreement was also obtained from the CEMIG CRC Account Securitization Fund (CEMIG *Fundo de Investimento em Direitos Creditorios Conta CRC*), or FIDC, to which the CRC Account receivables were transferred in January 2006.

If the retention of ordinary dividends and interest on capital is not sufficient to cover the applicable installment, beginning on January 1, 2008, CEMIG is entitled to retain up to 65% of any extraordinary dividends or interest on capital due to the State Government for the payment of that installment. Furthermore, if the sum of 65% of the ordinary dividends and interest and capital and extraordinary dividends on interest and capital is not sufficient to cover an installment due, CEMIG is entitled to retain 100% of such dividends and interest on capital, beginning in the six-month period immediately following that of the past due date of the past due installment. In addition, if there is a reduction in the ownership of CEMIG by the State Government, the retention percentage will be automatically adjusted upward such that the amount of the dividend retained will remain the same as the amount equal to 65% of dividends based on the current ownership of CEMIG by the State Government.

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

*Exchange Rates*

Substantially all of our revenues and operating expenses are denominated in *reais*. However, we have foreign currency-denominated debt. As a result, in reporting periods when the *real* declines against the dollar or other foreign currencies in which our debt is denominated, our operating results and financial position are adversely affected. Foreign exchange gain or loss and monetary variation gain or loss may impact our results of operations in periods in which there are wide swings in the value of the *real* relative to the dollar or high inflation. We have a number of financial and other contracts under which we owe, or are entitled to, amounts in respect of monetary variation as measured by an index of price inflation in Brazil. In 2010, we used financial instruments such as interest rate swaps in order to reduce the risk from exchange rate fluctuations.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

As of December 31, 2010, we had entered into swap agreements in the notional amount of US\$45 million in order to change the original interest rate of certain financing from an interest rate calculated based on the U.S. dollar variation to an interest rate calculated based on the Interbank Certificates of Deposit rate (*Certificado de Depósito Interbancário*), or CDI rate. See Notes 2(d), 14, 22, 24 and 25 to our consolidated financial statements.



Table of Contents**Year Ended December 31, 2010 Compared to Year Ended December 31, 2009***Net Operating Revenues*

Net operating revenues increased 5.8% from R\$12,158 million in 2009 to R\$12,863 million in 2010.

	2010 (in millions of R\$)	% of net operating revenues	2009 (in millions of R\$)	% of net operating revenues	2010 versus 2009 %
Electricity sales to final consumers	13,352	103.8	13,233	108.8	0.9
Wholesale supply to other concession holders	1,445	11.2	1,634	13.4	(11.6)
Other sales	157	1.2	141	1.2	11.3
Revenue from use of the basic electricity distribution systems (TUSD)	1,658	12.9	1,332	10.9	24.5
Revenue from use of the transmission grid	1,555	12.1	903	7.4	72.2
Other operating revenues	791	6.2	652	5.4	21.3
Tax on revenues	(6,095)	(47.4)	(5,737)	(47.2)	6.2
Total net operating revenues	12,863	100.0	12,158	100.0	5.8

## Final consumers

Revenue from electricity sales to final consumers (excluding CEMIG's own consumption) increased by R\$119 million, or 0.9%, from R\$13,233 million in 2009 to R\$13,352 million in 2010.

The increase was primarily due to:

- an increase of 6.1% in the volume of electricity invoiced to final consumers (excluding internal consumption); and

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

- a reduction of 3.35% in the average tariff in 2010, to R\$ 282.01 from R\$ 291.79 in 2009. The reduction in the average tariff in 2010 was due to more regulatory items included in the tariff adjustment in 2009, such as the Extraordinary Tariff Recomposition (RTE) and non-controllable costs of the distribution company (CVA), which were not included in the 2010 tariff adjustment.

Revenue from wholesale supply to other concession holders decreased by R\$189 million, or 11.6%, from R\$1,634 million in 2009 to R\$1,445 million in 2010. The volume of electricity sold to other concession holders increased 344,830 MWh, or 2.5%, from 13,859,700 MWh in 2009 to 14,204,530 MWh in 2010, but the decrease in revenues was due to a decrease in the average price for these sales, from R\$117.87/MWh in 2009 to R\$101.72/MWh in 2010. This reduction in average price was primarily due to contracts entered into through auctions for sales to distributors in 2009, with an average price of R\$145.00 per MWh that did not occur in 2010.

Other sales includes transactions in energy on CCEE and sales under the Proinfra Program. Revenue from other sales increased by R\$16 million, or 11.3%, from R\$141 million in 2009 to R\$157 million in 2010.

Revenue from the use of the electricity distribution systems (TUSD) increased R\$326 million, or 24.5%, from R\$1,332 million in 2009 to R\$1,658 million in 2010. This revenue comes from charges for energy sold to Free Consumers located in CEMIG's and Light's concession areas, and the increase in 2010 is due to a higher volume of energy transported to Free Consumers by CEMIG, resulting from the recovery of industrial activity and the migration of captive consumers to the Free Market in 2010.

Table of Contents

Revenue from the use of the basic transmission grid increased R\$652 million, or 72.2%, from R\$903 million in 2009 to R\$1,555 million in 2010. This revenue is from the transmission capacity of Cemig Generation and Transmission made available to the national grid, and also from the jointly-controlled transmission subsidiaries, particularly TBE and Taesa. The increase in 2010 is mainly due to the acquisition of interests in Taesa in October, 2009 and in May 2010 through a public offer to acquire shares.

The Company's other operating revenues are: (in millions of reais)

	2010	2009
Supply of gas	397.7	307.2
Charged service	16.5	16.9
Telecoms service	130.7	114.6
Services provided	179.2	129.4
Rental and leasing	59.9	71.9
Other	7.0	12.0
	791.0	652.0

The increase in other operating revenues in 2010 compared to 2009 is related to supply of gas, reflecting the larger quantity of gas sold in 2010, due mainly to greater activity in the thermal generation plants that are consumers of Gasmig and services provided to our consumers, from R\$129.4 million in 2009 to R\$179.2 million in 2010, primarily related to distribution services.

Taxes on revenues increased R\$358 million, or 6.2%, from R\$5,737 million in 2009 to R\$6,095 million in 2010. Taxes on revenues consist of: (i) VAT, assessed at an average rate of 21% on electricity sales to final consumers, and VAT billed to consumers related to the deferred regulatory assets; (ii) COFINS, assessed at a rate of 7.6%; and (iii) PASEP, assessed at a rate of 1.7%. See Note 23 to our consolidated financial statements.

*Operating Costs and Expenses*

Operating costs and expenses increased R\$750 million, or 8.9%, from R\$8,466 million in 2009 to R\$9,216 million in 2010. This increase is mainly due to an increase in the non-controllable costs of energy bought for resale. For more information see note 24 to our consolidated financial statements.

	2010 (in millions of R\$)	% of net operating revenues	2009 (in millions of R\$)	% of net operating revenues	2010 versus 2009 %
Electricity purchased for resale	(3,722)	(28.9)	(3,199)	(26.3)	16.4
Use of basic transmission network	(729)	(5.7)	(853)	(7.0)	(14.5)

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Depreciation and amortization	(896)	(7.0)	(896)	(7.4)	
Personnel	(1,211)	(9.4)	(1,318)	(10.8)	(8.1)
Employees and managers profit sharing	(325)	(2.5)	(239)	(2.0)	36.0
Third-party services	(923)	(7.2)	(819)	(6.7)	12.7
Employee post-retirement benefits	(107)	(0.8)	(150)	(1.2)	(28.7)
Materials and supplies	(134)	(1.0)	(118)	(1.0)	13.6

Table of Contents

	2010 (in millions of R\$)	% of net operating revenues	2009 (in millions of R\$)	% of net operating revenues	2010 versus 2009 %
Royalties for use of water resources	(140)	(1.1)	(154)	(1.3)	(9.1)
Provisions (reversals) for operating losses	(138)	(1.1)	(124)	(1.0)	11.3
Gas purchased for resale	(225)	(1.8)	(166)	(1.4)	35.5
Construction costs	(200)	(1.6)	(119)	(1.0)	68.1
Other	(466)	(3.6)	(311)	(2.6)	49.7
Total operating costs and expenses	(9,216)	(71.6)	(8,466)	(69.6)	8.9

Electricity purchased for resale consists primarily of purchases from Itaipu through Eletrobrás and competitive biddings. We are required under applicable regulations to purchase part of Itaipu's capacity at U.S. dollar-denominated prices. We also purchase electricity from the CCEE and through bilateral contracts. Electricity purchased for resale increased R\$523 million, or 16.4%, from R\$3,199 million in 2009 to R\$3,722 million in 2010, due mainly to greater purchases of electricity by the distributors in the Regulated Market. This is a non-controllable cost, and the difference between the amounts used as a reference for calculation of tariffs and the cost actually incurred is compensated for in the next tariff adjustment. For a breakdown of this expense, see Note 24 to our consolidated financial statements.

Charges for use of basic transmission network mainly correspond to the cost of transporting electricity in the Brazilian basic transmission network which is prorated among the Brazilian distribution companies. Charges for use of the transmission network, which are defined by Aneel, decreased R\$124 million, or 14.5%, from R\$853 million in 2009 to R\$729 million in 2010. These charges, set by an Aneel resolution, are payable by electricity distribution and generation agents for use of the facilities that are components of the national grid. This is a non-controllable cost: the difference between the amounts used as a reference for the calculation of tariffs and the cost actually incurred is compensated for in the next tariff adjustment.

Depreciation and amortization expense remained unchanged from 2009 to 2010, at R\$896 million.

Personnel expenses decreased R\$107 million, or 8.1%, from R\$1,318 million in 2009 to R\$1,211 million in 2010. This decrease is largely due to a much higher expense on the Temporary Voluntary Retirement Program (PDV) in 2009 (when it was put in place), with an expense in 2009 of R\$206 million, compared to R\$40 million in 2010 (related to an adjustment of the provision made in 2009). Personnel expenses also decreased due to a reduction of our aggregate number of employees from 9,746 at the end of 2009 to 8,859 at the end of 2010.

Employee post-retirement benefits expenses decreased R\$43 million, or 28.7%, from R\$150 million in 2009 to R\$107 million in 2010. These expenses primarily represent the increase in our actuarial obligations due to the net interest accrual in 2010. The reduction of this expense was due to the higher return on the assets of the post-retirement benefits plan in 2010 compared to 2009. For more information see Note 20 to our consolidated financial statements.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Provisions (reversals) for operating losses increased R\$14 million, or 11.3%, from R\$124 million in 2009 to R\$138 million in 2010. This is mainly due to the settlement of a lawsuit brought by an industrial consumer questioning a tariff increase made in 1986 by the Federal Water Authority (by DNAEE Ministerial Order 045/86). An expense of R\$177 million was recorded in connection with this settlement in 2010. Its effect is partially offset by a reversal in the provision for retirement premiums, of R\$22 million, in 2010, compared to a provision of R\$41 million in 2009. For a breakdown of the provisions see Note 24 to our consolidated financial statements.

Gas purchased for resale increased R\$59 million, or 35.5%, from R\$166 million in 2009 to R\$225 million in 2010. This reflects the larger quantity of gas sold in 2010, due mainly to greater activity in the thermal generation plants that are consumers of Gasmig.

Table of Contents

*Operating Income*

As a result of the foregoing, we had operating income of R\$3,647 million in 2010 compared to operating income of R\$3,692 million in 2009.

*Financial Income, Net*

Financial income net, includes (i) financial income, which is mainly comprised of interest and a monetary restatement of our account receivable from the State Government, investment income earned, late charges on overdue electricity bills and foreign exchange gains and (ii) financial expenses, which are mainly comprised of interest expense on loans and financing, foreign exchange losses, monetary restatement losses, charges and adjustments for inflation on post-employment obligations paid to pension funds and other expenses.

Net financial expense increased R\$470 million, or 132.4%, from R\$354 million in 2009 to R\$825 million in 2010. This increase is principally due to:

- higher expenses on costs of loans and financing, which were R\$1,075 million in 2010 compared to R\$799 million in 2009. This was due primarily to the incurrence of new financings, particularly the issuance of debentures in the amount of R\$2,700 million in March 2010; and
- higher adjustment for inflation on loans and financings denominated in *reais* of R\$144 million in 2010 compared to R\$9 million in 2009. This the higher volume of funding raised, and the change in inflation and other indexes applicable to our loans, financings and debentures, in particular the IGP M inflation index, which indicated a deflation of 1.7% in 2009, but inflation of 11.3% in 2010;
- the two factors above were partially offset by an increase of 44.1% in the revenue from cash investments: R\$392 million in 2010, compared to R\$272 million in 2009; as a result of a higher volume of cash invested in 2010.

For a breakdown of financial revenues and expenses, see Note 25 to our consolidated financial statements.

*Income Tax*

Income tax represented an expense of R\$564 million on pre-tax income of R\$2,822 million in 2010, or 20.0%, compared to an expense of R\$1,131 million on pre-tax income of R\$3,337 million in 2009, or 33.9%. The lower ratio of the income tax expense to pre-tax income in 2010 is due to tax losses that were recognized in 2010, in the amount of R\$288.5 million. These tax losses were kept off-balance sheet until 2010, when the corresponding tax benefit vested due to the materialization of related results projections. The effective tax rates are reconciled with the nominal rates in note 9 to our consolidated financial statements.

*Net Income*

As a result of the foregoing, we had net income of R\$2,258 million in 2010 compared to net income of R\$2,206 million in 2009.

**Liquidity and Capital Resources**

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

*Cash and Cash Equivalents*

Cash and cash equivalents as of December 31, 2010 were R\$2,980 million compared to R\$4,425 million as of December 31, 2009. None of our cash or cash equivalents was held in currencies other than *reais* as of December 31, 2010. The reasons for this decrease are presented below.

*Cash Flow from Operating Activities*

Net cash provided by operating activities in 2010 and 2009 totaled R\$3,457 million and R\$2,570 million, respectively. The increase in cash provided by operating activities in 2010 compared to 2009 was due mainly to increases in liabilities in 2010 compared to 2009, such as suppliers, accrued interest, employee post-retirement benefits and other, recognition of the effects of monetary variation and exchange rate variations and deferred income taxes.



Table of Contents

*Cash Flow used in Investment Activities*

Net cash used in investing activities during 2010 and 2009 amounted to R\$4,525 million and R\$3,699 million, respectively. The increase in cash used in investing activities in 2010 compared to 2009 was due mainly to investments in intangible assets, which amounted to R\$2,298 in 2010, compared to R\$1,607 in 2009. Investments in intangible assets were related primarily to distribution and concession assets, which totaled R\$1,264 in 2010 compared to R\$527 in 2009.

*Cash Flow from/used in Financing Activities*

We are committed to lengthening our debt profile through long-term financing vehicles at low interest rates, the maturities and obligations of which are compatible with the nature of our business, which is capital-intensive. We seek to balance the proportions of short and long-term financings and not to increase our exposure to short-term rates, nor undergo any liquidity pressures. Through this policy, we have succeeded in improving our credit ratings, reducing our cost of capital and improving our debt profile. Our principal form of funding is through the issuance of debentures and the issuance of medium-term notes (known in Brazil as *commercial paper*), the latter being mostly used to meet short-term obligations.

Net cash used in financing activities during 2010 was R\$377 million, which was comprised of the repayment of R\$4,775 million of *real* and foreign currency denominated financings and the payment of R\$1,829 million in dividends and interest on capital, largely offset by the proceeds from financings in the amount of R\$6,227 million.

Net cash provided by financing activities during 2009 was R\$3,270 million, comprised of the proceeds from issuance of financing of R\$5,223 million, partially offset by repayment of R\$1,016 million of *real* and foreign currency financing and the payment of R\$937 million in dividends and interest on capital.

*Indebtedness*

Our indebtedness from loans, financings and debentures as of December 31, 2010 was R\$13,227 million, composed of R\$11,024 million of non-current debt and R\$2,203 million of current debt. This compares with indebtedness from loans, financings and debentures as of December 31, 2009 of R\$11,293 million, composed of R\$4,634 million of non-current debt and R\$6,659 million of current debt. Of our debt at December 31, 2010, R\$191 million was denominated in foreign currencies (R\$167 million of which was U.S. dollar-denominated) and R\$13,036 million was denominated in *reais*. See Note 18 to our consolidated financial statements.

Our main financial contracts, on a consolidated basis, as of December 31, 2010, are shown in the following table:



Table of Contents

Amounts in thousandsof reais:

Facility/Security	Maturity	Interest Rate (%)	Currency	Outstanding balance as of December 31, 2010
<b>Foreign Currency</b>				
ABN Amro Real S.A. (1)	2013	6	US\$	63
Banco do Brasil A Various bonds (2)	2024	Various	US\$	51
Brazilian National Treasury (3)	2024	Libor + Spread	US\$	19
InterAmerican Development Bank (4)	2026	4.2	US\$	34
Others	2025	Various	Various	24
<b>Total debt in foreign currency</b>				<b>191</b>
<b>Brazilian currency</b>				
Banco do Brasil	2012	109.80 of CDI	R\$	887
Banco do Brasil	2013	CDI + 1.70	R\$	85
Banco do Brasil	2013	107.60 of CDI	R\$	135
Banco do Brasil	2014	104.10 of CDI	R\$	1,224
Banco do Brasil	2013	10.83	R\$	630
Banco Itaú BBA / Votorantim	2013	CDI + 1.70	R\$	312
BNDES	2026	TJLP+2.34	R\$	119
Bradesco	2013	CDI + 1.70	R\$	296
Bradesco	2011	105.50 of CDI	R\$	351
Debentures (5)	2011	104.00 of CDI	R\$	243
Debentures Minas Gerais state government (5) (6)	2031	IGP-M inflation index	R\$	37
Debentures (5)	2014	IGP-M+10.50%	R\$	355
Debentures (5)	2017	IPCA+7.96	R\$	472
Debentures	2012	CDI + 0.90	R\$	1,726
Debentures	2015	IPCA+7.68	R\$	1,285
Eletrobrás	2023	Ufir + 6.00 to 8.00%	R\$	373
Santander / Unibanco	2013	CDI + 1.70	R\$	302
Unibanco (7)	2013	CDI + 1.70	R\$	60
Itaú and Bradesco (8)	2015	CDI + 1.70	R\$	891
Banco do Brasil / Unibanco (9)	2020	TJLP + 2.55	R\$	32
Debentures V (3)	2014	CDI + 1.50	R\$	210
Debentures VI (3)	2011	115% of CDI	R\$	79
CCB Bradesco (3)	2017	CDI + 0.85	R\$	120
BNDES Finem (3)	2019	TJLP	R\$	190
BNDES (10)	2033	TJLP + 2.40	R\$	262
Debentures (10)	2013	IPCA inflation index	R\$	182
BNDES Onlending (10)	2033	TJLP	R\$	316
BNDES Principal Subcredit A/B/C/D (11)	2022	Various	R\$	366
BNDES (12)	2024	TJLP + 2.50	R\$	42
CEF (13)	2022	TJLP + 3.50	R\$	218
Debentures (14)	2017	CDI+1.6	R\$	819
BNDES (15)	2016	TJLP + 3.12	R\$	158
BNDES (16)	2017	Various	R\$	49
Others	2025	Various	R\$	209
<b>Debt in Brazilian currency</b>				<b>13,035</b>

**Overall total, consolidated**

---

**13,226**

- (1) Swap for exchange of rates were contracted: at CDI + 1.50% p.a.;
- (2) Interest rates vary: from 2.00 to 8.00 % p.a.; Six-month Libor plus spread of 0.81 to 0.88% per year;
- (3) Loans, financings and debentures of RME (Light);
- (4) Financing of Transchile;
- (5) Nominal, unsecured, book-entry debentures not convertible into shares, without preference;
- (6) Contracts adjusted to present value, as per changes to the Corporate Law made by Law 11638/07;

Table of Contents

- (7) Loan of the holding company;
- (8) Refers to the senior units of the credit rights funds;
- (9) Financing of Cachoeirão;
- (10) Loan contracted for the jointly-controlled subsidiary Madeira Energia;
- (11) Consolidated loans and financings of the TBE group;
- (12) Loan contracted for the jointly-controlled subsidiary Hidrelétrica Pipoca S.A.;
- (13) Loan contracted for the jointly-controlled subsidiary Praia de Morgado S.A., Praia de Parajuru S.A. and VDR S.A.;
- (14) Loan contracted for the jointly-controlled subsidiary Taesa;
- (15) Loan and financing of Gasmig;
- (16) Loan arranged by Cemig Telecom Ativas.

In 2010, we entered into the following financial agreements and made the following issuances:

On March 10, 2010 Cemig Generation and Transmission made the issued 270,000 non-convertible, nominal, book-entry, unsecured debentures, in two series, comprising 156,600 Debentures of the First Series and 113,400 Debentures of the Second Series, of the Issuer's Second Issue, in the aggregate amount of R\$2.7 billion. The proceeds were used to prepay the outstanding balance of the 3rd issuance of Promissory Notes of Cemig Generation and Transmission. The Debentures of the First Series, with an outstanding balance of R\$1.7 billion as of December 31, 2010, accrue interest at accumulated variation of the average daily rate of the DI Interbank Deposit, plus a spread of 0.90% per year. The Debentures of the Second Series, with an outstanding balance of R\$1.3 billion as of December 31, 2010, are adjusted from the Issue Date, by the variation in the Expanded Consumer Price Index IPCA and accrue interest corresponding to 7.6796% per year. These debentures are guaranteed by CEMIG.

On May 27, 2010 Cemig Distribution raised R\$600 million from Banco do Brasil with a maturity in May 2013.

During the last quarter of 2010 Cemig Generation and Transmission and Cemig Distribution, amended several loan agreements entered into with Banco do Brasil S.A in order to (i) postpone the maturity date of the installments payable in 2010, in the total amount of R\$242.1 million and R\$48.9 million, respectively, and (ii) change the interest rate from 110.0% of the CDI rate per annum to 109.8% of the CDI rate per annum. CEMIG is a guarantor of these loans and the total outstanding balance of these agreements on December 31, 2010 was R\$148.7 million (as to Cemig Distribution) and R\$738.8 million (as to Cemig Generation and Transmission).

On December 23, 2010, CEMIG made its third issuance of Commercial Paper in the Brazilian market, in the total amount of R\$350.0 million, with an interest rate of 105.5% of the CDI rate per annum, due on December 18, 2011. The outstanding balance on December 31, 2010 was R\$ 350.9 million.

In 2009, we entered into the following financial agreements and made the following issuances:

On March 9, 2009, Cemig Generation and Transmission entered into a financing agreement with BNDES, in the amount of R\$ 122 million, for the purpose of acquiring the Baguari Power Plant. This Loan bears interest at 2.34% per annum plus the variation of TJLP, that was paid quarterly until July, 2010 and monthly during the amortization period, and will amortize over 192 monthly installments, beginning in August of 2010. The loan matures in July 2026. The outstanding balance on December 31, 2010 was R\$119.3 million.

On October 30, 2009, Cemig Generation and Transmission made its third issuance of Commercial Papers in the Brazilian market, in the total amount of R\$2,700.0 million, with interest equivalent to 113% of the CDI rate per annum, due on April 28, 2010. The Commercial Papers were prepaid with the proceeds of the company's Second Issuance of Debentures, on March 9 and 10, 2010. The total amount was paid in 2010.

In October, November and December of 2009, Cemig Generation and Transmission entered into six loan agreements with Banco do Brasil, in the aggregate amount of R\$663.5 million, for the purpose of debt rollover. In October and November of 2010 those agreements were amended, as described above, postponing the maturity of the installments payable in 2010 and changing the interest rate to 109.8% of the CDI.

In October, November and December of 2009, Cemig Distribution entered into eight loan agreements with Banco do Brasil, in the aggregate amount of R\$90.7 million, for the purpose of debt rollover. These loans are guaranteed by CEMIG. In October and November, 2010, those contracts were amended, as described above, postponing the maturity of the installments payable in 2010 and changing the interest rate to 109.8% of the CDI.

Table of Contents

We are subject to financial covenants contained in some of our debt agreements that require us to maintain certain financial ratios. These ratios are computed based on our financial statements prepared in accordance with accounting practices adopted in Brazil. These and other covenants could limit our ability to support our liquidity and capital requirements. As of December 31, 2010, we were in non-compliance with some financial covenants provided in some of our debt agreements. In regard to such non-compliance, we obtained waivers from the respective creditors before December 31, 2010 that they will not exercise their rights to demand immediate payment of the total amount due under the agreements until December 31, 2011. See Item 13. Defaults, Dividend Arrearages and Delinquencies.

Given the current portion of our financings in the amount of R\$2,202 million due in 2011, we need funds in the short term to pay and refinance these obligations.

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

We currently plan to make capital expenditures related to our property, plant, and equipment of approximately R\$ 1,540 million in 2011. We disbursed a total of R\$ 168 million under our capital expenditure program in the first quarter of 2011 and have commitments to fund substantially all of the remaining R\$ 1,416 million. The principal uses of these capital expenditures are expected to be for expansion of our distribution infrastructure. We also have committed R\$281 million to announced investments in acquisitions in 2011. In 2010, we funded our capital expenditures and investments in acquisitions and met our liquidity requirements through a combination of cash flow from operations and financings. We expect that we will fund our proposed capital expenditures and acquisitions and meet our other liquidity requirements in 2011 through a combination of cash flow from operations and financings. Because we rely primarily on cash generated from operations to fund our liquidity and capital requirements, factors that cause our revenues and net income to increase or decrease could have a corresponding effect on our access to sources of liquidity.

Over the long term, we anticipate that it will be necessary to make significant capital expenditures in connection with the maintenance and upgrading of our generation, transmission and distribution facilities, and we expect to employ a variety of liquidity sources, such as cash flow from operations and financings, in connection with such requirements. See Item 3. Key Information Risk Factors for a discussion of certain matters that might adversely affect our liquidity position.

**Research and Development**

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

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

In 2010, we spent R\$39 million with R&D and transferred R\$34 million to the Fundo Nacional de Desenvolvimento Científico e Tecnológico, or FNDCT, a federal research and development fund, and R\$17 million to Empresa de Pesquisa Energética, or EPE (the federal power planning company). In 2009, we spent R\$31 million with R&D. Additionally, R\$30 million have been transferred to FNDCT and R\$16 million to EPE. We expect to spend a total of approximately R\$45 million on research and development in 2011. We conduct these efforts in accordance with Federal law, which requires Brazilian power utilities to spend at least 1% of their net revenue on research and development projects and energy efficiency programs (including transfers to FNDCT and EPE), as well as in accordance with our strategic corporate plans.

In accordance with Aneel instructions, we recorded a liability in 2010 for future expenditures on research and development programs and energy efficiency programs in the amount of R\$90 million relating to amounts that had already been included in the determination of our tariffs in 2010.

We have dedicated a substantial portion of our research and development activities to the development of the use of renewable energy sources, including wind, solar and biomass power generation.



Table of Contents

**Trends**

The purchase of energy from the Itaipu Power Plant represented approximately 27.72% of the expenses of Cemig Distribution for the purchase of electricity for resale in 2010. To meet the 72.28% remaining energy needs of Cemig Distribution in 2010, we bought energy through our bilateral contracts (7.94%) and through contracts in the ACR (60.87%), received energy from the Proinfa Program (3.46%). In 2011, of our energy purchases we expect to spend approximately 25.07% on the purchase of energy from Itaipu, 7.26% for bilateral contracts, 64.66% for contracts in the ACR, and 3.01% for Proinfa. For more details about the energy purchased from Cemig Distribution in the ACR, see Item 4. Information on the Company The Brazilian Power Industry The Regulated Market (the ACR or the Pool).

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

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

With respect to expansion, we believe that the extension of electricity services to all potential consumers represents a significant trend in our industry. Utilities are currently required to provide service to all potential consumers according to a schedule established by Aneel. Pursuant to Federal Law No. 10,438 of April 26, 2002, as amended, and the relevant Aneel resolution, financing for this extension of electricity services is to come from the funds of the Energy Development Account (*Conta de Desenvolvimento Energético*), or CDE, and the Global Reversion Fund (*Reserva Global de Reversão*), or RGR. According to the Light for All Program, launched by the MME and Eletrobrás to promote extension of electricity services in rural areas, in its second and third phases, 27% of the necessary funds will come from the CDE, 23% from the RGR, 18% from the State Government and the remaining 32% from CEMIG. For further discussion of the Light for All program, see Item 4. Information on the Company Distribution and Purchase of Electric Power Expansion of Distribution Capacity.

In relation to the energy supply, under normal climate conditions, we expect the current capacity and favorable reservoir levels to prevail in the next few years. Although there was a reduction in the growth rate of the electricity market during the years 2009 and 2010, due to the world financial crisis, the present installed capacity and the capacity projected for the next few years are expected to fully satisfy the projected levels of consumption. Also, the Brazilian government has been successful in the auctions it has held for major hydroelectric projects, such as the Jirau and Santo Antônio plants on the Madeira river, and the Belo Monte plant on the Xingu river.

**Off-Balance Sheet Arrangements**

In one of the agreements that regulates the partnership of Cemig Generation and Transmission with FIP Coliseu in the acquisition of the shares in Terna held by Terna S.p.A, Cemig Generation and Transmission granted FIP Coliseu the right to sell all of its interest in Taesa to Cemig Generation and Transmission, in the fifth year after its becoming a shareholder, upon payment of the amounts of capital invested net of the dividends and benefits received by FIP Coliseu in the acquisition of Terna adjusted by the variation in the IPCA +7% p.a.

In one of the contracts that regulate the partnership of CEMIG with FIP Redentor in the acquisition of 100% of the shares in Light indirectly held by both Enlighted and FIP PCP, CEMIG has granted FIP Redentor the right to sell all of its shares in Parati to CEMIG, in the fifth year after FIP Redentor's acquisition of such shares, for a price equal to the amount of capital invested by FIP Redentor in the acquisition of these shares, adjusted in accordance with the variation of the CDI plus 0.9% p.a. net of the dividends and benefits received by FIP Redentor.

### Contractual Obligations

We have outstanding contractual obligations and commitments which include principal debt payment provisions, the obligation to purchase electricity for resale from Itaipu, the obligation to transfer and transport electric power from Itaipu as well as construction commitments. The following table provides information, as of December 31, 2010, about our contractual obligations and commitments in millions of *reais*.

	2011	2012	2013	2014	2015	2016	2017 and beyond	Total
Long-term debt (1)	2,203	3,124	1,984	2,443	1,520	476	1,477	13,227
Purchase of electricity from Itaipu (2)	836	885	895	709	732	755	32,559	37,371
Transportation of electric power from Itaipu (2)	69	74	77	62	64	67	2,091	2,504
Pension plan debt Forluz	74	70	46	48	51	54	525	868
Luz Para Todos (Light for All) Program	432							432
Electricity power purchase (3)	2,333	2,401	2,387	1,965	2,269	2,397	65,152	78,904
Other electricity power purchase (4)	878	827	656	743	752	734	8,430	13,020
Total	6,825	7,381	6,045	5,970	5,388	4,483	110,234	146,326

Table of Contents

---

(1) In the event of our non-compliance with certain covenants in our loan agreements, the total principal, future interest and any penalties due under these agreements may become immediately due and payable. See Item 13. Defaults, Dividend Arrearages and Delinquencies. These amounts do not include interest payments on debt or payments under interest rate swap agreements. The Company expects to pay approximately R\$881 million in interest payments on debt in 2011. The Company does not believe projections of interest payments and payments under interest rate swap agreements would be meaningful. Through June 3, 2011 the Company has already made R\$542.2 million of debt payments.

(2) Contract with Furnas, denominated in U.S. dollars, to supply electric power purchased from Itaipu until May 2013. Amounts are calculated based on the U.S. dollar exchange rate as of December 31, 2010.

(3) Includes spot market purchases through auctions.

(4) Includes spot market purchases through bilateral agreements.

**Item 6. Directors, Senior Managers and Employees**

**Directors and Senior Management**

CEMIG is managed by our Board of Directors, which has 14 members, each with his or her respective substitute member, and by our Executive Board, which consists of 11 Chief Officers. Since it is the majority shareholder, the Minas Gerais State Government has the right to elect the majority of the members of our Board of Directors and can thus control the decisions of the Board. Every holder of CEMIG common shares has the right to vote in an election for members of our Board of Directors. Under the Brazilian Corporate Law, any shareholder holding at least 5% of our common shares in circulation may request the adoption of a multiple vote procedure, which confers upon each share a number of votes equal to the present number of members of our Board of Directors and gives the shareholder the right to accumulate his or her votes in one sole candidate, or distribute them among several.

Under the Brazilian Corporate Law, holders of preferred shares representing at least 10% of our voting capital, and also holders of common shares representing at least 15% of our registered capital (other than the controlling shareholder) have the right to appoint a member of the Board of Directors and his or her respective substitute member. If none of the holders of common shares or preferred shares qualifies under the minimum limits specified above, shareholders representing, in the aggregate, a minimum of 10% of our registered capital may combine their holdings to appoint a member of the Board of Directors, and his or her respective substitute member.

CEMIG and its wholly-owned subsidiaries Cemig Generation and Transmission and Cemig Distribution all have the same Board of Directors, Fiscal Council and Executive Board, except that, in relation to the wholly-owned subsidiaries Executive Board, only Cemig Distribution has a Chief Distribution Sales Officer, and only Cemig Generation and Transmission has a Chief Generation and Transmission Officer.

**Board of Directors**

Our Board of Directors normally meets once every two months. Its responsibilities include setting the corporate strategy, general orientation of our businesses and election, dismissal and monitoring of our Chief Officers.

Each member of the Board of Directors has a substitute member, elected in a General Meeting of Shareholders in the same manner as the member. The substitute members act as replacements for their respective members whenever the members are not available to carry out their normal functions as members, or when there is a vacancy on the Board of Directors, until the appointment of a replacement member to fill the vacancy. No member of the Board of Directors, and no substitute member, has any employment contract with our Company or any subsidiary that provides for any benefit in the event of rescission of the employment contract.

The members of our Board of Directors are elected for a period of three years, and may be re-elected. The complete body of members is elected every three years. Our Board of Directors is made up of 14 members, of whom eight are elected by the Minas Gerais State Government, five by AGC Energia S.A. ( AGC Energia ), and one by the holders of preferred shares. The period of

Table of Contents

office of the present members of our Board of Directors expires at the Ordinary General Shareholders Meeting to be held in April 2012. The names, positions and dates of original appointment of our present board members and their respective substitute members are as follows:

<b>Name</b>	<b>Position</b>	<b>Date of original appointment</b>
Dorothea Fonseca Furquim Werneck	Chairman	January 20, 2011
Paulo Sérgio Machado Ribeiro	Substitute Member	April 25, 2008
Djalma Bastos de Moraes	Vice-Chairman	January 14, 1999
Lauro Sérgio Vasconcelos David	Substitute Member	April 28, 2006
Arcângelo Eustáquio Torres Queiroz	Board Member	December 10, 2009
Franklin Moreira Gonçalves	Substitute Member	February 27, 2003
Antônio Adriano Silva	Board Member	January 14, 1999
Marco Antonio Rodrigues da Cunha	Substitute Member	February 27, 2003
Luiz Carlos Costeira Urquiza	Board Member	January 20, 2011
Adriano Magalhães Chaves	Substitute Member	December 10, 2009
Francelino Pereira dos Santos	Board Member	February 27, 2003
Leonardo Maurício Colombini Lima	Substitute Member	May 12, 2011
Maria Estela Kubitschek Lopes	Board Member	February 27, 2003
Fernando Henrique Schüffner Neto	Substitute Member	June 22, 2007
João Camilo Penna	Board Member	April 25, 2008
Guilherme Horta Gonçalves Junior	Substitute Member	February 27, 2003
Eduardo Borges de Andrade (1)	Board Member	August 4, 2010
Ricardo Antônio Mello Castanheira (1)	Substitute Member	August 4, 2010
Otávio Marques de Azevedo (1)	Board Member	August 4, 2010
Renato Torres de Faria (1)	Substitute Member	August 4, 2010
Paulo Roberto Reckziegel Guedes (1)	Board Member	August 4, 2010
Newton Brandão Ferraz Ramos (1)	Substitute Member	August 4, 2010
Ricardo Coutinho de Sena (1)	Board Member	August 4, 2010
Paulo Márcio de Oliveira Monteiro (1)	Substitute Member	August 4, 2010
Saulo Alves Pereira Junior (1)	Board Member	August 4, 2010
Tarcísio Augusto Carneiro (1)	Substitute Member	August 4, 2010
Guy Maria Villela Paschoal (2)	Board Member	April 25, 2008
Cezar Manoel de Medeiros (2)	Substitute Member	April 29, 2009

---

(1) Elected by AGC Energia.

(2) Elected by the preferred shareholders.

Below is some brief biographical information about each member of the Board of Directors:

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

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

*Arcângelo Eustáquio Torres Queiroz* - Mr. Queiroz has been with CEMIG since 1988, and is a Visual Communication Specialist and Technical Administrator. He is currently Director of Sindieletro the Minas Gerais Electricity Industry Workers Union; a member of CEMIG's Integrated Health Administration Committee, Prosaúde, and a member of CEMIG's Careers and Remuneration Committee. He graduated with a degree in history from UNIBH University, Minas Gerais in 1992.

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

Table of Contents

*Dorothea Fonseca Furquim Werneck.* Ms. Werneck has an M.A. in economics from Boston College, USA. She also attended the Doctorate Course at that college, and has a Master's Degree from the Postgraduate School of the Getúlio Vargas Foundation in Rio de Janeiro. Ms. Werneck is Chair of the Board of Directors of CEMIG, and Secretary of Development for the State of Minas Gerais. She was Brazil's Minister of Industry, Trade and Tourism in 1995-1996, and Employment Minister in 1989-1990. She was a Senior Manager of the Export Promotion Agency Apex from 1990 to 1992, Executive Secretary of the Finance Ministry in 1992, National Economy Secretary in 1991-1992, Economic and Social Planning Secretary in 1988-1989, Employment and Salaries Secretary in 1985-1988; and a member of the technical staff of IPEA from 1975 to 2003. Among other posts she has also been Director of the National Quality Awards Foundation (in 1993-4, and 1998-9); and a member of the Councils of Funcex and AEB, in 1999-2005. In 1983-1984 she lectured at the Training Course for Diplomats at the Rio Branco Institute; and in 1978-1980 at the Industrial Economics Institute and the Economics and Management Department of Rio de Janeiro Federal University.

*Eduardo Borges de Andrade.* - Mr. Borges has a degree in civil engineering from Minas Gerais Federal University, and completed postgraduate studies in financial administration at the Getúlio Vargas Foundation in Rio de Janeiro. He began his career with Andrade Gutierrez in 1961, holding various posts. In 1969 he became Director of Works, and in 1973 Director of Operations. From 1978 to 2001 he was Chief Executive of the Andrade Gutierrez Construction Company, leading the Company's activity in the infrastructure investments sector as from 2001. He is currently a member of the Board of Directors of Andrade Gutierrez and Chairman of the Boards of Andrade Gutierrez Concessões, Companhia de Concessões Rodoviárias (CCR) and Administradora São Miguel, the holding company that owns 33% of the Andrade Gutierrez Group.

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

*Guy Maria Villela Paschoal* - Mr. Villela Paschoal holds a degree in mechanical and electrical engineering from the Federal University of Minas Gerais and has completed courses in Electricity Law at the Law School of Belo Horizonte, and in Management for Electric Utility Executives, at Rensselaer Polytechnic Institute in Troy, New York, USA. In a 27-year career as an employee of CEMIG, Mr. Villela began as an intern, and after holding various positions, including Chief Production and Transmission Officer, Plans and Construction Director and CEO of the subsidiary Gasmig, served as CEMIG's Chief Executive Officer. He has also served as consultant and advisor to the Executive Board of Eletrobrás, and as a member of the Board of Directors of Itaipu Binacional. As Secretary-General of the Mining and Energy Ministry, he was on several occasions Acting Mining and Energy Minister. From 2003-2008 he was a member of the Infrastructure Chamber of the Minas Gerais Industries Federation (Fiemg), and he participated in the Consultancy Group for the major hydroelectric projects on the Madeira River in the Amazon region.

*João Camilo Penna* - Mr. Penna earned his degree in engineering in 1948 from Minas Gerais Federal University (UFMG). He was a works engineer with CVRD from January 1949 to April 1951; Planning and Works Officer at CEMIG from May 1951 to March 1961; and Technical Director of CEMIG from March 1961 to March 1967. He was Chairman of CEMIG from March 1967 to March 1975. He served as Finance Secretary of Minas Gerais State in the governments of Aureliano Chaves and Oznam Coelho from March 1975 to March 1979, as Brazil's Trade and Industry Minister in the Figueiredo government from March 1979 to August 1984, and was Chairman of Furnas Centrais Elétricas from May 1985 to August 1989. During these same periods he was interim Administration Secretary of Minas Gerais State, a Member of the National Monetary Council (CMN), member of the Board of Directors of Eletrobrás, Vice-Chairman of the Brazilian Technical Standards Association, Director of the Large Dams Committee, and of the Brazilian Group for the World Energy Conference. From 1990 he was a consultant and member of boards of organizations such as Mannesmann, the Dom Cabral Foundation, Copersucar, Companhia Siderúrgica do Pará, Companhia Força e Luz Cataguazes Leopoldina, Biobrás, Copasa, and the Minas Gerais Industries Federation (Fiemg). From 1984 to 1992 he was a member

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

of the Board of Directors of Itaipu Binacional, and Chairman of the Board of the Horizontes Institute at Atech Sivam. At Coopers and Lybrand, he was president of the Supervision Committee of the Brazilian Industry Competitiveness Study. In 2002 he was Consultant in the preparation of the study Minas Gerais in the 21st Century, an initiative of the Minas Gerais Development Bank (BDMG); and President of the organization Economy and Energy E&E. He was a member of the President of the Republic's Ethics Committee, from September 2000 to March 2005, and from April 2004 to April 2005 was a member of the Public Ethics Committee of the Minas Gerais State Government.

*Luiz Carlos Costeira Urquiza* - Mr. Urquiza has a degree in mechanical engineering from the Rio de Janeiro Federal University (1980-1984), where he completed the MBA course at Coppead in 1990. He also completed the Advanced Management Program of the Dom Cabral Foundation / Insead in 1995. He is a member of the Board of Directors of Cemig and joined the Boards of



Table of Contents

Directors of Light and Light SESA in 2009. From 2000 to 2004, he was partner and CEO of Banco1.net, Brazil's first solely online bank. From 1995 to 2000 he was partner and CEO of Quatro/A Participações S.A. In 1994 and 1995 he was Director of Unibanco's live online banking service Unibanco 30 Horas. From 1989 to 1994 he was Manager, General Manager and Director of Products for Banco Nacional; and from 1984 to 1989 he worked with Shell Brasil, first as a sales representative in lubricants in Salvador, then as Head of its base at Caxias, Rio de Janeiro State.

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

*Otávio Marques de Azevedo* - Mr. Azevedo has a degree in engineering, and completed postgraduate studies in economic engineering at the Federal University of Minas Gerais, and strategic planning at the Getúlio Vargas Foundation. He has served as President of Telemig, Vice-President of Telebrás, and President of Telemar. He has also been Chairman of the Board of Pegasus Telecom, and Chairman of the Council of Anatel. Currently, he is CEO of Andrade Gutierrez Telecomunicações Ltda., Executive President of Andrade Gutierrez SA, Chairman of the Board of Directors of Tele Norte Leste Participações S.A., controlling shareholder of the OI group, and of CTX, controlling shareholder of Contax; and a member of the Board of Directors of Tele Norte Leste Participações S.A., the Strategic Council of Fiemg, the Governing Council of the Commercial Association of Rio de Janeiro (ACRJ), the Governing Council of the São Paulo State Industries Association (Fiesp) and the Board of Directors of Contax Participações S.A.

*Paulo Roberto Reckziegel Guedes* - Mr. Guedes earned a degree in civil engineering from the Federal University of Rio Grande do Sul in 1983, and completed the Corporate MBA course at the Dom Cabral Foundation in 1997. He began his career as a technical assistant with M. Roscoe in 1982, and worked for Construtora Sultepa S.A. from 1983, as Assistant Engineer, and Supervisory Engineer, until 1991, when he became Operational General Manager of the Conesul Consortium for Construtora Sultepa. From 1993 to 1999 he was a Project Manager at Construtora Andrade Gutierrez, and since 2000 has been a Director of Andrade Gutierrez Concessões (AGC). He represents AGC on the Boards of Directors of CCR, Dominó, Waterport and Companhia Operadora de Rodovias S.A.

*Ricardo Coutinho de Sena* - Mr. Sena has a degree in civil engineering from Minas Gerais Federal University, and completed postgraduate studies in financial administration at the Getúlio Vargas Foundation of Rio de Janeiro. He worked at M. Roscoe S.A., in several posts, from 1972 to 1981. In 1981 he joined Andrade Gutierrez, where he was Head of the Budgets Department until 1993. From 1993, he was General Manager of the New Business Unit, leading an activity which consolidated the company's portfolio in public infrastructure services. Since 2000 he has been CEO of Andrade Gutierrez, and also a member of its Board of Directors. He has led dozens of projects in Brazil and Latin America in partnership with Canadian, US, Portuguese and Brazilian partners. He represents AGC on the Boards of Directors of CCR, Dominó, Quiport and ABCR.

*Saulo Alves Pereira Junior* - Mr. Pereira Junior has a degree in electrical engineering from PUC University of Minas Gerais. He has also completed post-graduate studies in Works and Services Budget Planning at IEC/PUC MG and Business Administration at the Federal University of Bahia, and has a Corporate MBA from the Dom Cabral Foundation. He began his career as an intern in the Operations Center of Cemig in

1993. In 1995 he joined Construtel Projetos e Construções Ltda, as an engineer in planning and budget coordination of works, and in 1998 he took over as General Manager of that company's Business Unit in Bahia. In 2000 he joined the Andrade Gutierrez group as principal manager of telecoms contracts for Construtora Andrade Gutierrez in Rio de Janeiro state. Since 2004 he has been Sales Director of Construtora Andrade Gutierrez, developing new business focused on the electricity sector. Since 2007 he has also worked in Andrade Gutierrez Concessões actively participating in the group's consolidation in the electricity sector.

#### **Board of Executive Officers**

Our Executive Board is responsible for putting into effect the decisions of our Board of Directors and for day-to-day management. The Members of the Executive Board, the Chief Officers, have individual responsibilities established in the by-laws and hold their positions for a period of office of three years. The period of office of the present Chief Officers expires at the first Meeting of the Board of Directors following the Ordinary General Shareholders Meeting to be held in April 2012. The Chief Officers are

Table of Contents

elected by our Board of Directors. Usually, ordinary meetings are held at least twice per month, with extraordinary meetings held whenever called by the Chief Executive Officer, or CEO, or by two Chief Officers other than the CEO.

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

<b>Name</b>	<b>Position</b>	<b>Date of original appointment</b>
Djalma Bastos de Moraes	Chief Executive Officer (CEO)	January 14, 1999
Arlindo Porto Neto	Deputy CEO	January 20, 2009
José Carlos de Mattos	Chief Energy Distribution and Commercialization Officer	January 9, 2007
Luiz Henrique de Castro Carvalho	Chief Generation and Transmission Officer	August 18, 2008
Fernando Henrique Schüffner Neto	Chief Officer for Business Development	January 9, 2007
Luiz Fernando Rolla	Chief Officer for Finance and Investor Relations	January 9, 2007
Frederico Pacheco de Medeiros	Chief Corporate Management Officer	January 20, 2011
José Raimundo Dias Fonseca	Chief Trading Officer	January 20, 2011
Fuad Jorge Noman Filho	Chief Officer for the Gas Division	January 3, 2011
Maria Celeste Moraes Guimarães	Chief Counsel	January 3, 2011
Luiz Henrique Michalick	Chief Institutional Relations and Communication Officer	January 20, 2011

Below is brief biographical information about each member of the Executive Board.

*Arlindo Porto Neto* - Mr. Porto Neto has a degree in business administration and accounting from the Federal University of Uberlândia. Since 2004 he has been Vice-President of the Minas Gerais Development Company (Codemig). He served as Senator for the State of Minas Gerais from 1995 to 2003, and was Brazil's Minister of Agriculture and Supply from 1996 to 1998. From 1991 to 1994 he was Deputy Governor of the State of Minas Gerais. From 1983 to 1988 he was Mayor of Patos de Minas.

*Djalma Bastos de Moraes* - For biographical information regarding Mr. Moraes, see Board of Directors.

*Fernando Henrique Schuffner Neto* - Mr. Schuffner earned a degree in electrical engineering from PUC University of Minas Gerais in 1982, a master's degree from Unicamp in 1984, and an MBA from Ibmecc in 2000. After working in university research, he joined CEMIG in 1985, working as a regional manager and administrator before becoming Superintendent for Coordination of Planning and Management, successively, for Distribution, Distribution Expansion, and Distribution Market Expansion. He then became CEMIG's Executive Coordination Superintendent of the Light for All Program. He has lectured at universities, and has published many scientific articles from 1983 to 2005, ranging from work on topologies of commutating circuits (1983) to joint authorship of Fuzzy Preference Relations and Multiobjective Decision Making presented to the Fourth IEEE International Workshop on Soft Computing as Transdisciplinary Science and Technology, in Muroran, Japan, in May 2005. His work was presented to international congresses including control of induction motors. He has taken courses including the Amana Key APG management course in Sao Paulo in 2004. He was Chief Energy Distribution and Commercialization Officer of CEMIG between 2007 and 2010, where, since January 2011, he has been the Chief Officer for Business Development.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

*Frederico Pacheco de Medeiros* Mr. Medeiros earned a law degree from the Federal University of Minas Gerais in 1992. He acted as Legal Advisor to the Minas Gerais State Court of Appeal from 1989 to 1998, and was Parliamentary Secretary of the House of Representatives of the Brazilian Congress from 1993 to 2002. He was Deputy Secretary of State of Minas Gerais from 2003 to 2008, and General Secretary to the Governor of Minas Gerais in 2008 2010.

*Fuad Jorge Noman Filho* Mr. Noman Filho has a degree in economics by the Unified Teaching Center of Brasilia (CEUB) and has completed a postgraduate degree in Economic Programming and Budget Execution by the University of Brasília (UnB). He was executive secretary and deputy secretary of Assets and Risks of the National Treasury Secretariat, in the Ministry of Finance, Executive Secretary of the Presidency of the Republic of Consultant International Monetary Fund (IMF), when provided advice to the Government of Cape Verde. BrasilPrev President of Private Pensions, the Association of Private Pension Companies (ANAPP) and the Board of Directors of Banco do Nordeste. He was also Secretary of State for Finance of Minas Gerais - (2003 - 2007) and Secretary of State for Transport and Public Works of Minas Gerais - (2007 - 2010). Since January 2011, he is CEO of Gasmig and is Chief Officer of CEMIG's Gas Division.

*José Carlos de Mattos* - Mr. Mattos received a degree in literature from Uni-BH (Belo Horizonte Central University) in 1972. He is currently the Chief Executive Officer of Gasmig. From 2004 to 2007 he was Director-President of Previminas, the Minas Gerais Social Security Foundation. In 2003 and 2004 he was the financial director of Codemig, the Minas Gerais Development Company. From 1983 to 1992 he was Regional Superintendent of the Federal Savings Bank (Caixa Econômica Federal) in the states

### Table of Contents

of São Paulo, Rio de Janeiro and Minas Gerais, and was also Financial Director of the Federal Savings Bank from 1992 to 1994. From 1992 to 1994 he was also the Director of BIAPE – the Inter-American Savings and Loan Bank. From 1995 to 1996, he was Vice-President of Bemge – the State Bank of Minas Gerais. He was Chief Planning, Projects and Construction Officer between 2007 and 2010 where, since January 2011, he has been Chief Energy Distribution and Commercialization Officer.

*José Raimundo Dias Fonseca* - Mr. Fonseca has a degree in electrical engineering from the Federal University of Juiz de Fora. He has completed the specialization course in Maintenance Engineering at the Federal Engineering School of Itajubá (Fupai/Efei); the postgraduate course in Strategic Business Management of the Getúlio Vargas Foundation; and the specialization course in Management of Electric Power Utilities at the University of Stockholm. He lectures in electrical equipment at the postgraduate course in Maintenance engineering at the PUC University of Minas Gerais. He has been a member of the Council of CCEE – the Brazilian National Electricity Trading Chamber; and Vice-president of Abraceel, the Brazilian Association of Electricity Traders. A career professional, he joined Cemig in 1982, holding varied posts from engineer to Control and Settlement Officer for Electricity Trading Transactions. From 2007 to 2011 he was General Manager for Wholesale Electricity Transactions.

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

*Luiz Henrique de Castro Carvalho* - Mr. Carvalho is CEMIG's Chief Generation and Transmission Officer. He earned a degree in electrical engineering from Minas Gerais Federal University (UFMG) in July 1982, and a postgraduate degree in systems analysis, with specialization in mainframe support, from that university in July 1983. In February 2000 he also concluded an international executive MBA in business administration and information technology management from the Getúlio Vargas Foundation. His first professional experience was in the Research and Development Centre (CPQD) of Telebrás, as an electrical engineer, from October 1983 to March 1984. He began his career at CEMIG as a support analyst in the Software and Support Group in March 1984, and since then has been Joint Leader, Group Leader and Manager in the Personal IT Terminal Users Support Division, Assistant in the IT Support Department, Superintendent of Telecommunications and IT, Superintendent for Material, Logistics and Services, Superintendent of Material and Services, Advisor to the President of Gasmig, and Substitute Member of the Board of Directors of CEMIG. In addition to his responsibilities at CEMIG, he is a Director of Horizontes Energia S.A., a member of the board of directors of Central Termelétrica De Cogeração S.A., and a substitute member of the board of directors of Central Hidrelétrica Pai Joaquim S.A. He has also been Administrative Director of CEMIG Employees' Investment Club, from April 1999 to April 2003, Social Action Director in the Minas Gerais IT and Telecommunications Users' Association (Sucesu/MG) from 2000 to 2002, and CEO of the CEMIG Inter-Management Association from July 2005 to July 2007.

*Luiz Henrique Michalick* - Mr. Michalick has a degree in journalism from the PUC University of Minas Gerais. He joined Cemig in 1985, working as a journalist and as General Manager for Press, Public Relations and Advertising, before becoming General Manager for Corporate Communications from 2003 to 2010. In his career in print media, he was a journalist in the Belo Horizonte office of the Folha de São Paulo newspaper from 1979 to 1985; Press Officer for the Dom Cabral Foundation in 1984-5; director of the Union of Professional Journalists of Minas

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Gerais State in 1985 '7; and worked as economics editor on the Estado de Minas newspaper in 1986 '7. He founded the Corporate Platform of the Reputation Institute in Brazil, and since 2006 has been CEMIG 's representative in that organization.

*Maria Celeste Morais Guimarães* - Mrs. Guimarães has a degree in accounting and management from the PUC University of Minas Gerais; and a law degree and a doctorate in law from Minas Gerais Federal University, with specialization in commercial law. .She was Auditor-General of the State of Minas Gerais from 2003 to 2010; a member of the Corporate Governance Committee of Minas Gerais State from 2008 to 2010; a member of the Council of Social Support Organizations from 2005 to 2010; President of the Council of Inspectors-General of the Minas Gerais State Administration (Conrege) between 2004 and 2010 and President of the National Council of Internal Inspection Bodies of Brazilian States and the Federal District (Conaci) from 2007 to 2009.

Table of Contents**Compensation of Directors and Executive Officers**

In the year ended December 31, 2010 the total compensation paid to directors and officers, including health insurance, paid leave, bonuses and other benefits, amounted to approximately R\$6.3 million.

The following chart shows the compensation paid to our Board Directors, Executive Officers, Fiscal Council and Support Committee members in 2010:

**Compensation in the year ended December 31, 2010 (in Reais)**

	<b>Board of Directors</b>	<b>Support Committee(1)</b>	<b>Executive Officers</b>	<b>Fiscal Council</b>
<b>Number of members</b>	<b>13</b>	<b>5</b>	<b>9</b>	<b>5</b>
<b>Total compensation</b>	<b>1,148,114</b>	<b>272,472</b>	<b>4,674,005</b>	<b>180,431</b>

(1) The Support Committee is a body with no executive function, composed of members of our Board of Directors, responsible for evaluating and making recommendations on the matters to be discussed at the Board meeting, prioritizing issues, checking the documentation for better understanding of the Board Directors and other issues necessary for the objectivity of the Board meetings.

There is no contract between the Company or its wholly-owned subsidiaries, subsidiaries or affiliated companies and any director or officer of CEMIG that grants any kind of post-employment benefits, other than the retirement plan of Forluz, which is applicable to executive officers, as long as they are qualified in accordance with the rules and regulations of Forluz and which is also applicable to other employees in the same way.

**Fiscal Council**

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

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

The current members of the Fiscal Council, and their substitute members, all of whose terms expire at the Ordinary General Meeting of Shareholders to be held in 2012, for the approval of the 2011 fiscal year financial statements are as follows:

<b>Name</b>	<b>Position</b>	<b>Date of initial appointment</b>
Aristóteles Luiz Menezes Vasconcellos Drummond	Member	April 27, 1999
Marcus Eolo de Lamounier Bicalho	Substitute Member	February 27, 2003
Luiz Guarita Neto	Member	February 27, 2003
Ari Barcelos da Silva	Substitute Member	April 29, 2005
Thales de Souza Ramos Filho	Member	February 27, 2003
Aliomar Silva Lima	Substitute Member	February 27, 2003
Helton da Silva Soares (1)	Member	August 4, 2010
Rafael Cardoso Cordeiro (1)	Substitute Member	August 4, 2010
Vicente de Paulo Barros Pegoraro (2)	Member	April 29, 2009
Newton de Moura (2)	Substitute Member	April 29, 2009



Table of Contents


---

(1) Elected by AGC Energia.

(2) Elected by the holders of the preferred shares.

**Consumer Council**

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

**Audit Committee**

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

**Employees**

As of December 31, 2010, we had 8,859 employees at CEMIG, Cemig Distribution and Cemig Generation and Transmission, of which 239 were at management level, and we had an average of 452 temporary employees in 2010. As of December 31, 2009, we had 9,746 employees, of which 248 were at management level, and we had an average of 356 temporary employees in 2009. As of December 31, 2008, we had 10,422 employees, of which 265 were at management level, and we had an average of 353 temporary employees in 2008. This table shows the breakdown of our employees by type on those dates:

	<b>Number of Employees at</b>		
	<b>December 31, 2010</b>	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Managers	239	248	265
Professional staff	1,281	1,500	1,398
Operational technical staff and office employees	7,339	7,998	8,759
Total	8,859(1)	9,746(1)	10,422(1)

---

(1) These numbers reflect only those employees of Cemig Generation and Transmission, Cemig Distribution and CEMIG.

In 2010, six employees were hired and 893 employees left the Company.

### *Unions*

Annual meetings are held for collective negotiation with the unions that represent the employees. The Collective Work Agreement that results from this includes salary adjustments, benefits, and rights and duties governing employment relationships, and comes into effect for the subsequent period of 12 months, starting on November 1 of each year.

In December 2010, two collective agreements with the same general terms were entered into with 17 unions, which established wage increases ranging between 6.50% and 7.55%, according to the salary level of each employee. In addition to these agreements, an amendment regarding the distribution of profits and economic results was agreed to with respect to the specific collective agreement governing profit sharing ( PLR ), for a single one-time extraordinary distribution, paid in April 2011, equivalent to 2.64 times each employee's monthly remuneration.

In the negotiations regarding the execution of this year's collective agreement, we experienced strikes that lasted up to 20 days. The Company has an Operational Emergency Committee for moments of crisis, and such committee was activated. As a result, the strike movement did not affect the supply of electricity to the general public.

In November 2009 two collective agreements were signed: (i) an annual agreement on salaries, benefits and rights, for the period of November 1, 2009 to October 31, 2010, which established a salary increase of 4.88% for all salaries; and (ii) a specific agreement, in effect in the period from November 20, 2009 to March 31, 2011, on distribution of profits and results for 2009 and 2010, to be paid in 2010 and 2011, respectively.

For 2009, the collective agreement established an extraordinary one-time distribution in the amount of 200% of each employee's monthly remuneration. In relation to profit sharing, the collective agreement established an extraordinary one-time

Table of Contents

distribution equivalent to 70% of the monthly remuneration of each employee in the event that the IGPRa indicator reached 50%, paid in 2010. The IGPRa is an indicator used to determine a part of the income of the employees of CEMIG paid in the form of distribution of profits, and is based on the frequency rate of accidents involving CEMIG's own employees, the quality of services provided to consumers, and reduction of costs.

On November 13, 2009, 46% of our employees took part in a stoppage of 24 hours in services during the collective negotiations for 2009-2010.

In December 2008, a collective agreement was signed establishing an increase of 7.26% and an extraordinary one-time distribution of amounts under the profit sharing program, totaling 4.67 times each employee's monthly salary, and this was paid in December 2008.

On November 20, 2008, 10% of our employees took part in a stoppage during the negotiations for 2008-2009.

*Remuneration*

The Careers and Remuneration Plan was put in place in 2004, aiming to provide the Company with instruments of remuneration deemed necessary for maintaining an equitable and competitive payment structure and establishing criteria for promotions. An internal committee, with representatives of both CEMIG and the unions, was created for the implementation of such plan.

In recent years changes in salary policies have been negotiated with the unions with the aim of integrating the processes of human resources administration and management into the Company's business strategy. Such changes include the following:

- The collective work agreement of 2005/2006 established an indemnity plan to replace future rights under the Anuênio—a system under which salary was increased by 1% for each year worked at CEMIG up to a limit of 35%. These payments were being made to every employee hired up to October 31, 2005. A total of 87% of these employees accepted the indemnity payment, and a total amount of R\$178 million was paid. The agreement also established that employees hired on or after November 1, 2005, would no longer have the right to the Anuênio.
- In 2007, the collective work agreement with the unions established that employees hired on or after November 1, 2007 will no longer have the right to the extraordinary bonus of 16.67% previously applied on the base salary amount.
- The collective agreement signed in 2008 increased the flexibility of the clause that previously guaranteed a minimum number of 10,000 employees, allowing reduction of this number to 9,000. It also allowed the company to employ less than 9,000 people provided that such reduction arises from: agreement, by employees, to the Voluntary Retirement Program (PPD) or the Temporary Voluntary Retirement Program (PDV); dismissals for just cause (rescission of employment agreement); rescissions of employment agreements at the initiative of the employee or by common agreement, and retirement.

- In 2010 the clause contained in the collective labor agreements that prohibited arbitrary dismissal of employees was removed.

*Profit Sharing Plan*

In 1995, CEMIG established a profit sharing program for the employees in accordance with the applicable Brazilian employment legislation. Under the program, in a single business year CEMIG may not contribute more than 25% of the total of the proposed dividends for the business year to the profit sharing program.

In 2010 the payment of profit shares to the employees, including the obligatory charges and payments based on payroll, totaled R\$325 million and the payment was made in December 2010 and March 2011. In 2009, the payment of employees' profit shares, including the obligatory charges and payments based on payroll, totaled R\$238 million, and the payment was made in December 2009 and in March 2010.

*Benefits*

As of January 1, 2003, we implemented changes to our existing employee health care plans. The changes are a result of an agreement we entered into with our employees' labor unions, most of which are represented by Sindieletro. The changes modified the contributions that we, our employees and our retirees are responsible for and the types of benefits covered by each plan. In 2010, a total of R\$199 million was paid in benefits to employees, consisting of pension plan contributions and assistance benefits.

Table of Contents

*Voluntary Retirement Program*

In March 2008, CEMIG implemented a Voluntary Retirement Program, which sets the rules and conditions applicable to free and voluntary rescissions of employment contracts by employees, and also criteria applicable to specific situations of employees who meet certain requirements for retirement. Employees who opt for the Voluntary Retirement Program receive a payment equal to three times their monthly salary, provided they leave the Company a maximum of 90 days after opting for the program. In 2010, 11 employees accepted the terms of our Voluntary Retirement Program compared to 193 employees in 2009 and 486 employees in 2008.

*Voluntary Dismissal Program*

In April 2009, CEMIG implemented a Voluntary Dismissal Program, or PDV, which remained in effect throughout 2010, setting rules and conditions applicable to free and voluntary termination of employment contracts by employees, and also establishing the criteria applicable to employees who meet certain retirement requirements. Employees who subscribe to the PDV receive a financial incentive varying between three and 16 times their monthly remuneration, according to criteria established in the program's regulations, the principal one being the time of contribution remaining for full retirement entitlement under the National Social Security Institute (*Instituto Nacional de Seguridade Social*), or INSS. The incentive includes payment of the contributions to the pension fund and the INSS up to the date when the employee would have complied with the requirements for applying for retirement benefit under the INSS (limited to five years), and deposit of the obligatory penalty payment (applicable to dismissals without cause) of 40% on the balance of the employee's accumulated funds under the Unemployment Guarantee Fund (*Fundo de Garantia por Tempo de Serviço*), or FGTS, system.

Additionally, CEMIG guarantees full payment of the costs of the group life insurance plan for six months, and of the health plan for twelve months, commencing on the date the employee leaves the Company.

A total of 1,279 employees of the Company subscribed to the program, of which, 833 subscribed in 2010. A provision for the expenses for the financial incentives in the amount of R\$40.2 million was recorded in 2010 (R\$206 million in 2009).

*Program for Sharing in Profit, Results, and Productivity*

Under the Program for Sharing in Profits, Results and Productivity, CEMIG authorized a distribution equivalent to 3% of the consolidated operational profit for the year ended December 31, 2010, which was paid in March 2011.

*Health and Safety*

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

In 2010, the number of work accidents resulting in loss of one or more days work of CEMIG employees and outsourced workers was 17.4% lower than in 2009. The main reason for this reduction was the result of various actions in Health, Safety and Well-being in the Workplace

### Share Ownership

Each of our directors and executive officers beneficially owns less than 0.001% of our preferred shares and less than 0.003% of our common shares.

### Item 7. Major Shareholders and Related Party Transactions

#### Principal Shareholders

As of December 31, 2010, the State Government owned, directly or indirectly, 152,033,489 common shares, or 50.97% of our outstanding voting stock, and 7,057,472 preferred shares, or approximately 1.84% of those outstanding. As of the same date, AGC Energia, our second largest shareholder, owned 98,321,592 common shares, or approximately 32.96% of those outstanding. AGC Energia is a subsidiary of Andrade Gutierrez Concessões S.A. ( AGC ), an AG Group affiliated. AG Group is one of the largest private groups in Latin America, with a presence in the engineering, construction, telecommunications, energy and public grants sectors. Our principal shareholders do not have different voting rights with respect to the shares they own.

The following table sets forth certain information regarding the ownership of our outstanding common shares and preferred shares at December 31, 2010.

Shareholder	Common Shares	% of Class	Preferred Shares	% of Class
State Government (1)	152,033,489	50.97%	7,057,472	1.84%
AGC Energia S.A.	98,321,592	32.96%		
All directors and executive officers as a group	6,732		1,667	
Other	47,907,855	16.06%	376,794,855	98.09%
Total of outstanding shares	298,269,668	100%	383,853,994	99.92%
Treasury shares			290,920	0.08%
Total of authorized and issued shares	298,269,668	100%	384,144,914	100%

Table of Contents

---

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

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

As of December 31, 2010, we had 34 common shareholders of record in the United States, holding a total of 7,256,319 common shares. We also had 204 preferred shareholders of record in the United States, holding a total of 215,011,383 preferred shares. These numbers do not include the 123,812,242 preferred shares and 1,085,343 common shares converted into ADRs.

Based on publicly available filings with the SEC, we are aware of the following changes in ownership of our outstanding preferred shares. On February 8, 2008, Capital Research and Management Company owned 13,644,250 preferred shares of CEMIG, corresponding to 4.98% of our preferred shares and, as a result of buying transactions on February 8, 2008, now owns a total of 13,990,050 preferred shares of CEMIG, corresponding to 5.11% of our preferred shares. Although our by-laws do not provide any restrictions concerning a change in our control, a state law authorizing a change of control would be required for a change of control to take place. Because we are a state-controlled company, the sale of more than 50% of the voting stock of CEMIG by the State Government (or any other transaction that may transfer the control of the company, either totally or partially) requires the passage of specific authorizing legislation by the legislature of Minas Gerais, approved by at least 60% of the members of the State Assembly. The aforementioned authorization must also be approved by local citizens in a referendum.

On December 17, 2009, BlackRock, Inc., as investment manager on behalf of some of its consumers, notified that as a result of the merger between BlackRock and Barclays Global Investors, on December 1, 2009, it has achieved the total of 12,410,905 preferred shares and 20,411,225 American Depositary Receipts ( ADRs ) for preferred shares, representing a total of approximately 9.39% of the total preferred shares in CEMIG. Blackrock Inc. has notified that the objective of the above-mentioned stockholdings is strictly for investment purposes, and it has no intention of altering the stockholding control or management structure of the Company. In addition, it has also notified that it holds no debentures issued by CEMIG that are convertible into shares, and that no agreements have been entered into by BlackRock that regulate the exercise of the right to vote or the purchase or sale of securities issued by CEMIG.

On April 15, 2010, Lazard Asset Management LLC notified us that it has acquired 17,497,213 shares, or 5.01% of the total of the shares issued by CEMIG. On February 4, 2011, Lazard Asset Management LLC notified us that it increased its interest in CEMIG to 7.46%, representing a total of 28,673,232 shares.

On June 18, 2010, AGC Energia notified that a share transfer occurred pursuant to a share purchase and sale agreement signed between Southern and AGC Energia, with AGC as the consenting party, dated November 12, 2009. AGC Energia acquired from Southern 98,321,592 common shares of CEMIG, representing 32.96% of the voting stock and 14.41% of the total capital. AGC Energia emphasizes that such transaction does not change the structure of the stockholding control, nor the management structure, of CEMIG.

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

**Related Party Transactions**

We are party to the following related-party transactions:



Table of Contents

- Our agreement with the State Government with respect to the CRC Account and related financial income and provision for loss and VAT advance payments, expenses, assets and liabilities;
- Our agreement with Forluz, the entity responsible for managing our employee pension fund, pertaining to the fund and related balances; and
- Our agreement with COPASA, a Minas Gerais state-controlled company, related to accounts receivable from energy sales.

For a more detailed discussion of these and other related party transactions, see Notes 7, 8, 11, 17, 18, 20, 22 and 24 to our consolidated financial statements.

**Item 8. Financial Information**

**Consolidated Financial Statements and Other Financial Information**

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

**Legal Proceedings**

We are a party to certain administrative and court proceedings involving tax, regulatory, administrative, environmental and third-party matters relating to our business. We disclose the aggregate amounts of these proceedings that we have determined to be possible or probable, to the extent those amounts can be reasonably estimated.

The provisions have been made in accordance with the IFRS. According to such criteria, provisions are made for cases in which it is considered that the chances of loss are probable and the existence of a present obligation on the date of the financial statements is more likely than not to materialize. No provision is made when it was not likely that a present obligation existed as of the date of the financial statements or the chances of loss are rated as possible .

For more information regarding such contingencies, see Notes 21 and 24 to our consolidated financial statements.

*Rate Increases*

We are the defendant in several lawsuits brought by industrial consumers alleging that increases in electricity rates, determined by DNAEE, predecessor of Aneel, during a price freeze imposed by the Federal Government from March through November 1986, known as the Cruzado Plan (*Plano Cruzado*) were illegal. Some of the plaintiffs further allege that all our rates after the Cruzado Plan period were illegal, in part because they included the Cruzado Plan period increases in the amounts that served as the basis for calculating the further increases. Some of these claims have been decided at the trial court level in our favor, whereas others have been decided in favor of the plaintiffs. All of the cases that have been decided at the trial court level have been appealed to the Superior Court of Justice (*Superior Tribunal de Justiça*), which ruled, in most of the cases, that the plaintiffs were entitled only to reimbursement for rate increases introduced during the Cruzado Plan. We are actively contesting all of the aforementioned rate increase claims. As of December 31, 2010, the aggregate rate increase claims brought against us totaled, approximately, R\$61.7 million, of which R\$14.6 million are related to proceedings where we assessed the chances of loss as probable and R\$47.1 million are related to proceedings where we assessed the chances of loss as possible and that it was not likely that a present obligation existed as of the date of the financial statements.

We are also a defendant in lawsuits and class actions brought by consumers, consumer rights groups and the office of the public prosecutor of Minas Gerais contesting the rates we charge our consumers, the application of the rate increases determined by Aneel, the inflationary index used to increase our rates and the rate subsidies granted to low income consumers. These lawsuits involve claims for the suspension of the rate increases and for the reimbursement to our consumers of twice the amount of any additional rates we collected. All our rate increases are granted based on Aneel's prior authorization and we believe we have a meritorious defense to each of these lawsuits. It is not possible at the present time to estimate the amounts involved in these claims, the chances of loss of which have been assessed as remote. We have not accrued any liability related to these claims.

Cemig Distribution is a party, together with Aneel, in a civil public action brought by the Public Attorneys Office seeking to prevent the exclusion of consumers from the Low Income Residential Tariff's subclass frame and also to require Cemig Distribution

Table of Contents

to pay double the amount overpaid by the low income consumers. The lower court found in favor of the Public Attorney's Office, and Cemig Distribution and Aneel appealed to the Regional Federal Appeals Court (*Tribunal Regional Federal*). The decision of the appeals court on the proceeding has been pending since March 2008. Cemig Distribution has estimated the amount involved in such proceeding to be approximately R\$110.7 million, as of December 31, 2010. Cemig Distribution assesses its chance of loss as possible, and that it was not likely that a present obligation existed as of the date of the financial statements.

Cemig Distribution is a defendant in a public civil action brought by the Municipal Association for Protection of the Consumer and the Environment (*Associação Municipal de Proteção ao Consumidor e ao Meio Ambiente - Amprocom*), which is challenging the tariff readjustment applied after 2002 and its methodology and seeking the restitution, to all consumers who were damaged in the processes of periodic review and annual adjustment of electricity tariffs in the period from 2002 to 2009, of the amounts that were allegedly unduly charged. On December 31, 2010, the amount involved in this action was R\$159 million. However, after December 31, 2010, CEMIG estimated that, if all the consumers supposedly damaged were to be taken into consideration and CEMIG were to be forced to pay the claimed amounts to all consumers, including applicable taxes, the total amount owed would be R\$927 million, and Cemig Distribution has assessed the chances of a loss as possible and that it was not likely that a present obligation existed as of the date of the financial statements. Since the outcome of this matter will have an impact on all of the distribution concession holders in Brazil, it is our view that, in the event of a loss, CEMIG will not have to disburse the full amount involved, because we believe that a new Electricity Sector Agreement will likely be entered into, providing for discounts on the electricity tariff in order to reimburse consumers for any excess amounts that are ruled to have been paid.

In December 2010, Aneel, who was ultimately responsible for the calculation of the readjustment of the electricity tariffs from 2002 to 2009, issued regulations safeguarding distribution concession holders from liability concerning this matter. A bill was proposed in the Brazilian Congress to annul these Aneel regulations, and is currently under review by the House of Representatives. If passed, the bill would cancel the effects of these Aneel regulations, which could affect adversely our chances of loss in the civil public action described above.

*Taxes and Other Contributions*

CEMIG and its subsidiaries are parties in several administrative and judicial tax-related proceedings concerning the imposition of state sales tax (*Imposto Sobre a Circulação de Mercadorias e Serviços*), or ICMS, rural real estate ownership tax (*Imposto Sobre a Propriedade Territorial Rural*), or ITR, contribution for social integration (*Programa de Integração Social*), or PIS, public servants' contribution (*Programa de Formação do Patrimônio do Servidor Público*), or PASEP, and social security contribution (*Contribuição para o Financiamento da Seguridade Social*) or COFINS, social contribution on net profits (*Contribuição Social Sobre o Lucro Líquido*), or CSLL, and federal income tax (*Imposto de Renda da Pessoa Jurídica*), or IRPJ, among others.

In 2006, CEMIG, Cemig Distribution and Cemig Generation and Transmission advanced funds to some of their employees in exchange for their rights to future payments, referred to as the *Anuênio*. No income tax or social security contributions were collected in connection with those payments, since it is our opinion that they are not applicable. The Brazilian Federal Revenue Service, however, has initiated an administrative proceeding seeking to levy taxes over such payments. In order to avoid the risk of imposition of penalties, we filed two writs of mandamus which were decided unfavorably to us at the lower court. We filed the appropriate appeals and are still waiting for resolution from the upper court. We estimate the amount involved in these claims to be approximately R\$179 million, as of December 31, 2010, consisting of the full amount of judicial deposits from 2006. Cemig Distribution and Cemig Generation and Transmission assess their chance of loss in this dispute as possible, and that it was not likely that a present obligation existed as of the date of the financial statements.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

The INSS initiated an administrative proceeding against us in 2006 seeking to collect unpaid social security contribution on the amounts paid to our employees as profit sharing in the period between 2000 and 2004. In 2007, we filed a writ of mandamus seeking declaration that such profit-sharing payments were not subject to social security contributions. We received a partially favorable decision in 2008, which we have appealed. We are currently waiting for the upper court to decide on our appeal. The total amount involved in this claim is approximately R\$130 million, as of December 31, 2010. We assess our chance of loss in this dispute as possible, and that it was not likely that a present obligation existed as of the date of the financial statements.

In 2009, state tax authorities issued a tax assessment against CEMIG seeking to collect unpaid ICMS allegedly owed by the Company in 2004, in view of the deduction of ICMS credits related to the acquisition of goods recorded by the Company as fixed assets. According to state tax authorities, we did not follow the correct procedures for the assessment and deduction of the ICMS credits. We filed an administrative defense. In June 2010, an unfavorable decision was issued maintaining the collection of the unpaid ICMS. Against this decision, in July 2010, we presented an appeal to the upper court. We are currently waiting for a decision. The total amount involved in this claim is approximately R\$59.5 million, as of December 31, 2010. We assess our chance of loss in this dispute as probable, and that the existence of a present obligation on the date of the financial statements is more likely than not.

Table of Contents

However, no provision has been recorded since the outcome of this dispute will not generate any effect on the net income, considering that if we lose the dispute the ICMS will be added to the cost of the goods acquired by us as fixed assets.

CEMIG is a defendant in various legal proceedings in which the plaintiffs demand suspension of pass-through of the PIS and COFINS contributions, on the grounds that the imposition of such contributions in the context of electricity invoices is illegal. Plaintiffs allege that they are entitled to the reimbursement of all such amounts, plus interest and restatement for inflation. Some of these legal proceedings seek reimbursement of 200% of the amount charged. On December 31, 2010, the amount involved in this action was approximately R\$1.0 billion, and the Company has assessed the chances of loss as possible and that it was not likely that a present obligation existed on the day of the financial statements.

The Brazilian Federal Revenue Service has initiated 25 administrative proceedings against Cemig Distribution, Cemig Generation and Transmission and CEMIG, in relation to the social security contributions allegedly owed in connection with employee profit share payments, the Workers Food Program (PAT), the auxiliary contribution for education, overtime payments, risk exposure compensation payments, Sest/Senat, and compensation penalty payments. Six other proceedings were initiated for our alleged joint liability in similar cases. On December 31, 2010, the aggregate amount claimed through these proceedings was approximately R\$317 million. We have presented defenses and await judgment. We have assessed the chances of loss as possible and that it was not likely that a present obligation existed as of the date of the financial statements.

CEMIG is a defendant in various administrative and judicial proceedings filed by the State Tax Department of Minas Gerais, jointly with various consumers, in connection with ICMS matters, totaling approximately R\$465 million on December 31, 2010. Some of the issues discussed in these proceedings are related to non-applicability of ICMS over unused portions of hired electricity availability. CEMIG has requested exclusion from these proceedings, as it won't be affected by the final decision, since it is not CEMIG who has the alleged obligation to pay the ICMS in these cases; CEMIG has been excluded from some of these proceedings. CEMIG is also a defendant in cases that discuss the impact of ICMS on TUSD since the amount of the tax applicable has been divided in compliance with preliminary injunctions granted under writ of mandamus issued by those consumers. Final adverse decisions in administrative proceedings may be challenged judicially under Brazilian law, and the chance of loss, in the judicial sphere, was assessed as possible, and it was not likely that a present obligation existed on the date of the financial statements.

CEMIG is a defendant, jointly with various consumers, in various administrative and court proceedings brought by the State Tax Department of Minas Gerais, claiming ICMS tax on the transfer of excess electricity in the period of rationing of electricity. Although CEMIG is only secondarily liable for such charges, unfavorable administrative decisions were rendered, considering the imposition of such tax as valid. The State of Minas Gerais has been carrying out tax foreclosures in relation to these charges, usually against the primary debtors. However, because these claims might be an obstacle for certification of CEMIG's tax clearance, CEMIG has filed lawsuits seeking preliminary injunctions to suspend these collection proceedings. On December 31, 2010 the amount involved in this action was R\$57 million and CEMIG has assessed the chances of loss in these cases as possible. During the second quarter of 2011, we re-assessed the chances of loss of such proceeding as possible and that it is more likely than not that a present obligation exists on the present date. If the Company does have to pay the ICMS on these transactions, we can charge consumers the amount paid to the Minas Gerais State Tax Authority.

CEMIG is defendant in administrative proceedings in connection with allegedly undue offsetting of IRPJ, CSLL, PIS and COFINS. CEMIG contested such proceedings and appealed against unfavorable decisions issued on the matter. The appeals filed by CEMIG are now pending judgment. The amount involved, as of December 31, 2010, was approximately R\$389 million. Final adverse decisions in administrative proceedings may be challenged judicially under Brazilian law, and the chances of loss, in the judicial sphere, was assessed as possible, and it was not likely that a present obligation existed on the date of the financial statements.

In November 2010, CEMIG received a notice for collection of IRPJ and CSLL related to the years of 1997, 1998, 1999 and 2000, in the total amount of approximately R\$268.6 million. Such assessment derives from an administrative proceeding initiated in connection with allegedly undue offsetting of CSLL, in connection with adjustments made by CEMIG to its financial statements in 1997. CEMIG contested the tax assessment. After partially unfavorable decisions were rendered in this administrative proceeding, CEMIG filed an appeal on January 25, 2011, which is still pending a decision. Final adverse decisions in administrative proceedings may be challenged judicially under Brazilian law, and the chances of loss, in the judicial sphere, was assessed as possible, and it was not likely that a present obligation existed on the date of the financial statements.

*Labor Obligations*

CEMIG is a defendant in several claims filed by our employees and outsourced workers. These claims generally relate to overtime and compensation for occupational hazards. In addition to these actions, there are others relating to outsourcing of labor, readjustment of retirement pension payments by Forluz and salary adjustments.

Table of Contents

Under Brazilian labor laws, claimants must file a labor claim for unpaid services within two years of the termination of their employment agreement (limited to rights which arose no more than five years prior to termination). As of December 31, 2010, the aggregate amount in dispute in the aforementioned claims was approximately R\$280 million, and we had provisioned R\$114 million for losses assessed as probable .

In June 2007, a judgment was rendered against CEMIG in a civil public action brought by the Labor Public Attorneys Office at the beginning of 2003, aiming to prevent the Company from using outsourced labor for its end-activities. In the judgment, a period of nine months was given for CEMIG to stop contracting employees through outsourced companies. In March 2008, the Higher Labor Appeal Court (*Tribunal Superior do Trabalho*) granted a preliminary injunction suspending the effects of the prior decision and its consequences until it reaches a final decision. However, since the issue involves interpretation on the constitutionality of an article of the Concessions Law (Law 8,987/95) the matter is subject to review by the Federal Supreme Court. It should be added that the amount stated will be payable only if the Company does not comply with the order to replace outsourced labor within nine months. Additionally, there is a possibility of extension of that period, as requested in the appeal for review. On this aspect, although it is probable that an order for specific performance may be rendered against CEMIG, we believe it is unlikely that any payment obligations will be imposed.

*Claims in the Ordinary Course of Business*

We are a party in several civil claims, mainly as a defendant, relating to (i) indemnification due to accidents occurred during our ordinary course of the business; (ii) consumer claims; and (iii) contractual and other commercial obligations. As of December 31, 2010, the total amount involved in the claims where the loss is assessed as probable was approximately R\$87 million, and the total amount involved in the claims where the loss was assessed as possible, and that it was not likely that a present obligation existed on the date of the financial statements, was approximately R\$512 million.

*Legal Proceedings Related to Environmental Matters*

We are a party to a number of proceedings and claims involving environmental matters. These proceedings and claims include court and administrative disputes regarding certain environmental matters, protected and Indian areas, environmental licenses and remediation of environmental damages. As of December 31, 2010, the amount involved in these claims totaled approximately R\$1.4 billion of which (i) R\$1.2 billion is related to a public civil action filed on February 5, 2007 by the Regional Environmental Association of Patrocínio against CEMIG, Southern Electric and FEAM, which involves a claim for indemnifying and redressing environmental damages caused by the Nova Ponte Hydroelectric Power Plant. This public civil action is awaiting judgment. In 2010, we have re-assessed the chances of loss of such proceeding as remote ; (ii) R\$180.4 million is related to proceedings for which the chances of loss were assessed as remote ; and (iii) R\$19.6 million is related to proceedings for which the chances of loss were assessed as possible , and it was considered that it was not likely that a present obligation existed as of the date of the financial statements.

Additionally, CEMIG and its subsidiaries are defendants in several class actions in which the amounts involved cannot be precisely assessed, due to the fact that most of these lawsuits aim at addressing environmental damages and require the undertaking of indemnification, remediation and compensation measures that will be defined during the process. Beyond that, class actions may benefit third parties not originally involved in the proceedings, who may be entitled to further remediation or indemnification. Therefore, amounts mentioned above may not correspond to the actual amounts that CEMIG may be required to pay in legal proceedings involving environmental matters.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Finally, the Minas Gerais Public Attorney filed seven class actions against CEMIG, seeking an order against CEMIG to invest at least 0.5% of its total operational revenue per year on the protection and environmental preservation of the water tables of municipalities related to CEMIG's generation plants, since 1997. As of May 31, 2011, judgment had been rendered in only two of the seven actions. In one of these actions, judgment was granted partly in favor of the Public Attorneys' Office of Minas Gerais, with CEMIG being ordered to invest 0.5% of the gross operational revenue in measures for environmental preservation and protection of the water tables in Ouro Preto. CEMIG has filed an appeal to the State Appeal Court of Minas Gerais. One other action was dismissed for lack of standing to be sued of the defendant. The chances of loss in such lawsuits were assessed as possible and we assessed that it was not likely that a present obligation existed as of the date of the financial statements. We have not yet assessed the amount involved in such lawsuits.

### *Regulatory Matters*

Prior to 1993, electric utilities in Brazil were guaranteed a rate of return on investments in assets used to provide electric service to consumers, the rates charged to consumers were uniform throughout the country, and profits from more profitable utilities were reallocated to less profitable ones so that the rate of return for all companies would equal the national average. Shortfalls



## Table of Contents

experienced by most electric utilities in Brazil were accounted for in each company's CRC Account. When the CRC Account and the guaranteed return concept were abolished, we used our positive balances in the CRC Account to offset our liabilities to the Federal Government.

Aneel has brought an administrative proceeding against us, contesting a credit related to such positive balance. On October 31, 2002 Aneel issued a final administrative decision. On January 9, 2004, the Brazilian Federal Treasury Department issued an Official Collection Letter to us in the amount of R\$516.2 million to be paid by January 30, 2004. We filed a writ of mandamus to suspend its inclusion in the national non-payers registry, or the Cadin. Although the relief was denied by the lower court, we appealed to the Federal Court of the First Region which granted us a temporary injunction to suspend the inclusion in the Cadin. Therefore, we have not accrued any liability related to this claim. The amount of this proceeding, as of December 31, 2010, is approximately R\$957.8 million. We assessed the chance of an adverse outcome as possible, and that was not likely that a present obligation existed on the day of the financial statements.

CEMIG is defendant in several public class actions challenging the clause in the Electricity Supply Contracts for public illumination, signed between the Company and the various municipalities of its concession area, and restitution by the Company of the difference representing the amounts charged in the last 20 years, in the event that the courts recognize that these amounts were unduly charged. The actions are grounded on a supposed mistake by CEMIG in the estimate of time used for the calculation of the consumption of electricity by public illumination paid for by the Public Illumination Contribution (CIP). On December 31, 2010, the amount involved in this action was approximately R\$1.0 billion. The Company has assessed the chances of loss as possible and that it was not likely that a present obligation existed as of the date of the financial statements.

A class action was brought against CEMIG and nine other defendants requesting nullification of the Conduct Adjustment Undertaking (TAC) signed between the Public Attorneys' Office and the Company, ordering the restitution to public funds of the amounts transferred to the defendant companies for implementation of the Light for All (*Luz para Todos*) program. The application for interim remedy was refused, and the plaintiff appealed to the Regional Federal Appeals Court (*Tribunal Regional Federal*). The updated amount involved, of R\$1,940 million, as of December 31, 2010, refers to the request for restitution of the amounts received by the companies that carried out the services contracted by CEMIG in order to comply with such governmental program, and fees of counsel. The class action has been sent to the State Court, after the Federal Court decided that it did not have jurisdiction to hear the case. In 2010, we have re-assessed the chances of loss of such proceeding as remote.

Cemig Generation and Transmission filed an application for an order of mandamus to include it as a defendant party in a lawsuit brought by AES Sul against Aneel, seeking annulment of Aneel Dispatch 288/2002 which set the guidelines for interpretation of Aneel Resolution 290/2000, and thus change the situation of AES Sul Distribuidora, from creditor to debtor of the CCEE. CEMIG's application to be a party on the defendant side was based on the fact that if AES Sul were to be successful in this lawsuit and were found to be a creditor of CCEE, the Company will have to pay the amount applied for by AES Sul, which, adjusted for monetary updating, was approximately R\$111 million on December 31, 2010. CEMIG obtained a preliminary measure to suspend collection of that amount and was admitted as a defendant in the proceeding. We have assessed the chances of loss as possible and that it was not likely that a present obligation existed as of the date of the financial statements.

## **Dividend Policy and Payments**

### *Obligatory Dividend Priority and Amount of Dividends*

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

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

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

Table of Contents

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

The annual dividends declared shall be paid in two equal installments, the first by June 30 and the second by December 30 of each year. The extraordinary dividends shall be paid as decided by the Board of Directors.

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

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

*Amounts Available for Distribution*

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

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

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

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

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

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

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

### *Interest on Capital*

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

Table of Contents*Currency Exchange*

Payments of cash dividends and distributions, if any, will be made in *reais* to the custodian on behalf of the depositary bank, which will then convert such proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the depositary bank for distribution to holders of ADRs. In the event that the custodian is unable to immediately convert the *reais* received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by devaluations of the *real* that occur before such dividends are converted and remitted. The *real* appreciated approximately 4.6% relative to the U.S. dollar in 2010. See Item 3. Key Information Risk Factors 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.

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

*History of Dividend Payments*

The following table sets forth the recent history of declarations of dividends and interest on capital on our common shares and preferred shares. For each year in the table, the payment of the dividends occurred during the year following declaration. For the periods indicated, the dividends paid per common share and per preferred share were the same. See Item 3. Key Information Selected Consolidated Financial Data.

**Declaration History of Dividends and Interest on Capital (1)**

Dividend Year	Common Shares		Preferred Shares	
	(R\$)(2)	(US\$)(3)	(R\$)(2)	(US\$)(3)
2009	406,964,431	235,171,586	523,737,206	302,650,798
2010 (4)	493,480,655	313,659,604	635,507,345	403,932,718

- 
- (1) In accordance with the accounting practices adopted in Brazil, dividends and interest on capital are accounted for as having been paid in the dividend year in which they are proposed, even if such dividends or interest on capital were formally approved by a shareholders meeting in the following year.
- (2) *Real* amounts are expressed in nominal *reais*.
- (3) U.S. dollar amounts are calculated by dividing the amount of dividends paid, expressed in nominal *reais*, by the Federal Reserve Board's rate on respective Record Dates (April 29, 2010 and April 29, 2011).
- (4) The 2010 dividends were approved at the ordinary and special general shareholders meetings held on April 29, 2011. The 2010 dividends will be paid in two equal installments in June 2011 and December 2011.

**Significant Changes**

There have been no significant changes since December 31, 2010.

**Item 9. The Offer and Listing**

**Trading Market**

The principal trading market for our preferred shares is the BM&FBovespa. Our Preferred ADSs, each representing one preferred share as of December 31, 2010, have traded on the NYSE under the symbol "CIG" since September 18, 2001. Prior to that date, our Preferred ADSs were traded in the over-the-counter, or OTC, market in the United States. The Preferred ADSs are evidenced by Preferred ADRs issued by Citibank, N.A., as depositary, pursuant to a Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, as amended on June 11, 2007, by and among us, the depositary and the holders and beneficial owners of Preferred ADSs evidenced by Preferred ADRs issued thereunder. As of December 31, 2010, there were approximately 169,630,368 Preferred

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

### Table of Contents

ADSs outstanding (each representing one preferred share), representing approximately 44.16% of our 376,794,855 outstanding preferred shares.

The principal trading market for our common shares is the BM&FBovespa. Our Common ADSs, each representing one common share as of December 31, 2010, have traded on the NYSE under the symbol CIG.C since June 12, 2007, when we established an American Depositary Shares program for our common shares. The Common ADSs are evidenced by Common ADRs issued by Citibank, N.A., as depository, pursuant to a Deposit Agreement, dated as of June 12, 2007, by and among us, the depository and the holders and beneficial owners of Common ADSs evidenced by Common ADRs issued thereunder. As of December 31, 2010, there were approximately 1,113,777 Common ADSs outstanding (each representing one common share), representing less than 0.40% of our 298,269,668 outstanding common shares.

On June 6, 2011, the closing price per preferred share on the BM&FBovespa was R\$30.70 and the closing price per Preferred ADS on the NYSE was US\$19.74.

On June 6, 2011, the closing price per common share on the BM&FBovespa was R\$24.50 and the closing price per Common ADS on the NYSE was US\$ 15.39.

The following table sets forth the reported high and low closing sale prices for the preferred and common shares on the BM&FBovespa and the Preferred and common ADSs on the NYSE for the periods indicated.

Period	Common Shares (1) Price in Nominal R\$		Common ADSs (1) Price in US\$		Preferred Shares(2) Price in Nominal R\$		Preferred ADSs (2) Price in US\$	
	High	Low	High	Low	High	Low	High	Low
2006	16.86	12.83			20.28	15.14	13.02	8.75
2007	25.93	15.95	14.50	10.38	26.14	18.39	17.49	11.53
2008	21.80	13.68	13.66	6.41	27.04	17.07	21.82	10.68
2009	22.40	14.41	12.90	6.22	29.78	20.35	17.12	10.39
2010	19.99	15.78	13.78	10.00	27.52	21.58	18.10	12.84
2009								
1Q	16.54	14.41	7.41	6.22	22.74	20.35	13.01	10.39
2Q	18.00	16.34	9.47	7.35	24.76	21.56	13.98	10.71
3Q	18.66	17.11	10.86	8.61	24.58	22.08	13.43	11.29
4Q	22.40	18.09	12.90	10.66	29.78	22.99	17.12	12.95
2010								
1Q	18.61	16.50	12.58	10.02	25.01	22.13	15.83	12.99
2Q	19.16	15.78	12.85	10.00	25.72	21.58	16.32	12.84
3Q	18.85	16.32	12.69	10.27	26.17	22.28	16.44	13.74
4Q	19.99	17.40	13.78	11.88	27.52	24.48	18.10	15.43
2011								
1Q	22.72	18.62	15.23	11.86	29.49	24.39	18.85	15.29
2Q	24.72	22.32	16.50	14.56	31.92	28.75	20.53	18.61
January 2011	20.95	19.43	13.38	12.60	28.23	25.55	17.56	15.81
February 2011	20.19	18.62	13.03	11.86	26.24	24.39	16.41	15.29

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

March 2011	22.72	19.88	15.23	12.98	29.49	25.99	18.85	16.27
April 2011	23.93	22.32	16.50	14.75	31.25	28.75	20.53	18.80
May 2011	24.55	22.98	15.04	14.56	31.92	29.39	19.97	18.88
June 2011 (3)	24.72	23.26	14.84	14.57	30.99	29.05	20.02	18.61

---

(1) On May 3, 2007, a 50% stock dividend was paid on the common shares, resulting in an adjustment to the price per common share. The last day of trading of the common shares in lots of 1,000 shares was June 1, 2007. A reverse stock split of the common shares was effected in the form of a share consolidation on June 4, 2007 whereby every 500 common shares, par value of R\$0.01, were consolidated into one common share with a par value of R\$5.00. The price per common share was



Table of Contents

adjusted accordingly. In addition, On May 2, 2008, a 2.02% stock dividend was paid on the common shares, resulting in an adjustment to the price per common share. On May 8, 2008, a corresponding adjustment was made to the Common ADSs through the issuance of additional Common ADSs, resulting in an adjustment to the price per Common ADS. On April 29, 2009, a 25.000000151% stock dividend was paid on the common shares, resulting in an adjustment to the price per common share. On May 14, 2009, a corresponding adjustment was made to the Common ADSs through the issuance of additional Common ADS, resulting in an adjustment to the price per Common ADS. On April 29, 2010, a 10.000000128% stock dividend was paid on the common shares, resulting in an adjustment to the price per common share. On May 10, 2010, a corresponding adjustment was made to the Common ADSs through the issuance of additional Common ADS, resulting in an adjustment to the price per Common ADS. The common share prices and Common ADS prices have been adjusted to reflect all of the above items.

(2) On May 3, 2007, a 50% stock dividend was paid on the preferred shares, resulting in an adjustment to the price per preferred share. On May 7, 2007, a corresponding adjustment was made to the ADSs through the issuance of one additional ADS for every two ADSs, resulting in an adjustment to the price per ADS. The last day of trading of the preferred shares in lots of 1,000 shares was June 1, 2007. A reverse stock split of the preferred shares was effected in the form of a share consolidation on June 4, 2007 whereby every 500 preferred shares, par value of R\$0.01, were consolidated into one preferred share with a par value of R\$5.00. In addition, a 100% forward split of the ADSs was effected on June 11, 2007. The price per preferred share and Preferred ADS were adjusted accordingly. In addition, on May 2, 2008, a 2.02% stock dividend was paid on the preferred shares, resulting in an adjustment to the price per preferred share. On May 8, 2008, a corresponding adjustment was made to the Preferred ADSs through the issuance of additional Preferred ADS, resulting in an adjustment to the price per Preferred ADS. On April 29, 2009, a 25.000000151% stock dividend was paid on the preferred shares, resulting in an adjustment to the price per preferred share. On May 14, 2009, a corresponding adjustment was made to the Preferred ADSs through the issuance of additional Preferred ADS, resulting in an adjustment to the price per Preferred ADS. On April 29, 2010, a 10.000000128% stock dividend was paid on the preferred shares, resulting in an adjustment to the price per preferred share. On May 10, 2010, a corresponding adjustment was made to the Preferred ADSs through the issuance of additional Common ADS, resulting in an adjustment to the price per Common ADS. The preferred share prices and Preferred ADS prices have been adjusted to reflect all of the above items.

(3) Through June 6, 2011.

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

**Trading on the BM&FBovespa**

The preferred shares and common shares are traded on the BM&FBovespa, the only Brazilian stock exchange that trades shares. Trading on the BM&FBovespa is limited to brokerage firms and a limited number of authorized entities. The CVM and BM&FBovespa have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances.

If you were to trade in the preferred shares or common shares on the BM&FBovespa, your trade would settle in three business days after the trade date. Delivery of and payment for shares is made through the facilities of a separate clearinghouse, which maintains accounts for brokerage firms. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. The clearinghouse for the BM&FBovespa is Companhia Brasileira de Liquidação e Custódia (CBLC).

In order to better control volatility, the BM&FBovespa has adopted a circuit breaker system pursuant to which trading sessions may be suspended (i) for a period of 30 minutes whenever the index of this stock exchange falls more than 10% from the index registered for the

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

previous day; (ii) for one hour if the index of this stock exchange falls 15% or more from the index registered for the previous day, after the reopening of trading; and (iii) for a certain period of time to be defined by the BM&FBovespa, if the index of this stock exchange falls 20% or more from the index registered for the previous day, after the reopening of trading.

The BM&FBovespa is less liquid than the NYSE and other major exchanges in the world. As of December 31, 2010, the aggregate market capitalization of the 381 companies listed on the BM&FBovespa was equivalent to approximately R\$2.56 trillion and the 10 largest companies listed on the BM&FBovespa represented approximately 56.04% of the total market capitalization of all listed companies. Although any of the outstanding shares of a listed company may be traded on a Brazilian stock exchange, in most cases fewer than half of the listed shares are actually available for trading by the public. The remainder of these shares is held by small groups of controlling persons, governmental entities or one principal shareholder.

Our preferred shares and common shares have daily liquidity on the BM&FBovespa and have had no suspension of trading in the past five years other than due to BM&FBovespa utilizing circuit breakers on a few occasions in 2008 with respect to the trading of all shares on the BM&FBovespa.

Table of Contents

We have been a member of Special Corporate Governance Level 1 of the BM&FBovespa since October 2001. The rules regarding such corporate governance segment are comprised by the Special Corporate Governance Level 1 Regulations ( *Regulamento do Nível 1 de Governança Corporativa* ), which were amended on March 21, 2011 by BM&FBovespa and approved by the CVM. Such revised set of rules became effective on May 10, 2011. Among the obligations that are contemplated by such regulations, we are required to:

- present our consolidated statements of financial position, Standardized Financial Statements- DEP, consolidated income statement, quarterly financial statements ITR, and the Reference Form (*Formulário de Referência*);
- include, in the notes to our quarterly financial statements, a note regarding related party transactions, containing the disclosure provided in the applicable accounting rules to annual financial statements;
- disclose in the Reference Form, any direct or indirect ownership interest per type and class exceeding 5% of each type and class of the Company's capital stock, to the level of individual shareholders, once the Company has been provided with such information;
- disclose the amount of free float shares and their respective percentage in relation to total shares outstanding, which shall be of at least 25% of shares representing our capital stock;
- disclose, by December 10 of each year, an annual timetable of corporate events, containing, at a minimum, the date of (a) acts and corporate events, (b) public meetings with analysts and other applicable parties, and (c) disclosure of financial information scheduled for the next fiscal year. Any changes in scheduled events must be informed to the BM&FBovespa and to the public at least 5 days in advance;
- hold at least one annual meeting with market analysts and any other applicable parties; and
- adopt mechanisms that provide for capital dispersion in any public share offerings.

In addition to the obligations listed above, as per the revised set of rules applicable to the Special Corporate Governance Level 1, the companies that already had their shares listed on such corporate level on May 10, 2011, such as CEMIG, shall also:

- include in its bylaws the mandatory provisions required by the BM&FBovespa by May 10, 2014;

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

- prepare, disclose and submit to the BM&FBovespa a securities trading policy and a code of conduct establishing the values and principles that guide the company by May 10, 2012;
- conform its corporate structure, by May 10, 2014, in order to prevent that the positions of chairman of the board of directors and chief executive officer or main executive officer of the company shall be held by the same person; and
- establish by May 10, 2014, that the term of office of its board of directors shall not exceed two years, with reelection being permitted.

### *Disclosure of Trading by Insiders*

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

### *Disclosure of Material Developments*

Under Brazilian securities regulations, we must disclose any material development related to our business to the CVM and the BM&FBovespa. We are also required to publish a notice of those material developments. A development is deemed material if it has a material impact on: the price of our securities, the decision of investors to trade in our securities or the decision of investors to

Table of Contents

exercise any rights as holders of any of our securities. Under special circumstances, we may submit to the CVM a request for confidential treatment for certain material developments.

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

**Regulation of Brazilian Securities Markets**

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

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

We have the option to ask that trading in our securities on the BM&FBovespa be suspended in anticipation of a material announcement. Trading may also be suspended on the initiative of the BM&FBovespa or the CVM based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the stock exchange.

Brazilian law provides general restrictions on unfair trading practices and market manipulation, although in Brazil there may be fewer instances of enforcement actions and judicial precedent is less well defined than in certain other countries.

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

**Item 10. Additional Information**

## Memorandum and Articles of Association

We are a state-controlled company registered under the laws of Brazil. The registration number given to us by the Board of Trade of Minas Gerais (*Junta Comercial do Estado de Minas Gerais*) is 31300040127. Set forth below is a brief summary of certain significant provisions of (i) our by-laws, as amended by our general and special shareholders' meeting on April 29, 2011 and (ii) Brazilian Corporate Law. The description of our by-laws contained herein does not purport to be complete and is qualified by reference to our by-laws, which have been filed as an exhibit to this annual report.

### *Object and Purpose*

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

### *Preferred Shares*

Holders of preferred shares have the right to receive annual minimum dividends in an amount equal to the greater of 10% of the par value of each preferred share or 3% of the net worth value associated with each preferred share. Holders of our preferred

Table of Contents

shares also will have priority over any other class of shares if we decide to redeem shares. A preferred share does not entitle its owner to vote at the general shareholders' meetings.

*Share Subscription*

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

Article 171 of the Brazilian Corporate Law provides that each shareholder has a general preemptive right to subscribe for new shares or convertible securities issued in any capital increase, in proportion to that shareholder's shareholding, except in the event of the exercise of any option to acquire shares of our capital stock. Shareholders must exercise their preemptive rights within 30 days after the publication of the notice of capital increase.

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

*Non-controlling Shareholders*

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

*Dividends*

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

*General Meetings*

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

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

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



Table of Contents

- approval of the financial statements on an annual basis; and
- cancellation of registration with the CVM as a publicly-held company or delisting of our common shares from the BM&FBovespa, except in the case of a privatization tender offer.

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

- create preferred shares or to increase disproportionately an existing class of preferred shares relative to the other classes of shares, unless such action is provided for or authorized by our by-laws;
- modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or to create a new class with greater privileges than the existing classes of preferred shares;
- reduce the percentage of mandatory dividends;
- change our corporate purpose;
- merge us with another company if we are not the surviving company or consolidate us with another company;
- spin off a portion of our assets or liabilities;
- approve our participation in a group of companies;
- apply for cancellation of liquidation status;

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

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

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

- the Fiscal Council, if the Board of Directors fails to call a general shareholders meeting within one calendar month after the date it was required to do so under applicable laws or a special shareholders meeting in the case of serious and urgent matters affecting us; any shareholder, whenever the executive officers fail to call the meeting of shareholders within 60 days of being required to do so by the Brazilian Corporate Law or by our by-laws; and
- shareholders holding at least five percent of our capital stock, if our Board of Directors fails to call a meeting within eight days after receipt of a request from that shareholder to call the meeting that indicates the issues to be discussed or calls for the creation of the Fiscal Council.

#### *Board of Directors*

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

Our Board of Directors is responsible for, among other things:

Table of Contents

- establishing the general direction of our business;
- electing and dismissing executive officers;
- approving the sale or pledge of our fixed assets, or the granting of guarantees to third parties, with a value of at least R\$14 million;
- approving, upon proposal by the Board of Executive Officers, the sale or the creation of any in rem guarantees with respect to our permanent assets and the granting by us of any personal guarantee to any third party in an amount exceeding R\$14 million;
- approving, upon a proposal by the Board of Executive Officers, loans, financings, agreements and any actions which would bind us in an amount exceeding R\$14 million;
- calling the general meetings of shareholders;
- supervising the management of the Board of Executive Officers, reviewing our books and documents and requesting information regarding executed and soon-to-be executed contracts, as well as other items of interest;
- previously manifestation regarding the management report and the accountability of the Board of Directors , to be submitted for the Annual Shareholders Meeting approval;
- approving our annual and interim financial statements;
- appointing and dismissing independent auditors;
- approving, upon proposal by the Board of Executive Officers, the commencement or waiver of bidding proceedings for the purchase of goods or services with a value of at least R\$14 million;

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

- authorizing, upon proposal by the Board of Executive Officers, legal and administrative action to be taken on our behalf and the settlement of judicial and extra judicial matters in which we are involved with a value of at least R\$14 million;
- approving the issuance of securities (debentures, commercial papers, *notas promissórias*, among others) in the local and international capital markets;
- delegating to Board of Executive Officers the power to authorize signature contracts of commercialization of electric energy or rendering distribution and transmission services, in terms of legislation;
- approving CEMIG's long-term strategic plan, the multi-year strategic implementation plan, and the annual budget, and any alterations or revisions thereto;
- annually, setting the directives and establish the limits, including financial limits, for spending on personnel, including concession of benefits and collective work agreements, subject to the competency of the shareholders meeting and in obedience to the annual budget approved;
- authorizing the exercise of the right of preference under Shareholders' agreements or to vote in wholly-owned subsidiaries, jointly-controlled companies, affiliated companies and the consortia in which CEMIG participates, except in the case of Cemig Distribution and Cemig Generation and Transmission, for which the competency to decide on these matters shall be that of the shareholders meeting; and
- approving the declarations of vote in the shareholders meetings and the orientations for voting in the meetings of the boards of directors of the wholly-owned subsidiaries, jointly-controlled companies, affiliated companies and the consortia in which CEMIG participates, when participation in the capital of other companies or consortia is involved, and the decisions must, in any event and not only in matters relating to participation in the capital of other companies or consortia, obey the provisions of the bylaws, the long-term strategic plan and the multi-year strategic implementation plan.

Table of Contents

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

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

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

Our shareholders have the responsibility of setting the remuneration of the board members at the General Meeting of Shareholders at which the board members are elected.

**Rights of Shareholders**

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

*Essential Rights*

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

- the right to have a share of the corporation's earnings;
- the right to have a share of the corporation's assets, in the event of liquidation thereof;
- the right to supervise our management according to the Brazilian Corporate Law;

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

#### *Voting Rights*

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

#### *Redemption Rights*

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

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

Table of Contents

- to modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or to create a new class with greater privileges than the existing classes of preferred shares;
- to reduce the mandatory distribution of dividends;
- to change our corporate purposes;
- to merge us with another company or consolidate us;
- to transfer all of our shares to another company in order to make us a wholly-owned subsidiary of such company;
- to approve the acquisition of control of another company at a price that exceeds certain limits set forth in Brazilian Corporate Law;
- to approve our participation in a centralized group of companies as defined under Brazilian Corporate Law; or
- in the event that the entity resulting from (a) a merger, (b) a transfer of shares as described in clause (6) above or (c) a spin-off that we conduct fails to become a listed company within 120 days of the shareholders' meeting at which such decision was taken.

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

We would be entitled to reconsider any action giving rise to redemption rights within 10 days following the expiration of such rights if the redemption of shares of dissenting shareholders would jeopardize our financial stability. Law No. 9,457 dated May 5, 1997, which amended Brazilian Corporate Law, contains provisions which, among other provisions, restrict redemption rights in certain cases and allow companies to redeem their shares at their economic value, subject to certain requirements. Our by-laws currently do not provide that our capital stock will be redeemable at its economic value and, consequently, any redemption pursuant to Brazilian Corporate Law would be made at no less than the book value per share, determined on the basis of the last balance sheet approved by the shareholders; provided that if the general shareholders meeting giving rise to redemption rights occurred more than 60 days after the date of the last approved balance sheet, a shareholder would be entitled to demand that his or her shares be valued on the basis of a new balance sheet dated within 60 days of such general shareholders meeting.

*Rights of Non-controlling Shareholders*

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

- the right to require that the books of the corporation be made available for review, whenever these shareholders become suspicious that Brazilian law or the corporation's by-laws have been violated, or that irregularities have been committed by the management of the corporation;
- the right to call a general meeting of shareholders, under certain circumstances, whenever the corporation's directors or officers, as the case may be, fail to do so; and
- the right to file an action for indemnification by directors or officers, as the case may be, for damages caused to the assets of the corporation, whenever it is determined at the general meeting of shareholders that such a claim shall not be filed.

Non-controlling shareholders that own, individually or in the aggregate, our outstanding common shares (since at least 10% of our outstanding common shares are held by non-controlling shareholders), and also holders of our preferred shares, have the right to appoint one member of the Fiscal Council and an alternate. All shareholders have the right to attend general meetings of shareholders.



Table of Contents

The Brazilian Corporate Law also provides that minority shareholders that hold either (i) preferred shares representing at least 10% of the total share capital of a company or (ii) common shares representing at least 15% of the voting capital of a company, have the right to appoint one member and an alternate to the Board of Directors. If no common or preferred shareholder meets these thresholds, shareholders holding preferred shares or common shares representing at least 10% of the total share capital of the company are entitled to combine their holdings to appoint one member and an alternate to the Board of Directors.

*Changes in Rights of Shareholders*

Any change with respect to the rights of holders of our common shares or preferred shares requires a shareholders' meeting. Under the Brazilian Corporate Law, the proposed changes must be approved by a majority of the affected class. Certain changes with respect to the rights of non-voting shares, including preferred shares, such as a change in payment or voting rights, may give rise to the exercise of redemption rights by the holders of the affected shares.

*Going Private Transactions and Delisting from the BM&FBovespa*

Our delisting, as a public company, must be preceded by a tender offer by our controlling shareholders or ourselves for the acquisition of all our then outstanding shares, subject to the conditions below:

- the price offered for the shares under the public offering must be the fair value of those shares, as established in Brazilian Corporate Law; and
- shareholders holding more than two thirds of our float shares shall have expressly agreed to our decision to become a private company or accepted the offer.

According to Brazilian Corporate Law, a fair price shall be at least be equal to our valuation, as determined by one or more of the following valuation methods: book value, net book value assessed by market price, discounted cash flow, multiples, price of our shares in the market or any other valuation method accepted by the CVM. This price of the offer may be revised if challenged within 15 days of its publication by holders of at least 10% of our outstanding shares, by means of a request sent to our management that a special shareholders' meeting be called to decide on whether to request a new valuations under the same or different valuation method. Our shareholders that request a new valuation and those who approve such request shall reimburse us for incurred costs if the new valuation is lower than the challenged valuation. However, if the second valuation is higher, the offeror will have the option to continue the offer with the new price or quit the offer.

**Arbitration**

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Pursuant to the Brazilian Corporate Law and related regulations, if provided for in a company's by-laws, disputes among shareholders will be subject to arbitration. Our by-laws currently do not provide for arbitration.

### Material Contracts

For information concerning our material contracts, see Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects.

### Exchange Controls

There are no restrictions on the ownership of preferred shares or common shares of non-financial institutions by legal entities domiciled outside Brazil. However, your right to convert dividend payments and proceeds from the sale of preferred shares or common shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that you register the relevant investment with the Central Bank and the CVM.

Investments in the preferred shares through the holding of Preferred ADSs, or in the common shares through the holding of Common ADSs, must be made pursuant to Annex V to CMN Resolution No. 1,289, as amended by CMN Resolution No. 1,927 also known as the Annex V Regulations. Direct investments in the preferred shares upon the cancellation of the Preferred ADSs, or in the common shares upon the cancellation of the Common ADSs, may be held by foreign investors under Law No. 4,131 of September 3, 1962 or CMN Resolution No. 2,689 of January 26, 2000, both of which effectively allow registered foreign investors to invest substantially in any capital market instrument in Brazil and extend a favorable tax treatment to all foreign investors registered and qualified under CMN Resolution No. 2,689, who are not resident in a tax haven, as defined by Brazilian tax laws.

Table of Contents

Under CMN Resolution No. 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with CMN Resolution No. 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities that are domiciled or headquartered abroad.

Securities and other financial assets held by CMN Resolution No. 2,689 investors must be registered or maintained in deposit accounts or in the custody of an entity duly licensed by the Central Bank or the CVM. In addition, any transfer of a security that is held pursuant to CMN Resolution No. 2,689 must be made through the stock exchanges or organized OTC markets licensed by the CVM, except for a transfer resulting from a corporate reorganization outside of Brazil or occurring upon the death of a foreign investor by operation of law or will.

Holders of Preferred ADSs or Common ADSs who have not registered their investment with the Central Bank could be adversely affected by delays in, or refusals to grant, any required government approval for conversions of payments made in *reais* and remittances abroad of these converted amounts.

The Annex V Regulations provide for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. The Preferred ADSs have been approved under the Annex V Regulations by the Central Bank and the CVM, and the Common ADSs have been approved by the CVM (since authorization from the Central Bank is no longer necessary).

Electronic certificates of registration have been issued in the name of Citibank, N.A., the depositary bank, with respect to the Preferred ADSs and the Common ADSs, and are maintained by Citibank Distribuidora de Títulos e Valores Mobiliários S.A., the Brazilian custodian for the preferred shares and the common shares, on behalf of the depositary bank. These electronic certificates of registration are registered through the Central Bank Information System. Pursuant to the certificates of registration, the custodian and the depositary bank are able to convert dividends and other distributions or sales proceeds with respect to the preferred shares represented by Preferred ADSs and the common shares represented by the Common ADSs into foreign currency and remit the proceeds outside Brazil.

In the event that a holder of Preferred ADSs exchanges such Preferred ADSs for preferred shares, or a holder of Common ADSs exchanges such Common ADSs for common shares, such holder will be entitled to continue to rely on the depositary bank's certificate of registration for five business days after the exchange. Thereafter, the holder may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, the preferred shares or the common shares, unless the holder is a duly qualified investor under Resolution No. 2,689 by registering with the CVM and the Central Bank and appointing a representative in Brazil. If not so registered, the holder will be subject to less favorable Brazilian tax treatment than a holder of Preferred ADSs or Common ADSs. Regardless of qualification under Resolution No. 2,689, residents in tax havens are subject to less favorable tax treatment than other foreign investors. See

Taxation Brazilian Tax Considerations.

Under current Brazilian legislation, the Federal Government may impose temporary restrictions of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments. For approximately nine months in 1989 and early 1990, the Federal Government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors, in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with Federal Government directives. We cannot assure you that the Federal Government will not impose similar restrictions on foreign repatriations in the future.

**Taxation**

The following summary contains a description of the material Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposition of preferred shares, common shares, Preferred ADSs or Common ADSs by a United States person, as defined in section 7701(a)(30) of the Internal Revenue Code of 1986, or the Code, or a holder that otherwise will be subject to U.S. federal income tax on a net income basis in respect of preferred shares, common shares, Preferred ADSs or Common ADSs, which we refer to as a U.S. holder, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase preferred shares, common shares, Preferred ADSs or Common ADSs. In particular this summary deals only with U.S. holders that will hold preferred shares, common shares, Preferred ADSs or Common ADSs as capital assets and does not address the tax treatment of U.S. holders that own or are treated as owning 10% or more of the voting shares of the Company or that may be subject to special tax rules, such as banks or other financial institutions, insurance companies, regulated investment companies, dealers in securities or currencies, traders in securities that elect to mark to market, pass-through entities such as partnerships or persons that will hold preferred shares, common shares, Preferred ADSs or Common ADSs as part of a hedging transaction, constructive sale transaction, position in a straddle or a conversion transaction for tax purposes, and persons that have a functional currency other than the U.S. dollar. Moreover, this summary does not describe any implications under U.S. state or

Table of Contents

local law or the federal estate tax, gift tax or Medicare tax on net investment income. U.S. shareholders should consult their own tax advisors regarding such matters.

The summary is based upon tax laws of Brazil and the United States as in effect on the date hereof which are subject to change possibly with retroactive effect. Prospective purchasers of Preferred ADSs or Common ADSs are encouraged to consult their own tax advisors as to the Brazilian, U.S. or other tax consequences of the purchase, ownership and disposition of preferred shares, common shares, Preferred ADSs or Common ADSs, including, in particular, the effect of any foreign, state or local tax laws.

Although there is currently no income tax treaty in force between Brazil and the United States, the tax authorities of both countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of preferred shares, common shares, Preferred ADSs or Common ADSs.

*Brazilian Tax Considerations*

*General* The following discussion summarizes the main Brazilian material tax consequences of the acquisition, ownership and disposal of preferred shares, common shares, Preferred ADSs or Common ADSs, as the case may be, by a holder that is not domiciled in Brazil, which we refer to as a non-Brazilian holder for purposes of Brazilian taxation. In the case of a holder of preferred shares or common shares, we assume the investment is registered with the Central Bank. The following discussion does not address all of the Brazilian tax considerations applicable to any particular non-Brazilian holder. Therefore, each non-Brazilian holder should consult his or her own tax adviser concerning the Brazilian tax consequences of an investment in our preferred shares, common shares, Preferred ADSs or Common ADSs.

*Taxation of Dividends* Dividends paid by us, including stock dividends and other dividends paid in property to the depositary in respect of the preferred shares or common shares, or to a non-Brazilian holder in respect of the preferred shares or common shares, are currently exempted from withholding tax in Brazil to the extent that the dividends are paid out of profits generated as of January 1, 1996. Dividends relating to profits generated prior to January 1, 1996 may be subject to Brazilian withholding tax at varying rates, depending on the year the profits were generated.

*Payments of Interest on Capital* Law No. 9,249, dated as of December 26, 1995, as amended, permits Brazilian corporations to make distributions to shareholders of interest on capital, or interest attributed to shareholders' equity. These distributions may be paid in cash. Such payments represent a deductible expense from the payor's income tax and social contribution tax basis. This interest is limited to the daily pro rata variation of the Federal Government's long-term interest rate, as determined by the Central Bank from time to time, and cannot exceed the greater of:

- 50% of net income (after the social contribution on net profits and before the provision for corporate income tax, and the amounts attributable to shareholders as interest on net equity) for the period in respect of which the payment is made; or

- 50% of the sum of retained earnings and earnings reserves as of the date of the beginning of the period in respect of which the payment is made.

Any payment of interest on capital to shareholders (including holders of Preferred ADSs in respect of preferred shares and Common ADSs in respect of common shares) is subject to a withholding tax at a rate of 15%, or 25% if the non-Brazilian holder is domiciled in a jurisdiction that does not impose income tax or where the maximum income tax rate is lower than 20% or where the local legislation imposes restrictions on disclosing the shareholding composition or the ownership of the investment, or a Tax Haven Holder. These payments may be included, at their net value, as part of any mandatory dividend.

On June 24, 2008, Law No. 11,727 was enacted, which established the concept of privileged tax regime. Under this new law, a privileged tax regime is considered to apply to a jurisdiction that meets any of the following requirements: (1) does not tax income or taxes income at a maximum rate lower than 20%; (2) grants tax advantages to a non-resident entity or individual (a) without requiring substantial economic activity in the jurisdiction of such non-resident entity or individual or (b) to the extent such non-resident entity or individual does not conduct substantial economic activity in the jurisdiction of such non-resident entity or individual; (3) does not tax income generated abroad, or imposes tax on income generated abroad at a maximum rate lower than 20%, or (4) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about the execution of economic transactions.

Although the interpretation of the current Brazilian tax legislation could lead to the conclusion that the concept of privileged tax regime should apply only for the purposes of Brazilian transfer pricing rules, it is unclear whether such concept would also apply to investments carried out in the Brazilian financial and capital markets for purposes of this law. There is no judicial guidance as to the

Table of Contents

application of Law No. 11,727 of June 24, 2008 and, accordingly, we are unable to predict whether the Brazilian Internal Revenue Service or the Brazilian courts would decide that the privileged tax regime concept shall be applicable to deem a Non-Resident Holder as a Tax Haven Resident when carrying out investments in the Brazilian financial and capital markets. However, in the event that the privileged tax regime concept is interpreted to be applicable to transactions carried out in the Brazilian financial and capital markets, this tax law would accordingly result in the imposition of taxation to a Non-Resident Holder that meets the privileged tax regime requirements in the same way applicable to a Tax Haven Resident.

To the extent that payments of interest on capital are included as part of a mandatory dividend, we are required to distribute an additional amount to ensure that the net amount received by shareholders, after payment of the applicable withholding tax is at least equal to the mandatory dividend.

Distributions of interest on net equity to foreign holders may be converted into U.S. dollars and remitted outside Brazil, subject to applicable exchange controls, to the extent that the investment is registered with the Brazilian Central Bank.

We cannot assure you that our Board of Directors will not determine that future distributions should be made by means of dividends or interest on net equity.

**Taxation of Gains** According to Law No. 10,833/03, the gains recognized on a disposal of assets located in Brazil, such as our shares, by a non-Brazilian holder, are subject to withholding income tax in Brazil. This rule is applicable regardless of whether the disposal is conducted in Brazil or abroad and/or if the disposal is made or not to an individual or entity resident or domiciled in Brazil.

As a general rule, capital gains realized as a result of a disposal transaction are the positive difference between the amount realized on the disposal of the asset and the respective acquisition cost.

Capital gains realized by non-Brazilian holders on the disposal of shares sold on the Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market):

- are subject to the withholding income tax at a zero percent rate, when realized by a non-Brazilian holder that (i) has registered its investment in Brazil before the Central Bank under the rules of the Brazilian Monetary Counsel , or a Registered Holder, and (ii) is not a Tax Haven Holder; and
- are subject to income tax at a rate of 15% with respect to gains realized by a non-Brazilian holder that is not a Registered Holder (including a non-Brazilian holder who qualifies under Law No. 4,131/62) and gains earned by Tax Haven Holders that are Registered Holders. In this case, a withholding income tax of 0.005% shall be applicable and can be offset against any income tax due on the capital gain.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Any other gains realized on the disposal of shares that are sold on the Brazilian stock exchange:

- are subject to income tax at a rate of 15% when realized by any non-Brazilian holder that is not a Tax Haven Holder, no matter if a Registered Holder or not; and
- are subject to income tax at a rate of 25% when realized by a Tax Haven Holder, no matter if a Registered Holder or not.

In the cases above, if the gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against any income tax due on the capital gain.

Any exercise of preemptive rights relating to shares will not be subject to Brazilian income tax. Gains realized by a non-Brazilian holder on the disposal of preemptive rights will be subject to Brazilian income tax according to the same rules applicable to disposal of shares.

There can be no assurance that the current favorable tax treatment of Registered Holders will continue in the future.

*Sale of Preferred ADSs and Common ADSs by U.S. Holders to Other Non-Residents in Brazil* Pursuant to Section 26 of Law No. 10,833, published on December 29, 2003, the sale of property located in Brazil involving non-resident investors is subject to Brazilian income tax as of February 1, 2004. Our understanding is that ADSs do not qualify as property located in Brazil and, thus, should not be subject to the Brazilian withholding tax. Insofar as the regulatory norm referred to in Section 26 is recent and generic and has not been tested through the administrative or judicial courts, we are unable to assure the final outcome of such discussion.



Table of Contents

If such argument does not prevail, it is important to mention that with respect to the cost of acquisition to be adopted for calculating such gains, Brazilian law has conflicting provisions regarding the currency in which such amount must be determined. CEMIG's Brazilian counsel's view is that the capital gains should be based on the positive difference between the cost of acquisition of the preferred shares or common shares registered with the Brazilian Central Bank in foreign currency and the value of disposal of those preferred shares or common shares in the same foreign currency. This view has been supported by a precedent issued by the Brazilian administrative court. However, considering that tax authorities are not bound by such precedent, assessments have been issued adopting the cost of acquisition in Brazilian currency.

*Gains on the Exchange of Preferred ADSs for Preferred Shares or the Exchange of Common ADSs for Common Shares* Although there is no clear regulatory guidance, the exchange of ADSs for shares should not be subject to Brazilian tax. Non-Brazilian holders may exchange Preferred ADSs for the underlying preferred shares or Common ADSs for the underlying common shares, sell the preferred shares or common shares on a Brazilian stock exchange and remit abroad the proceeds of the sale within five business days from the date of exchange (in reliance on the depositary's electronic registration), with no tax consequences. Although there is no clear regulatory guidance, the exchange of ADSs for shares should not be subject to Brazilian withholding income tax.

Upon receipt of the underlying preferred shares in exchange for Preferred ADSs or the underlying common shares in exchange for Common ADSs, non-Brazilian holders may also elect to register with the Central Bank the U.S. dollar value of such preferred shares or common shares as a foreign portfolio investment under Resolution No. 2689/00, which will entitle them to the tax treatment referred above in connection with U.S. market investors.

Alternatively, the non-Brazilian holder is also entitled to register with the Central Bank the U.S. dollar value of such preferred shares or common shares as a foreign direct investment under Law 4,131/62, in which case the respective sale would be subject to the tax treatment referred in the section *Taxation of Gains*.

*Gains on the Exchange of Preferred Shares for Preferred ADSs or Common Shares for Common ADSs* The deposit of preferred shares in exchange for the Preferred ADSs or common shares in exchange for the Common ADSs may be subject to Brazilian income tax on capital gains if the amount previously registered with the Central Bank as a foreign investment in preferred shares or common shares or, in the case of other market investors under Resolution No. 2,689, the acquisition cost of the preferred shares or common shares, as the case may be, is lower than:

- the average price per preferred share or common share on the Brazilian stock exchange on which the greatest number of such preferred shares or common shares were sold on the day of deposit; or
- if no preferred shares or common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred shares or common shares were sold during the 15 preceding trading sessions.

The difference between the amount previously registered, or the acquisition cost, as the case may be, and the average price of the preferred shares or common shares, calculated as set forth above, is considered a capital gain subject to income tax at a rate of 15% or 25% for Tax Haven Holders. Although there is no clear regulatory guidance, such taxation should not apply in case of Non-Resident Holders registered under Resolution No. 2,689/00, other than Tax Haven Residents.

*Taxation of Foreign Exchange Transactions* Brazilian law imposes a Tax on Foreign Exchange Transactions, or IOF/ Exchange tax, due on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. Currently, IOF/Exchange is imposed at a rate of 2% on the inflow of resources into Brazil for investments carried out by Non-Resident Holders in the Brazilian financial and capital markets under regulations issued by the CMN. The outflow of funds related to investments carried out by Non-Resident Holders in the Brazilian financial and capital markets, as well as the remittance of dividends and interest on shareholders' equity are subject to IOF/Exchange at a zero percent rate. Although it is not clearly regulated, the conversion of *reais* into dollars for payment of dividends to holders of ADSs should also benefit from the zero percent IOF/Exchange rate.

*Tax on Transactions Involving Bonds and Securities.* Brazilian law imposes a Tax on Transactions Involving Bonds and Securities, or IOF/Bonds Tax, including those carried out on a Brazilian stock exchange. The rate of IOF applicable to transactions involving stocks (such as our preferred shares, Preferred ADSs, common shares and Common ADSs) is currently zero, although the Minister of Finance is permitted to increase such rate at any time up to 1.5% per day, but only in respect to future transactions.

*Other Brazilian Taxes* Some Brazilian states impose gift and inheritance tax on gifts or bequests made by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such states. There are no Brazilian stamps, issues, registrations, or similar taxes or duties payable by holders of preferred shares, common shares, Preferred ADSs or Common ADSs.

Table of Contents

*U.S. Tax Considerations*

In general, for U.S. federal income tax purposes, holders of ADRs evidencing ADSs will be treated as the beneficial owners of the common shares or preferred shares represented by those ADSs.

*Taxation of Distributions* Distributions with respect to the shares or the ADSs (other than distributions in redemption of the shares subject to Section 302(b) of the Code or in a liquidation of the Company) will, to the extent made from current or accumulated earnings and profits of the Company as determined under U.S. federal income tax principles, constitute dividends. Whether such current or accumulated earnings and profits will be sufficient for all such distributions on the shares or ADSs to qualify as dividends for U.S. federal income tax purposes depends on the future profitability of the Company and other factors, many of which are beyond the control of the Company. To the extent that such a distribution exceeds the amount of the Company's earnings and profits, it will be treated as a non-taxable return of capital to the extent of the U.S. holder's basis in the shares or ADSs, and thereafter as capital gain (provided that the shares or ADSs are held as capital assets). As used below, the term "dividend" means a distribution that constitutes a dividend for U.S. federal income tax purposes. Cash dividends (including amounts withheld in respect of Brazilian taxes) paid with respect to (i) the shares generally will be includible in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the U.S. holder or (ii) the shares represented by ADSs generally will be includible in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the depositary bank and, in either case, will not be eligible for the dividends received deduction allowed to corporations. Dividends paid in *reais* will be includible in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day they are received by the U.S. holder, in the case of shares, or the depositary bank, in the case of shares represented by ADSs.

If dividends paid in *reais* are converted into U.S. dollars on the day they are received by the U.S. holder or the depositary bank, as the case may be, U.S. holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss if any *reais* received by the U.S. holder or the depositary bank are not converted into U.S. dollars on the date of receipt, as well as the tax consequences of the receipt of any additional *reais* from the custodian on account of Brazilian inflation.

Dividends generally will constitute foreign source income and generally will constitute "passive category income" or, in the case of certain U.S. holders, "general category income," for foreign tax credit purposes. In the event Brazilian withholding taxes are imposed on such dividends, such taxes may be treated as a foreign income tax eligible, subject to generally applicable limitations and conditions under U.S. federal income tax law, for credit against a U.S. holder's U.S. federal income tax liability (or at a U.S. holder's election, may be deducted in computing taxable income). The calculation and availability of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions, involves the application of rules that depend on a U.S. holder's particular circumstances. In the event Brazilian withholding taxes are imposed, U.S. holders should consult their own tax advisors regarding the availability of foreign tax credits with respect to Brazilian withholding taxes.

Distributions to U.S. holders of additional shares of "common stock" or preemptive rights relating to such "common stock" with respect to their common shares or Common ADSs that are made as part of a pro rata distribution to all shareholders of the Company generally will not be treated as dividend income for U.S. federal income tax purposes, but could result in additional U.S.-source taxable gain upon the sale of such additional shares or preemptive rights. Non-pro rata distributions of such shares or rights generally would be includible in the U.S. holder's gross income to the same extent and in the same manner as distributions payable in cash. In that event, the amount of such distribution (and the basis of the new shares or preemptive rights so received) generally will equal the fair market value of the shares or preemptive rights on the date of distribution. It is not entirely clear whether the preferred shares will be treated as "preferred stock" or "common stock" for this purpose. If the preferred shares are treated as "common stock" for this purpose the treatment above would apply to distributions of shares or preemptive rights with respect to preferred shares or Preferred ADSs. On the other hand, if the preferred shares are treated as "preferred stock" a distribution of

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

additional shares or preemptive rights would be includible in gross income to the same extent as a cash distribution whether or not such distribution is considered a pro rata distribution.

A holder of shares or ADSs that is not a U.S. holder generally will not be subject to U.S. federal income or withholding tax on dividends received on shares or ADSs, unless such income is effectively connected with the conduct by the holder of a trade or business in the United States.

*Qualified Dividend Income* Notwithstanding the foregoing, certain dividends received by individual U.S. holders that constitute qualified dividend income currently may be subject to a reduced maximum marginal U.S. federal income tax rate. Qualified dividend income generally includes, among other dividends, dividends received during the taxable year from qualified foreign corporations. In general, a foreign corporation is treated as a qualified foreign corporation with respect to any dividend paid by the corporation with respect to stock of the corporation that is readily tradable on an established securities market in the United

Table of Contents

States. For this purpose, a share is treated as readily tradable on an established securities market in the United States if an ADR backed by such share is so traded.

Notwithstanding this previous rule, dividends received from a foreign corporation that is a passive foreign investment company (as defined in section 1297 of the Code), or in either the taxable year of the corporation in which the dividend was paid or the preceding taxable year will not constitute qualified dividend income. In addition, the term "qualified dividend income" will not include, among other dividends, any (i) dividends on any share or ADS which is held by a taxpayer for 60 days or less during the 120-day period beginning on the date which is 60 days before the date on which such share or the shares backing the ADS become ex-dividend with respect to such dividends (as measured under section 246(c) of the Code) or (ii) dividends to the extent that the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respects to positions in substantially similar or related property. Moreover, special rules apply in determining a taxpayer's foreign tax credit limitation under section 904 of the Code in the case of qualified dividend income.

Individual U.S. holders should consult their own tax advisors to determine whether or not amounts received as dividends from us will constitute qualified dividend income subject to a reduced maximum marginal U.S. federal income tax rate and, in such case, the effect, if any, on the individual U.S. holder's foreign tax credit.

*Taxation of Capital Gains* Deposits and withdrawals of shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Gain or loss realized by a U.S. holder on the sale, redemption or other disposition of shares or ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between such U.S. holder's basis in the shares or the ADSs and the amount realized on the disposition. Gain realized by a U.S. holder on a sale, redemption or other disposition of shares or ADSs, including gain that arises because the U.S. holder's basis in the shares or ADSs has been reduced because a distribution is treated as a return of capital rather than as a dividend, generally will be treated as U.S. source income for U.S. foreign tax credit purposes.

If a Brazilian withholding tax or income tax is imposed on the sale or disposition of shares or ADSs as described in *Taxation - Brazilian Tax Considerations*, the amount realized by a U.S. holder will include the gross amount of the proceeds of such sale or disposition before deduction of the Brazilian withholding tax or income tax if applicable. The availability of U.S. foreign tax credits for these Brazilian taxes and any Brazilian taxes imposed on distributions that do not constitute dividends for U.S. tax purposes is subject to certain limitations and involves the application of rules that depend on a U.S. holder's particular circumstances. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, shares or ADSs.

A holder of shares or ADSs that is not a U.S. holder will not be subject to U.S. federal income or withholding tax on gain realized on the sale of shares or ADSs, unless (i) such gain is effectively connected with the conduct by the holder of a trade or business in the United States or (ii) in the case of gain realized by an individual holder, the holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

*Information Reporting and Backup Withholding* Information reporting requirements will generally apply to U.S. holders of ADSs and U.S. holders will be required to comply with applicable certification procedures to establish that they are not subject to back up withholding.

Investors who are individuals and fail to report required information could be subject to substantial penalties. A holder of ADSs that is not a U.S. holder may be required to comply with applicable certification procedures to establish that they are not United States persons in order to avoid the application of U.S. information reporting requirements and backup withholding tax. Investors should consult their own tax advisors regarding these requirements,

### **Dividends and Paying Agents**

We pay dividends on preferred shares and common shares in the amounts and in the manner set forth under Item 8. Financial Information Dividend Policy and Payments. We will pay dividends in respect of preferred shares represented by Preferred ADSs or common shares represented by Common ADSs to the custodian for the depositary bank, as record owner of the preferred shares represented by Preferred ADSs or the common shares represented by Common ADSs. As promptly as practicable after receipt of the dividends we pay through Citibank N.A. to the custodian, it will convert these payments into U.S. dollars and remit such amounts to the depositary bank for payment to the holders of Preferred ADSs or Common ADSs in proportion to individual ownership.

Table of Contents

**Documents on Display**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this annual report and the accompanying exhibits, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of the materials may be obtained from the SEC's Public Reference Room at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. In addition, copies of the exhibits that accompany this annual report may be inspected at our principal executive offices located at Avenida Barbacena, 1200, 30190-131 Belo Horizonte, Minas Gerais, Brazil.

**Insurance**

We have insurance policies to cover damages to our headquarters building and to the turbines, generators and transformers of our major power plants and substations caused by fire and risks such as equipment failures. We also have insurance policies to cover damages to aircrafts used in connection to our operations. We do not have general third party liability insurance covering accidents and have not solicited bids related to this type of insurance. However, we may contract for this type of insurance in the future. In addition, we have not solicited bids for, nor do we carry, insurance coverage for major catastrophes affecting our facilities such as earthquakes and floods or for operating system failures. We do not have insurance coverage for business interruption risk, which means damages we suffer and consequential damages suffered by our consumers resulting from an interruption in power distribution are generally not covered by our insurance and we may be subject to significant related losses. See Item 3. Key Information Risk Factors Risks Relating to CEMIG We operate without general third party liability and catastrophe insurance policies.

We believe that, since we have contracted for fire and operational risk insurance, our insurance coverage will be at a level that is customary in Brazil for the type of businesses in which we are engaged.

**Difficulties of Enforcing Civil Liabilities Against Non-U.S. Persons**

We are a state-controlled mixed capital company established under the laws of Brazil. All of our executive officers and directors presently reside in Brazil. In addition, substantially all of our assets are located in Brazil. As a result, it will be necessary for holders of Preferred ADSs or Common ADSs to comply with Brazilian law in order to obtain an enforceable judgment against our executive officers or directors or our assets. It may not be possible for holders of Preferred ADSs or Common ADSs to effect service of process within the United States upon our executive officers and directors, or to realize in the United States upon judgments against these persons obtained in U.S. courts based upon civil liabilities of these persons, including any judgments based upon U.S. federal securities laws, to the extent these judgments exceed these persons' U.S. assets. We have been advised by Brazilian counsel, Machado, Meyer, Sendacz e Opice Advogados, that judgments of U.S. courts for civil liabilities based upon the federal securities laws of the United States may be, subject to the requirements described below, enforced in Brazil. A judgment against us, or the persons described above obtained outside Brazil without reconsideration of the merits, is subject to confirmation by the Brazilian Superior Court of Justice. That confirmation will occur if the foreign judgment:

- fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted;

- is issued by a competent court after proper service of process is made in accordance with Brazilian law;
- is not subject to appeal;
- is for the payment of a sum certain;
- is authenticated by a Brazilian consular officer in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty, public policy or public morality.

We cannot assure you the confirmation process described above will be conducted in a timely manner or that Brazilian courts would enforce a monetary judgment for violation of the United States securities laws with respect to the Preferred ADSs and the preferred shares represented by the Preferred ADSs or the Common ADSs and the common shares represented by the Common ADSs.

We were further advised by respective Brazilian counsel that:



Table of Contents

- original actions based on the federal securities laws of the United States may be brought in Brazilian courts and that, subject to Brazilian public policy and national sovereignty, Brazilian courts will enforce liabilities in such actions against us and our officers; and
- the ability of a judgment creditor or the other persons named above to satisfy a judgment by attaching our assets or those of the selling shareholders is limited by provisions of Brazilian law.

A plaintiff (whether Brazilian or non-Brazilian) residing outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that could secure such payment. The bond must have a value sufficient to satisfy the payment of court fees and defendant's attorney fees, as determined by a judge in Brazil. This requirement does not apply to a proceeding to enforce a foreign judgment which has been confirmed by the Brazilian Superior Court of Justice.

**Item 11. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risk from changes in foreign currency exchange rates and interest rates.

We are exposed to foreign exchange risk because certain of our loans and financings are denominated in currencies (primarily the U.S. dollar) other than the currency in which we earn revenues (the *real*). See Item 5. Operating and Financial Review and Prospects Critical Accounting Estimates.

**Exchange Rate Risk**

At December 31, 2010, approximately 1.4% of our outstanding indebtedness, or R\$191.3 million, was denominated in foreign currencies, of which approximately 87.3%, or R\$166.9 million, was denominated in U.S. dollars. We do not have substantial revenues denominated in any foreign currencies and, due to regulations that require us to keep excess cash on deposit in *real*-denominated accounts at Brazilian banks, we do not have monetary assets denominated in foreign currencies.

In 2010, we used financial instruments such as interest rate swaps to manage risk and hedge our foreign exchange rate exposure. The purpose of the swaps was to reduce our exposure on the original interest rate of certain financing from an interest rate calculated based on the U.S. dollar/*real* exchange rate to an interest rate calculated based on the CDI rate. See Notes 2.6 (b), 18, 25, 26 and 27 to our consolidated financial statements.

In 2011, the potential loss we would experience in the event of a hypothetical 25% and 50% depreciation of the *real* against the U.S. dollar and other foreign currencies would be approximately R\$51 million and R\$89 million, respectively related primarily due to an increase in our *real*-denominated interest expense. In 2011, a hypothetical 25% and 50% depreciation of the *real* against the U.S. dollar would result in an

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

additional annual cash outflow of approximately R\$11.7 million and R\$23.4 million, respectively, reflecting the increased cost in *reais* of foreign currency-denominated indebtedness from loans, financings and debentures with maturity dates in 2011. This sensitivity analysis assumes a simultaneous unfavorable 25% and 50% fluctuation in each of the exchange rates affecting the foreign currencies in which our indebtedness is denominated.

The tables below provide summary information regarding our exposure to exchange rate risk as of December 31, 2010:

	R\$ (Million)
U.S. Dollar	
Financing	176
Less Contracted derivative instruments	(45)
	131
Other Currencies	
Financing	13
Other	2
Net liabilities exposed to exchange rate risk	146

### Interest Rate Risk

At December 31, 2010, we had R\$13,227 million in loans and financing outstanding, of which approximately R\$12,090 million bore interest at floating rates. Of this R\$12,090 million, R\$12,031 million is subject to monetary restatement through the application of inflation indices established by the Federal Government, principally the IGP-M, and R\$59 million is subject principally to LIBOR.

Table of Contents

At December 31, 2010, we had liabilities, net of other assets that bore interest at floating rates in the amount of R \$7,091 million. These assets consisted mainly of cash and cash equivalents and our account receivable from the State Government, bearing interest at rates tied to IGP-DI and SELIC, respectively, as summarized in the tables below. A hypothetical, instantaneous and unfavorable change of 100 basis points in interest rates applicable to floating rate financial assets and liabilities held at December 31, 2010 would result in a potential loss of R\$70.91 million to be recorded as a financial expense in our consolidated financial statements.

## Total Debt Portfolio

	R\$ (Million)
Floating rate debt:	
Real-denominated	12,031
Foreign currency-denominated	59
	12,090
Fixed rate debt:	
Foreign currency-denominated	132
Total	12,222

	Total Portfolio Floating Rate (R\$ million)
Assets:	
Cash and cash equivalents	2,885
Securities cash investments	322
Account receivable from State Government	1,837
Total	5,044
Liabilities:	
Financings (Floating Rate)	(12,090)
Derivative instruments (1)	(45)
Total liabilities	(12,135)
Total	(7,091)

(1) Swaps to reduce our exposure on the original interest rate of certain financing from an interest rate calculated based on the U.S. dollar/*real* exchange rate to an interest rate calculated based on the CDI rate.

**Item 12. Description of Securities Other than Equity Securities****American Depositary Shares**

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Citibank, N.A. serves as the depository (the Depository ) for both our Common ADSs and Preferred ADSs. Holders of ADSs, any person or entity having a beneficial interest deriving from the ownership of the ADSs, and persons depositing shares or surrendering ADSs for cancellation and withdrawal of Deposited Securities (as defined in the Deposit Agreements) are required to pay to the Depository certain fees and related charges as identified below.

The fees associated with our Common ADSs are as follows:

Table of Contents

<b>Service</b>	<b>Rate</b>	<b>By Whom Paid</b>
(1) Issuance of Common ADSs upon deposit of common shares (excluding issuances as a result of distributions described in paragraph (4) below).	Up to \$5.00 per 100 Common ADSs (or fraction thereof) issued.	Person depositing common shares or person receiving Common ADSs.
(2) Delivery of Deposited Securities, property and cash against surrender of Common ADSs.	Up to \$5.00 per 100 Common ADSs (or fraction thereof) surrendered.	Person surrendering Common ADSs for purpose of withdrawal of Deposited Securities or person to whom Deposited Securities are delivered.
(3) Distribution of cash dividend or other cash distributions ( <i>i.e.</i> sale of rights and other entitlements).	Up to \$2.00 per 100 Common ADSs (or fraction thereof) held.	Person to whom distribution is made.
(4) Distribution of Common ADSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional Common ADSs.	Up to \$5.00 per 100 Common ADSs (or fraction thereof) issued.	Person to whom distribution is made.
(5) Distribution of securities other than Common ADSs or rights to purchase additional Common ADSs ( <i>i.e.</i> spin off shares).	Up to \$5.00 per 100 Common ADSs (or fraction thereof) issued.	Person to whom distribution is made.
(6) Transfer of ADRs.	\$1.50 per certificate presented for transfer.	Person presenting certificate for transfer.

The fees associated with our Preferred ADSs are as follows:

<b>Service</b>	<b>Rate</b>	<b>By Whom Paid</b>
(1) Issuance of Preferred ADSs upon deposit of preferred shares (excluding issuances contemplated by paragraphs (3)(b) and (5) below).	Up to \$5.00 per 100 Preferred ADSs (or fraction thereof) issued.	Person for whom deposits are made or person receiving Preferred ADSs.
(2) Delivery of Deposited Securities, property and cash against surrender of Preferred ADSs.	Up to \$5.00 per 100 Preferred ADSs (or fraction thereof) surrendered.	Person surrendering Preferred ADSs or making withdrawal.
(3) Distribution of (a) cash dividend or (b) Preferred ADSs pursuant to stock dividends (or other free distribution of stock).	No fee, so long as prohibited by the exchange upon which the Preferred ADSs are listed. If the charging of such fee is not prohibited, the fees specified in (1) above shall be payable in respect of a distribution of Preferred ADSs pursuant to stock dividends (or other free distribution of stock) and the fees specified in (4) below shall be payable in respect of distributions of cash.	Person to whom distribution is made.
(4) Distribution of cash proceeds ( <i>i.e.</i> , upon sale of rights and other entitlements).	Up to \$2.00 per 100 Preferred ADSs (or fraction thereof) held.	Person to whom distribution is made.
(5) Distribution of Preferred ADSs pursuant to exercise of rights.	Up to \$5.00 per 100 Preferred ADSs (or fraction thereof) issued.	Person to whom distribution is made.

**Direct and indirect depositary payments**

We have an agreement with the Depositary to reimburse us, up to a limited amount, for certain expenses in connection with our ADR programs, including listing fees, legal and accounting expenses, proxy distribution costs and investor relation related expenses. These reimbursements for

the year ended December 31, 2010 totaled approximately US\$ 2.4 million.

Table of Contents

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

Certain of CEMIG's loans and financing agreements contain covenants that require us to maintain financial ratios, calculated in accordance with Brazilian Corporate Law. As of December 31, 2010, we were not in compliance with the following covenants:

- the Debt / EBITDA ratio, contained in a credit instrument among Cemig Distribution and Santander (originally ABN Amro Bank). Such ratio is required to be less than or equal to 2.5, and, as of December 31, 2010, the ratio was 2.91, for CEMIG (as guarantor). CEMIG has obtained a waiver from Santander.
- the Debt/(Shareholders' equity + Debt) ratio, contained in credit instruments among Cemig Distribution and Banco Itaú BBA. Such ratio is required to be less than or equal to 53%, and, as of December 31, 2010, the ratio was 56.18% for Cemig Distribution and 53.54% for CEMIG (as guarantor). Cemig Distribution and CEMIG have obtained a waiver from Itaú BBA.

All the waivers obtained in 2010 affirm that the respective creditors will not exercise their rights to demand either accelerated or immediate payment of the total amount due until December 31, 2011.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable.

**Item 15. Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures**

Our Executive Board, including our Chief Executive Officer, or CEO, and Chief Financial and Investor Relations Officer, or CFO, evaluated the effectiveness of our disclosure controls and procedures, and concluded that on December 31, 2010, these disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our filings and submissions under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

**(b) Management's Annual Report on Internal Control over Financial Reporting**

Our Executive Board, including our CEO and CFO, is responsible for establishing and maintaining effective internal controls over financial reporting.

Our internal controls over financial reporting include policies and procedures that were implemented to provide reasonable assurance as to (i) the reliability of the recording accounting and financial information; (ii) the preparation of accounting records in accordance with IFRS; (iii) the processing of payments and receipts in accordance with management authorization; and (iv) the timely detection of inappropriate acquisitions, and the disposal or allocation of material assets. We emphasize that due to their inherent limitations, the possibility exists that these actions may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may decline.

Our management evaluated the effectiveness of our internal controls over financial reporting at December 31, 2010, based on the criteria established in the Integrated Internal Control Framework specified by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, and concluded that, for the year ended December 31, 2010, our system of internal controls over financial reporting is effective.

The Company's independent registered public accounting firm which audited our consolidated financial statements for the year ended December 31, 2010, KPMG Auditores Independentes, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 and issued an attestation report, which is included elsewhere herein.

*The Ethics Committee*

Our Ethics Committee was established on August 12, 2004, and is made up of three permanent members and three alternate members. It is responsible for the management, dissemination and updating of the Code of Professional Conduct.



Table of Contents

The Committee receives and investigates all reports of violation of the ethical principles and standards of conduct, provided they are presented in a written document signed by the interested party and addressed to: CEMIG, Av. Barbacena 1200, SA/19th Floor/A1. The Committee may also be contacted by e-mail [comissaodeetica@cemig.com.br](mailto:comissaodeetica@cemig.com.br).

In December 2006 we implemented the Anonymous Reporting Channel, available on our intranet. The purpose of this program is to receive, forward and investigate complaints of irregular practices, such as financial fraud, misappropriation of assets, receipt of unfair advantages, and the engagement of illegal contracts. This channel represents the Company aim of improving transparency, correcting unethical or illegal behavior and enhancing corporate governance, as well as being an instrument that meets the requirements of the Sarbanes-Oxley Act.

**(c) Attestation Report of the Registered Public Accounting Firm**

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Companhia Energética de Minas Gerais CEMIG

We have audited the accompanying consolidated statements of financial position of Companhia Energética de Minas Gerais CEMIG and subsidiaries (the Company) as of December 31, 2010, 2009 and January 1, 2009, and the related consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2010. We also have audited the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Companhia Energética de Minas Gerais - CEMIG and subsidiaries as of December 31, 2010, 2009 and January 1, 2009, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2010, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). Also in our opinion, the Company maintained, in all material respects, effective

Table of Contents

internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG Auditores Independentes

Belo Horizonte, Brazil

June 29, 2011

**(d) Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during the year ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

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

**Item 16B. Code of Ethics**

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. Our code of ethics applies to our Chief Executive Officer, Chief Financial and Investor Relations Officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics was filed with the SEC as Exhibit 11 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003, and is also available on our website at [www.cemig.com.br](http://www.cemig.com.br). If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver within five business days following the date of the amendment or waiver on our web site at [www.cemig.com.br](http://www.cemig.com.br).

**Item 16C. Principal Accountant Fees and Services****Audit and Non-Audit Fees**

The following table summarizes the aggregate fees billed to us by KPMG Auditores Independentes during the fiscal years ended December 31, 2010 and 2009:

	Year ended December 31,	
	2010	2009
	(thousands of reais)	
Audit fees	1,210	1,688
Additional services:		
Tax fees	238	199
Audit-Related Fees	159	
Total fees	1,607	1,887

*Audit fees* Audit fees in the above table are the aggregate fees billed by KPMG Auditores Independentes in 2010 and 2009 in connection with the audit of our annual financial statements prepared in accordance with the accounting practices adopted in Brazil and the United States and the review of our quarterly statutory financial statements.

*Tax Fees* Tax fees are fees for professional services in relation to tax return reviews (tax compliance).

*Audit-Related Fees* - Audit-related fees are fees for services in connection with regulatory demands.

Table of Contents

**Audit Committee Pre-Approval Policies and Procedures**

Our Fiscal Council currently serves as our audit committee for purposes of the Sarbanes-Oxley Act of 2002. However, as required by Brazilian legislation, we have adopted pre-approval policies and procedures by which all audit and non-audit services provided by external auditors must be approved by the Board of Directors. Any service proposals submitted by external auditors need to be discussed and approved by the Board of Directors during its meetings. Once the proposed service is approved, we formalize the engagement of services. The approval of any audit and non-audit services to be provided by our external auditors is specified in the minutes of our Board of Directors.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

We are relying on the general exemption from the listing standards relating to audit committees contained in Rule 10A-3(c)(3) under the Exchange Act. We have a Fiscal Council that carries out the functions of an audit committee of the United States to the extent permitted under Brazilian law. Brazilian law requires our Fiscal Council to be separate from our board of directors, and members of our Fiscal Council are not elected by our management. Brazilian law provides standards for the independence of our Fiscal Council from our management. Our Fiscal Council, in accordance with its charter, makes recommendations to our board of directors regarding the appointment, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for our company, as Brazilian law requires that our board of directors appoint, retain and oversee the work of our independent public accountants.

We do not believe that our reliance on this general exemption will materially affect the ability of our Fiscal Council to act independently and to satisfy the other requirements of the listing standards relating to audit committees contained in Rule 10A-3 under the Exchange Act.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Not applicable.

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**

**Corporate Governance Differences from NYSE Practices**

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

Section	NYSE Corporate Governance Rule for U.S. Domestic Issuers	Our Approach
303A.01	A listed company must have a majority of independent directors. Controlled companies are not required to comply with this requirement.	Under Section 303A of the rules of the New York Stock Exchange, controlled company is taken to include a company in which more than 50% of the voting power is held by one individual, a group or another company. Since 50.97% of the voting stock of CEMIG is held by the State of Minas Gerais, it is considered to be a controlled company. Therefore, this requirement currently does not apply to CEMIG. Nonetheless, the majority of the members of CEMIG's Board of Directors are independent members.
303A.03	The non-management directors of a listed company must meet at regularly scheduled executive sessions without management.	The non-management directors of CEMIG do not meet at regularly scheduled executive sessions without management.

Table of Contents

303A.04	A listed company must have a nominating/corporate governance committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties. Controlled companies are not required to comply with this requirement.	As a controlled company, CEMIG is not required to have a nominating/governance committee.  Nonetheless, CEMIG has a Corporate Governance Committee, composed of dependent and independent directors, and its responsibilities are clearly defined in the internal regulations of the Board of Directors.
303A.05	A listed company must have a compensation committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties. Controlled companies are not required to comply with this requirement.	As a controlled company, CEMIG would not be required to comply with the compensation committee requirements as if it were a U.S. domestic issuer. CEMIG does not have a compensation committee.
303A.06 and 303A.07	A listed company must have an audit committee with a minimum of three independent directors that satisfy the independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, with a written charter that covers certain minimum specified duties.	CEMIG exercised its prerogative under SEC Rule 10A-3 and the Sarbanes Oxley Act of 2002, which allow non U.S. issuers not to have an Audit Committee. Our Fiscal Council carries out the functions of an Audit Committee of the United States up to the limit permitted by Brazilian law.  CEMIG's Fiscal Council is a permanent body, responsible, principally, for inspection and supervision of the activities of the management and for verifying the managers' compliance with their duties under the law and under the bylaws.
303A.08	Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with limited exemptions set forth in the NYSE rules.	Under Brazilian Corporate Law, shareholder preapproval is required for the adoption of equity compensation plans.
303A.09	A listed company must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects.	CEMIG's listing on BM&FBovespa is at Corporate Governance Level 1, and CEMIG is thus obliged to comply with the rules contained in those related regulations.  In addition, CEMIG's Manual for Disclosure and Use of Information, its Securities Trading Policy, the Internal Regulations of its Board of Directors, and its Code of Ethics outline important rules of corporate governance which orient its management.
303A.12	Each listed company Chief Executive Officer must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards.	CEMIG's Chief Executive Officer will promptly notify the NYSE in writing after any executive officer of CEMIG becomes aware of any material non-compliance with any applicable provisions of the NYSE corporate governance rules.

**PART III**

**Item 17. Financial Statements**

Not applicable.

**Item 18. Financial Statements**

Reference is made to pages F-1 through F-112 hereof.

The following financial statements are filed as part of this annual report on Form 20-F:

- Report of KPMG Auditores Independentes for the year 2010.



Table of Contents

- Audited Consolidated Statement of Financial Position as of December 31, 2010, December 31, 2009 and January 1, 2009.
  
- Audited Consolidated Income Statement and Statements of Comprehensive Income for the years ended December 31, 2010 and 2009
  
- Audited Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2010 and 2009
  
- Audited Consolidated Statements of Cash Flows for the years ended December 31, 2010 and 2009
  
- Notes to the Consolidated Financial Statements

**Item 19. Exhibits**

The following documents are included as exhibits to this annual report:

<b>Exhibit Number</b>	<b>Document</b>
1	Corporate by-laws of CEMIG, as amended and in effect since April 29, 2011
2.1	Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs filed on August 20, 2001 (File No. 333-13826)).
2.2	Shareholders' Agreement, dated June 18, 1997, between the State Government and Southern, relating to the rights and obligations of owners of our shares (incorporated by reference to Exhibit 2.1 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
2.3	Amendment No. 1 to the Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs filed on June 11, 2007 (File No. 333-143636)).
2.4	Deposit Agreement, dated as of June 12, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the common share ADSs filed on May 7, 2007 (File No. 333-142654)).
4.1	Contract of Concession for Generating Electric Energy, dated July 10, 1997, between the Federal Government and us, relating to the provision of electric energy generation services to the public (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

- 4.2 Contract of Concession of Electric Energy Transmission Services, dated July 10, 1997, between the Federal Government and us, relating to the transmission of electric energy to the public (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
- 4.3 Second Amendment to the Electricity Transmission Concession Contract, dated September 16, 2005 (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
- 4.4 Third Amendment to the Electricity Transmission Concession Contract, for the Northern, Southern, Eastern, and Western geographic areas, dated April 13, 2010 (incorporated by reference to Exhibit 4.4 to our Registration Statement on Form 20-F filed on June 30, 2010 (File No. 1-15224)).
- 4.5 Contracts of Concession of Public Service for Distribution of Electric Energy, dated July 10, 1997, between the Federal Government and us, relating to the provision of electric energy distribution services to the public (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

### Table of Contents

- 4.6 First Amendment to the Electricity Distribution Concession Contract, dated March 31, 2005 (incorporated by reference to Exhibit 4.5 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
- 4.7 Second Amendment to the Electricity Distribution Concession Contract, dated September 16, 2005 (incorporated by reference to Exhibit 4.6 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
- 4.8 Contract for the Assignment of CRC Account, dated May 31, 1995, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.4 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
- 4.9 First Amendment to the Contract for the Assignment of CRC Account, dated February 24, 2001, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.5 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).
- 4.10 Second Amendment to the Contract for the Assignment of CRC Account, dated October 14, 2002, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.6 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).
- 4.11 Third Amendment to the Contract for the Assignment of CRC Account, dated October 24, 2002, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.7 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).
- 4.12 Fourth Amendment to the Contract for the Assignment of CRC Account, dated January 23, 2006, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.14 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
- 4.13 Announcement of Start of Public Distribution of Senior Units under CRC Account Securitization Fund, dated as of January 26, 2006 (incorporated by reference to Exhibit 4.15 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
- 4.14 Summary of Indenture Covering Public Distribution of Non-Convertible Unsecured Debentures, dated August 24, 2006, between Cemig Distribution and Unibanco União dos Bancos Brasileiros S.A. (incorporated by reference to Exhibit 4.18 to our Registration Statement on Form 20-F filed on July 23, 2007 (File No. 1-15224)).
- 4.15 Summary of Indenture Covering Public Distribution of Non-Convertible Unsecured Debentures, dated April 17, 2007, between Cemig Generation and Transmission and Unibanco União dos Bancos Brasileiros S.A. (incorporated by reference to Exhibit 4.19 to our Registration Statement on Form 20-F filed on July 23, 2007 (File No. 1-15224)).
- 4.16 Summary of Indenture Covering the Second Issuance of Debentures, dated December 19, 2007, between Cemig Distribution and BB Banco de Investimento S.A. (incorporated by reference to Exhibit 4.20 to our Annual Report on Form 20-F filed on June 30, 2008 (File No. 1-15224)).
- 4.17 Share Purchase Agreement, dated April 23, 2009, between Cemig Generation and Transmission, Terna Rete Elettrica Nazionale S.p.A., and CEMIG (incorporated by reference to Exhibit 4.22 to our Registration Statement on Form 20-F filed on June 19, 2009 (File No. 1-15224)).
- 4.18 English Summary of Share Purchase Agreement between Companhia Energética de Minas Gerais CEMIG and Andrade Gutierrez Concessões S.A., dated December 30, 2009 (incorporated by reference to Exhibit 4.18 to our Registration Statement on Form 20-F filed on June 30, 2010 (File No. 1-15224)).
- 4.19 English Summary of Share Purchase Agreement between Companhia Energética de Minas Gerais CEMIG and Fundo de Investimento em Participações PCP, dated December 31, 2009 (incorporated by reference to Exhibit 4.19 to our Registration Statement on Form 20-F filed on June 30, 2010 (File No. 1-15224)).
- 4.20 English Summary of Put Option Agreement between Companhia Energética de Minas Gerais CEMIG and Enlighted Partners Venture Capital LLC, dated March 24, 2010 (incorporated by reference to Exhibit 4.20 to our Registration Statement on Form 20-F



Table of Contents

- 4.21 English Summary of Share Purchase Agreement among Transmissora Aliança de Energia Elétrica S.A., Abengoa Concessões Brasil Holding S.A. and Abengoa Participações Holding S.A., dated June 2, 2011.
- 4.22 English Summary of Share Purchase Agreement among Transmissora Aliança de Energia Elétrica S.A., Abengoa Concessões Brasil Holding S.A., Abengoa Construção Brasil Ltda., NTE - Nordeste Transmissora de Energia S.A. and Abengoa Participações Holding S.A., dated June 2, 2011.
- 4.23 Summary of Indenture Covering Public Distribution of Non-Convertible Unsecured Debentures, dated March 3, 2010, between Cemig Generation and Transmission and BB Banco de Investimento S.A.
- 8 List of Subsidiaries (incorporated by reference to Exhibit 8 to our Annual Report on Form 20-F filed on May 25, 2005 (File No. 1-15224)).
- 11 Code of Ethics (incorporated by reference to Exhibit 11 to our Annual Report on Form 20-F filed on July 1, 2004 (File No. 1-15224)).
- 12.1 Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 29, 2011.
- 12.2 Chief Financial Officer, Investor Relations Officer and Control of Holding Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 29, 2011.
- 13.1 Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 29, 2011.
- 13.2 Chief Financial Officer, Investor Relations Officer and Control of Holding Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 29, 2011.

Table of Contents

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

COMPANHIA ENERGÉTICA DE MINAS  
GERAIS CEMIG

By:	/s/ Djalma Bastos de Moraes
Name:	Djalma Bastos de Moraes
Title:	Chief Executive Officer

Date: June 29, 2011

Table of Contents

***Companhia Energética de Minas Gerais CEMIG***

*Consolidated statements of financial position as of December 31, 2010 and 2009 and January 1, 2009 and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2010 and 2009 and Report of Independent Registered Public Accounting Firm*

F-1

---

Table of Contents**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT DECEMBER 31, 2010 AND 2009, AND JANUARY 1, 2009****ASSETS****(MILLIONS OF R\$)**

	Notes	2010	2009	01/01/2009
<b>CURRENT</b>				
Cash and cash equivalents	6	2,980	4,425	2,284
Short-term investments		322		
Consumers and traders	7	2,263	2,278	2,018
Concession holders transport of energy		401	367	433
Financial assets of the concession	12	625	222	141
Recoverable taxes	8 a	374	357	319
Income tax and social contribution recoverable	8 b	490	530	458
Dividends receivable				
Inventories		41	35	36
Other credits		588	403	475
<b>TOTAL CURRENT ASSETS</b>		<b>8,084</b>	<b>8,617</b>	<b>6,164</b>
<b>NON-CURRENT</b>				
Account receivable from the Minas Gerais State Government	11	1,837	1,824	1,801
Deferred income tax and social contribution	9	1,801	1,108	1,728
Recoverable taxes	8 a	140	115	98
Income tax and social contribution recoverable	8 b	83	118	174
Escrow deposits	10	1,027	693	440
Consumers and traders	7	96	161	90
Other credits		114	115	132
Financial assets of the concession	12	7,316	5,508	2,891
Other investments		24	26	37
Property, plant and equipment	14	8,229	8,303	8,039
Intangible assets	15	4,804	3,705	3,950
<b>TOTAL NON-CURRENT ASSETS</b>		<b>25,471</b>	<b>21,676</b>	<b>19,380</b>
<b>TOTAL ASSETS</b>		<b>33,555</b>	<b>30,293</b>	<b>25,544</b>
<b>TOTAL ASSETS</b>		<b>33,555</b>	<b>30,293</b>	<b>25,544</b>

The Explanatory Notes are an integral part of these consolidated financial statements.



Table of Contents**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT DECEMBER 31, 2010 AND 2009, AND JANUARY 1, 2009

**LIABILITIES AND SHAREHOLDERS' EQUITY**

(MILLIONS OF R\$)

	Note	2010	2009	01/01/2009
<b>CURRENT</b>				
Suppliers	16	1,121	852	892
Regulatory charges	19	384	324	489
Employee profit sharing		116	98	117
Taxes payable	17 a	403	420	420
Income tax and social contribution payable	17 b	137	127	114
Interest on capital and dividends payable		1,154	954	960
Loans and financings	18	1,574	5,878	882
Debentures	18	629	781	398
Payroll and related charges		243	353	294
Employee post-retirement benefits	20	99	94	83
Provision for losses on financial instruments		69	78	99
Other obligations		473	320	439
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,402</b>	<b>10,279</b>	<b>5,187</b>
<b>NON-CURRENT</b>				
Regulatory charges	19	142	152	20
Loans and financings	18	6,244	4,044	4,824
Debentures	18	4,780	590	1,240
Taxes payable	17 a	693	327	123
Deferred Income tax and social contribution	17 b	1,065	989	1,047
Provisions	21	371	562	722
Concessions payable		118	80	76
Employee post-retirement benefits	20	2,062	1,915	2,039
Other obligations		201	190	159
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>15,676</b>	<b>8,849</b>	<b>10,250</b>
<b>TOTAL LIABILITIES</b>		<b>22,078</b>	<b>19,128</b>	<b>15,437</b>
<b>SHAREHOLDERS' EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>				
	22			
Share capital		3,412	3,102	2,482
Capital reserves		3,954	3,969	3,983
Profit reserves		2,874	3,177	2,860
Accumulated other comprehensive income		1,211	1,343	1,496
Accumulated foreign currency translation adjustment		(1)		
Funds allocated to increase of capital		27	27	27
Accumulated losses			(453)	(1,132)
		11,477	11,165	9,716

NON-CONTROLLING INTEREST			391
TOTAL SHAREHOLDERS EQUITY	11,477	11,165	10,107
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	33,555	30,293	25,544

The Explanatory Notes are an integral part of these consolidated financial statements.

Table of Contents**CONSOLIDATED INCOME STATEMENT****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009****(MILLIONS OF R\$, EXCEPT EARNINGS PER SHARE)**

	Note	2010	2009
<b>REVENUES</b>	23	12,863	12,158
<b>OPERATING COSTS</b>	24		
<b>COST OF ELECTRICITY AND GAS</b>			
Electricity purchased for resale	24c	(3,722)	(3,199)
Charges for the use of the basic transmission grid		(729)	(853)
Gas purchased for resale		(225)	(167)
		(4,676)	(4,219)
<b>OPERATING COST</b>			
Personnel and management	24a	(967)	(926)
Employees' and management's profit shares		(313)	(239)
Materials		(126)	(106)
Raw materials and supplies for energy generation			(4)
Outsourced services	24b	(805)	(639)
Depreciation and amortization		(867)	(872)
Operating provisions	24d	(14)	(46)
Royalties for use of water resources		(140)	(146)
Other	24e	(189)	(79)
		(3,421)	(3,057)
<b>CONSTRUCTION COST</b>		(200)	(119)
<b>TOTAL COST</b>		(8,297)	(7,395)
<b>GROSS PROFIT</b>		4,566	4,763
<b>OPERATING EXPENSES</b>	24		
Selling expenses		(283)	(184)
General and administrative expenses		(367)	(677)
Other operating expenses		(269)	(210)
		(919)	(1,071)
<b>Operating profit before finance costs</b>		3,647	3,692
Financial revenues	25	849	833
Financial expenses	25	(1,674)	(1,188)
<b>Profit before income tax</b>		2,822	3,337
Income tax and social contribution	9	(872)	(896)
Deferred income tax and social contribution	9	308	(235)

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

<b>PROFIT FOR THE YEAR</b>	<b>2,258</b>	<b>2,206</b>
Profit attributable to the Company's shareholders	2,258	2,134
Profit attributable to the non-controlling interest		73
<b>Basic earnings per preferred and common share</b>	<b>3.41</b>	<b>3.69</b>
<b>Diluted earnings per preferred and common share</b>	<b>3.41</b>	<b>3.69</b>

The Explanatory Notes are an integral part of these consolidated financial statements.

F-4

---

Table of Contents**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009****(MILLIONS OF R\$)**

	2010	2009
<b>PROFIT FOR THE YEAR</b>	<b>2,258</b>	<b>2,206</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Foreign currency translation differences for foreign operations	(1)	
Cash flow hedge instruments	2	
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>2,259</b>	<b>2,206</b>
Comprehensive income attributable to the Company's shareholders	2,259	2,134
Comprehensive income attributable to the non-controlling interest		73

The Explanatory Notes are an integral part of these consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009****(MILLIONS OF R\$)**

	Share capital	Capital reserves	Profit reserves	Accumulated other comprehensive income	Accumulated foreign currency translation adjustment	Accumulated losses	Funds allocated to increase of capital	Shareholders equity attributable to equity holders of the Company	Non-controlling interest	Total shareholders equity
<b>Balance at January 1, 2009</b>	<b>2,482</b>	<b>3,983</b>	<b>2,860</b>	<b>1,496</b>		<b>(1,132)</b>	<b>27</b>	<b>9,716</b>	<b>391</b>	<b>10,107</b>
Profit for the year						2,134		2,134	73	2,206
Other comprehensive income:										
<b>Total comprehensive income for the year</b>						<b>2,134</b>		<b>2,134</b>	<b>73</b>	<b>2,206</b>
Transactions with shareholders recorded directly in shareholders equity										
Dividends (R\$1.50 per share)						(931)		(931)		(931)
Other changes in shareholders equity										
Split of RME: elimination of non-controlling interest									(464)	(464)
Capital increase	620	(14)	(606)							
Acquisition of jointly-controlled subsidiaries effect of first-time adoption of IFRS						247		247		247
Constitution of Reserves										
Legal reserve			93			(93)				
Retained earnings			830			(830)				
Realization of reserves										

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Revaluation of property, plant and equipment				(152)		152		
<b>BALANCE AT DECEMBER 31, 2009</b>	<b>3,102</b>	<b>3,969</b>	<b>3,177</b>	<b>1,344</b>		<b>(453)</b>	<b>27</b>	<b>11,165</b>
								<b>11,165</b>
Profit for the year						2,258		2,258
Other comprehensive income:								
Foreign currency transaction differences						(1)		(1)
Cash flow hedge instruments				2				2
<b>Total comprehensive income for the year</b>				<b>2</b>	<b>(1)</b>	<b>2,258</b>		<b>2,258</b>
								<b>2,259</b>
Transactions with shareholders recorded directly in shareholders equity								
Ordinary Dividends (R\$1.65 per share)						(1,129)		(1,129)
Extraordinary Dividends (R\$1.32 per share)			(900)					(900)
Proposed additional dividends (R\$0.10 per share)			67			(67)		
Other changes in shareholders equity								
Capital increase	310	(15)	(295)					
Acquisition of jointly-controlled subsidiaries effect of first-time adoption of IFRS						82		82
Constitution of reserves								
Legal reserve			113			(113)		
Retained earnings			712			(712)		
Realization of reserves								
Revaluation of property, plant and equipment				(135)		135		
<b>BALANCE AT DECEMBER 31, 2010</b>	<b>3,412</b>	<b>3,954</b>	<b>2,874</b>	<b>1,211</b>	<b>(1)</b>		<b>27</b>	<b>11,477</b>
								<b>11,477</b>

The Explanatory Notes are an integral part of these consolidated financial statements.

Table of Contents

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(MILLIONS OF R\$)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
PROFIT FOR THE YEAR	2,258	2,206
<b>Expenses (revenues) not affecting cash and cash equivalents</b>		
Income tax and social contribution	(308)	235
Depreciation and amortization	896	895
Loss on disposal of property, plant and equipment and intangible assets		23
Interest and monetary variation	67	(149)
Operating provisions	(78)	(168)
Amortization of goodwill on acquisitions	72	34
Employee post-retirement benefits	208	243
	<b>3,115</b>	<b>3,319</b>
(Increase) / decrease in assets		
Consumers and traders	(32)	(260)
Account receivable from the Minas Gerais State Government	116	127
Recoverable taxes	34	(73)
Concession holders transport of energy	(34)	66
Escrow deposits	(400)	(245)
Other	(125)	20
	<b>(441)</b>	<b>(365)</b>
Increase (decrease) in liabilities		
Suppliers	269	(40)
Taxes payable	2	544
Payroll and related charges	(110)	59
Regulatory charges	60	(165)
Accrued interest - loans, financings and debentures	286	(259)
Employee post-retirement benefits	(56)	(356)
Provision for losses on financial instruments	(9)	(20)
Other	341	(147)
	<b>783</b>	<b>(384)</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>3,457</b>	<b>2,570</b>



Table of Contents

	2010	2009
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
In short-term investments	(322)	
In financial assets of the concession	(1,558)	(1,390)
In property, plant and equipment	(347)	(702)
In intangible assets	(2,298)	(1,607)
<b>NET CASH USED IN INVESTMENT ACTIVITIES</b>	<b>(4,525)</b>	<b>(3,699)</b>
<b>CASH FLOWS OF FINANCING ACTIVITIES</b>		
Loans, financings and debentures obtained	6,227	5,223
Repayment of loans, financings and debentures	(4,775)	(1,016)
Interest on capital and dividends paid	(1,829)	(937)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>(377)</b>	<b>3,270</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,445)</b>	<b>2,141</b>
<b>STATEMENT OF CHANGES IN CASH AND CASH EQUIVALENTS</b>		
Beginning of the year	4,425	2,284
End of the year	2,980	4,425
	<b>(1,445)</b>	<b>2,141</b>
<b>PAYMENTS MADE IN THE YEAR</b>		
Interest on loans, financings and debentures	803	688
Income tax and social contribution	502	731
<b>NONCASH TRANSACTIONS</b>		
Financial charges transferred to property, plant and equipment	17	5

The Explanatory Notes are an integral part of these consolidated financial statements.

Table of Contents

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS**

**AT DECEMBER 31, 2010 AND 2009**

**(FIGURES IN MILLIONS OF R\$, EXCEPT WHERE OTHERWISE INDICATED)**

**1. OPERATIONAL CONTEXT**

- The Company

Companhia Energética de Minas Gerais ( CEMIG or the Company ) is a listed Brazilian corporation, included in the Brazilian Registry of Corporate Taxpayers (CNPJ) under number 17.155.730/0001-64. Its shares are traded at Corporate Governance Level 1 on the BM&FBovespa exchange ( Bovespa ) and on the Stock Exchanges of New York ( NYSE ) and Madrid ( Latibex ). It operates exclusively as a holding company, with shareholder participations in subsidiaries controlled individually or jointly controlled. The main objectives of its subsidiaries are the construction and operation of systems for generation, transformation, transmission, distribution and sales of electric energy, as well as the development of activities in the different fields of energy, for the purpose of commercial operation.

The Company is an entity domiciled in Brazil, with head office at Avenida Barbacena 1200, Belo Horizonte, Minas Gerais.

CEMIG has shareholder participations in the following subsidiaries that were in operation at December 31, 2010. .

- Cemig Geração e Transmissão S.A. ( Cemig GT ) (subsidiary) listed company in Bovespa: Electric energy generation and transmission, through 48 power plants (43 hydroelectric power, 4 wind power and 1 thermoelectric power) and transmission lines, which comprise part of the Brazilian national generation and transmission grid system.

Cemig GT has shareholder participations in the following subsidiaries:

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

- Hidrelétrica Cachoeirão S.A. ( Cachoeirão ) (jointly controlled): Production and sale of electric energy as an independent power producer, through the Cachoeirão hydroelectric power plant located at Pocrane, in Minas Gerais State. The plant began operating in 2009.
- Central Eólica Praias de Parajuru S.A. ( Parajuru ) (jointly controlled): Production and sale of electric energy through the Parajuru wind farm, in the city of Beberibe, in the State of Ceará. The plant began operating in August 2009.
- Baguari Energia S.A. ( Baguari Energia ) (jointly controlled): Construction, operation, maintenance and commercial operation of the Baguari Hydroelectric Plant, through participation in the UHE Baguari Consortium (Baguari Energia 49.00% and Neoenergia 51.00%), located on the Doce river in Governador

Table of Contents

Valadares, Minas Gerais State. The plant began operation of its units over the period from September 2009 to May 2010.

- Transmissora Aliança de Energia Elétrica S.A. ( TAESA ) (jointly controlled) listed company in Bovespa: Construction, operation and maintenance of electric energy transmission facilities in 11 states of Brazil. TAESA has the following subsidiaries: Empresa de Transmissão do Alto Uruguai S.A. ( ETAU ) and Brasnorte Transmissora de Energia S.A. ( Brasnorte ).

- Central Eólica Praia do Morgado S.A. ( Morgado ) (jointly controlled): Production and sale of electric energy at the Morgado wind farm in the city of Acaraú in the State of Ceará, Northern Brazil. The plant began operating in April 2010.

- Central Eólica Volta do Rio S.A. ( Volta do Rio ) (jointly controlled): Production and sale of electric energy at the Volta do Rio Wind Farm in the city of Acaraú in the State of Ceará, Northern Brazil. The plant began operating in September 2010.

- Hidrelétrica Pipoca S.A. ( Pipoca ) (jointly controlled): Independent production of electric energy, through construction and commercial operation of the Pipoca PCH (Small Hydro Plant), located on the Manhuaçu River, in the cities of Caratinga and Ipanema, in Minas Gerais State. The plant began operating in October 2010.

Subsidiaries and jointly-controlled subsidiaries of Cemig GT at development stage:

- Guanhães Energia S.A. ( Guanhães Energia ) (jointly controlled): Production and sale of electric energy through construction and commercial operation of the following Small Hydro Plants (PCHs) in Minas Gerais state: Dores de Guanhães, Senhora do Porto and Jacaré, in the city of Dores de Guanhães; and Fortuna II, in the city of Virgíópolis. These plants are scheduled to start operation in 2012.

- Cemig Baguari Energia S.A. ( Cemig Baguari ) (subsidiary): Production and sale of electric energy as an independent power producer, in future projects.

- Madeira Energia S.A. ( Madeira ) (jointly controlled): Implementation, construction, operation and commercial operation, through its subsidiary Santo Antônio Energia S.A., of the Santo Antônio hydroelectric power plant located in the Madeira river basin, in the State of Rondônia, with commercial start up scheduled for December 2011.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

- Empresa Brasileira de Transmissão de Energia S.A. ( EBTE ) (jointly-controlled): Holder of a public electric energy transmission service concession, through the transmission lines in the state of Mato Grosso. Operational start up is scheduled for April 2011.
  
- Lightger S.A. ( Light Ger ) (jointly controlled): Independent electric energy production through construction and commercial operation of the hydroelectric potential referred to as the Paracambi Small Hydro Plant, on the Ribeirão das Lages river in the city of Paracambi, in the State of Rio de Janeiro. The operational start up is scheduled for October 2011.

Table of Contents

- Cemig Distribuição S.A. ( Cemig D ) (subsidiary) listed company in Bovespa: Distribution of electric energy through distribution grids and lines in approximately all of Minas Gerais State.
- Light S.A. ( Light ) (jointly controlled) listed company in Bovespa: Holding company that holds direct and indirect interests in other companies to operate electric energy services, including generation, transmission, trading or distribution, and other related services. Light has the following subsidiaries and jointly-controlled subsidiaries:
  - Light Serviços de Eletricidade S.A. ( Light SESA ) (subsidiary) listed company in Bovespa: Primarily operating in electric energy distribution, operating in various municipalities of the State of Rio de Janeiro.
  - Light Energia S.A. ( Light Energia ) (subsidiary): Principal activities are studying, planning, construction, and commercial operation of systems of generation, transmission, trading and related services. It has shareholder participations in Central Eólica São Judas Tadeu Ltda. and Central Eólica Fontainha Ltda.;
  - Light Esco Prestação de Serviços Ltda. ( Light Esco ) (subsidiary): Principal activity is purchase, sale, importation and exportation of electric energy, and provision of consulting services in the energy sector.
  - Itaocara Energia Ltda. ( Itaocara Energia ) (subsidiary): Company at development stage principal activities are planning, construction, installation, and commercial operation of electric energy power plants.
  - Lightger Ltda. ( Light Ger ) (jointly controlled): Company at development stage, formed to participate in auctions of concessions, authorizations and permissions in new power plants. On December 24, 2008, Lightger obtained the installation license authorizing the start of works to construct the Paracambi Small Hydro Plant. It is a jointly-controlled subsidiary of Light S.A (with 51%) and Cemig GT (with 49%).
  - Lighthidro Ltda. ( Light Hidro ) (subsidiary): Company at development stage, formed to participate in auctions of concessions, authorizations and permissions in new power plants.
  - Instituto Light para o Desenvolvimento Urbano e Social ( Instituto Light ): Participation in social and cultural projects, and interest in economic and social development of cities.

- Lightcom Comercializadora de Energia S.A. ( Lightcom ) (subsidiary): Purchase, sale, importation and exportation of electric energy, and general consultancy, in the Free and Regulated Markets for electric energy.
- Axxiom Soluções Tecnológicas S.A. ( Axxiom ) (joint controlled): Providing technological solutions and systems for operational management of public service concessions, including electric energy, gas, water and waste companies and other utilities. Jointly controlled by Light S.A (51%) and CEMIG (49%).
- Sá Carvalho S.A. ( Sá Carvalho ) (subsidiary): Production and sale of electric energy, as an electric energy public service concession holder, through the Sá Carvalho hydroelectric power plant.

Table of Contents

- Usina Térmica Ipatinga S.A. ( Ipatinga ) (subsidiary): Production and sale, as an independent power producer, of thermoelectric energy, through the Ipatinga thermoelectric powerplant, located on the facilities of Usinas Siderúrgicas de Minas Gerais S.A. USIMINAS.
- Companhia de Gás de Minas Gerais GASMIG ( GASMIG ) (jointly controlled): Acquisition, transport and distribution of natural gas and related products, through a concession for distribution of gas in Minas Gerais State.
- Cemig Telecomunicações S.A. ( Cemig Telecom ) (subsidiary): Rendering telecommunications services and developing activities related thereto, through an integrated system consisting of optical fiber cables, coaxial cables, and electronic and associated equipment (multi-service network). It holds 49% of Ativas Data Center ( Ativas ) (joint controlled), the principal activity of which is rendering services to supply IT and communications infrastructure, comprising hosting and related services for medium-sized and large corporations.
- Efficientia S.A. ( Efficientia ) (subsidiary): Rendering energy efficiency and optimization services and energy solutions through studies and execution of projects, as well as rendering services of operation and maintenance in energy supply facilities.
- Horizontes Energia S.A. ( Horizontes ) (subsidiary): Production and sale of electric energy, as an independent power producer, through the Machado Mineiro and Salto do Paraopeba hydroelectric power plants in the Minas Gerais State, and the Salto do Voltão and Salto do Passo Velho power plants in the State of Santa Catarina.
- Central Termelétrica de Cogeração S.A. ( Cogeração ) (subsidiary): Production and sale of thermoelectric energy produced as an independent producer in future projects.
- Rosal Energia S.A. ( Rosal ) (subsidiary): Production and sale of electric energy, as an electric energy public service concession holder, through the Rosal hydroelectric power plant located on the border between the States of Rio de Janeiro and Espírito Santo, Brazil.
- Central Hidrelétrica Pai Joaquim S.A. ( Pai Joaquim ) (subsidiary): Production and sale of electric energy as an independent power producer in future projects.
- Cemig PCH S.A. ( PCH ) (subsidiary): Production and sale of electric energy as an independent power producer, through the Pai Joaquim hydroelectric power plant.



- Cemig Capim Branco Energia S.A. ( Capim Branco ) (subsidiary): Production and sale of electric energy as an independent power producer, through the Amador Aguiar I and II hydroelectric power plants, built through a consortium with private sector partners.
- Usina Termelétrica Barreiro S.A. ( Barreiro ) (subsidiary): Production and sale of electric energy, as an independent thermoelectric power producer, through the construction and operation of the UTE Barreiro thermoelectric power plant, located on the facilities of V&M do Brasil S.A., in Minas Gerais State.
- Cemig Trading S.A. ( Cemig Trading ) (subsidiary): Sale and brokerage of electric energy.

Table of Contents

- Companhia Transleste de Transmissão ( Transleste ) (jointly controlled): Operation of the transmission line connecting the substation located in Montes Claros and the substation of the Irapé hydroelectric power plant.
- Companhia Transudeste de Transmissão ( Transudeste ) (jointly controlled): Construction, operation and maintenance of the Itutinga Juiz de Fora transmission line.
- Companhia Transirapé de Transmissão ( Transirapé ) (jointly controlled): Construction, operation and maintenance of the Irapé Araçuaí transmission line.
- Empresa Paraense de Transmissão de Energia S.A. ( ETEP ) (jointly controlled): Holder of an electric energy public service concession for a transmission line in the State of Pará. ETEP has formed the subsidiary Empresa Santos Dumont de Energia S.A. ( ESDE ).
- Empresa Norte de Transmissão de Energia S.A. ( ENTE ) (jointly controlled): Holder of an electric energy public service concession for transmission through two transmission lines in the States of Pará and Maranhão.
- Empresa Regional de Transmissão de Energia S.A. ( ERTE ) (jointly controlled): Holder of an electric energy public service concession for a transmission line in the State of Pará.
- Empresa Amazonense de Transmissão de Energia S.A. ( EATE ) (jointly controlled): Holder of an electric energy public service concession for the transmission lines between the it substations of Tucuruí, Marabá, Imperatriz, Presidente Dutra and Açailândia. EATE has interests in the following transmission companies: Empresa Brasileira de Transmissão de Energia S.A. ( EBTE ) (jointly controlled); Sistema de Transmissão Catarinense S.A. ( STC ) (subsidiary) and Lumitrans Companhia Transmissora de Energia Elétrica S.A. ( Lumitrans ) (subsidiary).
- Empresa Catarinense de Transmissão de Energia S.A. ( ECTE ) (jointly controlled): Holder of an electric energy public service concession for a transmission lines in the State of Santa Catarina.
- Axxiom Soluções Tecnológicas S.A. ( Axxiom ) (jointly controlled): Providing technological solutions and systems for operational management of public service concessions, including electric energy, gas, water and waste companies and other utilities. Jointly controlled by Light S.A (51%) and Cemig (49%).

- Transchile Charrúa Transmisión S.A. ( Transchile ) (jointly controlled): Implementation, operation and maintenance of the Charrúa Nueva Temuco transmission line and two transmission line sections at the Charrúa and Nueva Temuco substations, in the central region of Chile. The head office of Transchile is in Santiago, Chile. The transmission line began operating in January 2010;
- Companhia de Transmissão Centroeste de Minas ( Centroeste ) (jointly controlled): Construction, operation and maintenance of the Furnas Pimenta transmission line. The transmission line began operating in April 2010.

CEMIG also has shareholder participations in the companies listed below, which as of December 31, 2010 were at development stage:

Table of Contents

- Cemig Serviços S.A. ( Cemig Serviços ) (subsidiary): Rendering services related to planning, construction, operation and maintenance of electric energy generation, transmission and distribution systems, and rendering administrative, commercial and engineering services in the different fields of energy.
- Parati S.A Participações em Ativos de Energia Elétrica ( Parati ) (jointly controlled): holding company to holds interests in other Brazilian or foreign companies to operate in any activity.

The joint control investments were made by CEMIG and its subsidiaries through shareholders agreements with the other shareholders of the investee companies.

(b) The Electric Energy Sector in Brazil:

Brazil's electric energy sector is regulated by the Federal Government through the Mining and Energy Ministry ( MME ), which has exclusive authority over the sector. The regulatory policy for the sector is implemented by the Brazilian National Electric Energy Agency ( ANEEL ).

Retail supply of electric energy by the Company takes place in accordance with the clauses in the long-term electric energy sales concession agreements.

Under these agreements, the Company is authorized to charge its consumers a rate for electric energy supply that consists of two components: 1) a portion relating to the costs of generation, transmission and distribution that are non-manageable ( Parcel A Costs ); and (2) a portion of operational costs ( Parcel B Costs ). Both components are established as part of the original concession for given initial periods. Subsequently to the initial periods, and at regular intervals, ANEEL has the authority to review the Company's costs to determine inflation adjustments (or other similar adjustment factors), if any, applicable to the Parcel B Costs (the Scalar Adjustment ) for the subsequent period. This review may result in a positive, null or negative scalar adjustment.

In addition to the adjustments relating to the Parcel A and Parcel B Costs mentioned above, the electric energy supply concessions have an annual tariff adjustment based on several factors, including inflation. Following regulatory changes made in December 2001, the Company may now apply for tariff adjustments arising from significant events that disrupt the economic-financial equilibrium of its business. Other normal or recurring events (such as increases in electricity purchased, taxes on revenue or even local inflation) may also be absorbed through specific tariff increases. When the Company requests a tariff adjustment, it is necessary to prove the financial impact resulting from these events in its operations. See Notes 31 and 32.

## 2. BASIS OF PREPARATION

### 2.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRS ), as issued by the *International Accounting Standards Board* (IASB). These are the Company's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 - *First time adoption of International Financial Reporting Standards* has been applied.

Table of Contents

The impacts arising from the adoption of IFRS compared with the primary GAAP (Brazilian GAAP) are described in more detail in item 2.7 of this Note. An additional disclosure is presented in item 2.8 of this Note containing the impacts arising from the adoption of IFRS compared with the US GAAP.

On March 16, 2011, the Company's Executive Board authorized for issuance of the Financial Statements for the year ended December 31, 2010, and consequent submission to the Board of Directors.

**2.2. Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value;
- Financial assets at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value.

**2.3. Functional and presentation currency**

These consolidated financial statements are presented in Reais, which is the Company's functional currency. All financial information presented is in millions of Reais, except where otherwise indicated.

**2.4. Use of estimates and judgment**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Information about critical judgments relating to the accounting policies adopted that present effects on the amounts recognized in the consolidated financial statements are included in Note 2.9.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The Company believes that the following accounting policies reflect management's most critical judgments, estimates and assumptions that are important to its business operations and the understanding of its results:

- Note 7 Allowance for doubtful accounts;
- Note 9 Deferred income tax and social contribution;
- Note 11 Account receivable from the Minas Gerais State Government;
- Note 14 Depreciation;
- Note 15 Amortization;
- Note 20 Employee post-retirement benefits;
- Note 21 Provisions;
- Note 23 Unbilled electric energy supplied.

Table of Contents

**2.5. Exemptions**

IFRS 1 allows first-time adopters certain exemptions from the general requirements contained in IFRSs. The Company opted to apply the following exemptions to the retrospective application of IFRS:

- **IFRIC 12 *Service Concession Arrangements*:** The Company considered it impractical to apply the IFRIC 12 retrospectively due to the volume and maturity of its distribution assets in Cemig D and Light SESA and its transmission assets in Cemig GT, which are referred to herein as older concessions. As a result, it used the accounting balances for these assets on the transition date.
- **IAS 16 *Property, Plant and Equipment*:** The standard encourages the establishment, in the first-time adoption of IFRS, of a fair value for those relevant assets or groups of assets in operation and which have book value substantially less than or more than their fair value. The Company made a valuation adjustment to fair value for its older generation assets belonging to Cemig GT, Rosal, Sá Carvalho, Light and Cemig PCH, recorded to accumulated other comprehensive income. For its other generation assets, the Company believes that the cost shall be carried at its historical cost less any accumulated depreciation and any accumulated impairment losses.
- **IFRS 3 *Business Combinations*:** The Company did not apply IFRS 3 Business Combinations on a retrospective basis for business combinations that took place on dates prior to the transition date.

**2.6. Explanation of transition to IFRS**

As stated in Note 2.1, these are the Company's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 2.9 have been applied in preparing the financial statements for the year ended December 31, 2010, the comparative information presented in these financial statements for the year ended December 31, 2009 and in the preparation of an opening IFRS statement of financial position at January 1, 2009 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Brazilian GAAP (primary GAAP). An explanation of how the transition from primary GAAP to IFRSs has affected the Company's financial position and financial performance is set out in the following Note.



**2.7. Main impacts and alterations in the consolidated financial statements as a result of the adoption of IFRS**

The main effects on the Company's consolidated financial statements as a result of the adoption in 2010 of the IFRS rules are described below:

**a) IFRIC 12 - Service Concession Arrangements**

This Interpretation specifies the following conditions that must all be complied with for public concessions to be included in its scope:

Table of Contents

- the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price;
- the grantor controls-through ownership, beneficial entitlement or otherwise-any significant residual interest in the infrastructure at the end of the term of the arrangement.

When analyzing the Company's concession arrangements, we concluded that the above conditions apply to the Company's arrangements for distribution, transmission of electric energy and wind power generation and do not apply to the contracts for hydroelectric and thermoelectric power generation.

According to this Interpretation, when an operator is remunerated by the users of public service, arising from the obtaining of the right to charge them a given price and for a period agreed with the grantor, the amount expended by the operator in the acquisition of this right is recognized as an intangible asset.

On the other hand, when the grantor is responsible for the remuneration of the investments made by the operator, and the agreement establishes that there is an unconditional right to receive cash or other financial asset, whether or not the infrastructure (demand) is actually used over the period of the concession, a financial asset must be recognized.

Considering the characteristics of the Company's distribution concessions, the separated (bifurcated) model was used in the initial adoption, with the division of the infrastructure of the concession between intangible assets and financial assets.

*Application in the activity of electric energy and gas distribution:*

In the activity of distribution the cost of the infrastructure received or built is recovered through two cash flows: (a) part through consumption of electric energy and gas by consumers (issuance of monthly invoices for measured quantities of electric energy and gas consumed/sold) during the concession period; and (b) part as indemnity for the assets that are returnable at the end of the term of the arrangement, to be received directly from the grantor or from whom it delegates that task.

The Company has reported the value of the assets, previously recorded as property, plant and equipment, which will not be fully depreciated by the end of the term of the agreement, as a financial asset due to the unconditional right to receive cash or other financial asset directly from the

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

grantor. The difference between the amount previously recorded in fixed assets and the financial asset registered was transferred to intangible assets.

In Cemig D, in spite of the existence of a renewal clause in the Company's current concession agreements for an additional 20 years, the maturity date of the current agreement in February 2016 was used for the purposes of the separation of the assets, in compliance with IAS 38 Intangible Assets. For the jointly-controlled Light, the year 2026 was used as the maturity date of the agreement.

The intangible assets will be amortized over the useful life of the assets, up to the date of expiry of the concession, using as a basis the estimate prepared by ANEEL.

As defined in the Interpretation, considering that the distribution companies are primarily responsible for the construction and installation, the revenue and expense of construction related to these services need to be recognized. In view of the Brazilian regulatory model, in which the distribution companies have their

Table of Contents

remuneration based on operation and maintenance of the assets, and the construction of new facilities is essentially outsourced, the Company has the view that the profit margin of this construction activity is immaterial, the reason for which it considers it as null for the purposes of preparation of the financial statements.

For the contributions by the consumer, which are recorded in a contra-asset account, the following procedures were adopted:

- the initial balance of special obligations recorded on the Company's date of transition is to be amortized up to the end of the agreement, and any estimated remaining balance is classified as a financial asset, in a contra-asset account;
- the portion of the initial balance that must be amortized between the Company's date of transition and the end of the agreement must be classified as intangible assets, in a contra-asset account.

As a result of the criterion used in the separation of the assets between financial assets and intangible assets based on the carrying amounts stated at that time in fixed assets, the alteration referred to did not change the Company's shareholders' equity as of January 1, 2009.

*Application in activity of transmission:*

In the activity of transmission, the cost of the infrastructure received or built is recovered through two cash flows: (a) part, to be received directly from the users delegated by the grantor (generators, distributors, free consumers, exporters and importers), through the monthly invoicing of the Permitted Annual Revenue (RAP) during the period of the agreement; and (b) part as indemnity (for the cases where the contractual right exists) for the assets that are returnable at the end of the agreement, to be received directly from the grantor or from whom it delegates that task.

In view of the fact that there is no demand risk in the transmission activity, considering the revenue arises only from making the network available, and that for the infrastructure not used up by the end of the agreement there is an unconditional right to receive cash or other financial asset directly from the grantor, the infrastructure that is used in the concession was totally recorded as a financial asset.

The criteria of application of IFRIC 12 in the transmission activity for the older concessions, in relation to the assets of Cemig GT, and for newer transmission concessions, relating to the assets of the other jointly-controlled companies, are as follows:

Newer transmission concessions:

For newer transmission concessions, the calculations were made retrospectively to the beginning of the period of validity of the concession agreement and the costs related to the construction of the infrastructure were recorded in the income statement at the time of their incurred and the construction revenue was recorded at fair value, which includes profit margin for some contracts.

It should be highlighted that the recognition of the costs of infrastructure in the income statement took place only for the assets that will be used during the concession. The portion of the assets that will not be used during the concession was recorded as a financial asset, due to the unconditional right to receive cash or another financial asset directly from the grantor at the end of the period of the agreement.

Table of Contents

Also for the newer concessions, during the period of construction, the transmission revenue to be received during the whole of the period of the concession was recorded in assets at fair value.

After the first-time adoption, the financial assets of the newer concession began to generate a financial revenue through the monetary updating recorded on an effective rate of return basis.

The impacts on shareholders' equity resulting from the adoption of IFRIC 12 for the newer transmission concessions are demonstrated in this Note.

Older transmission concessions:

For the older transmission concessions, the Company considers that regarding the volume and age of its assets there is no conditions for a retrospective application of IFRIC 12. Hence, the book values of the assets were used in the adoption.

The assets, previously recorded in property, plant and equipment, were allocated as a financial asset. No impact occurred to shareholders' equity of January 1, 2009 for the older transmission concessions since the book values originally recorded were used in the adoption.

*Application to the wind power generation activity:*

IFRIC 12 is applicable to the wind power generation activity as a function of the infrastructure to be used during the concession, so the assets are, for the most part, fully depreciated during the period of the concession. Additionally, the electric energy sale price is set in accordance with the PROINFA Program (*Program to Encourage Alternative Electricity Sources*), which means that the sale of electric energy from the wind power plant is not carried out in a free market.

Thus the balance of the asset, previously recorded in property, plant and equipment, has been transferred to intangible assets.

The calculations were made retrospectively to the beginning of the concession agreement; the costs related to the construction of the infrastructure were recorded in the income statement when incurred as construction revenue at fair value, which included the taxes applicable to

the revenue and a profit margin.

b) IAS 16 *Property, Plant and Equipment*

CEMIG performed a revaluation of its older generation assets, recorded in its subsidiaries and jointly-controlled companies Cemig GT, Sá Carvalho, Rosal, Horizontes, Light and Cemig PCH, and contracted a specialized company to evaluate its generation assets and calculate the fair value by the replacement cost. The useful life of the assets was not modified since the Company adopted those estimated and set by ANEEL.

The newer generation assets valuation resulted in an increase in the value of those assets, which was recorded to the shareholders' equity in an account called Accumulated other comprehensive income, in the amount of R\$1,496, net of tax effects on January 1, 2009.

Table of Contents

c) IFRIC 12 Service Concession Arrangements compensation for the concession operation

In obtaining construction concessions for some of the power generation projects, the Company undertook to make payments to the grantor, over the period of validity of the agreement, as compensation for the concession operation.

The concessions to be paid to the grantor require monthly installments with varying values during the period of the concession. For the purposes of accounting and recognition of costs, the Company recognized the expenses incurred in the linear model, based on the updated nominal value.

However, starting from the January 1, 2009, the Company has changed, on a retrospective basis, the accounting practice for recording of these onerous grants, understanding they represent an intangible asset related to the right of concession operation, and at the signature of the agreements, the Company recorded both an intangible asset at and a respective obligation at the present value of the payment obligation.

Intangible assets are amortized as from the start of operation of the plant, and the obligation recorded at present value in liabilities is also updated monthly based on the financial assumptions that were used for the initial recording of that obligation.

d) IAS 23 Borrowing Costs

The Company reassessed the criteria for capitalization of borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset, and a weighted average rate was established for the capitalization of borrowing costs that are outstanding during the period and are not directly attributable to a qualifying asset.

This procedure resulted in transfer of expenses to property, plant and equipment in larger amounts than those calculated in accordance with the previous accounting practice, where only the borrowing costs that were directly attributable to qualifying assets were transferred, and the costs of the other loans and financings were entirely recorded in the income statement.

e) IAS 16 Property, Plant and Equipment



## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Up to 2009, the legislation on the electricity sector allowed that up to 8% of direct expenses on personnel and outsourced services could be capitalized monthly to the property, plant and equipment, in proportion to the investments carried out, applying an allocation criterion.

This procedure is not in accordance with the IFRS, and the Company carried out a reversal of those amounts that had been included in the cost of its assets in 2009, in the amount of R\$29,792.

### f) IAS 19 - *Employee Benefits*

Since 2000, the Company has recorded the costs, the contributions and the actuarial obligation related to the plans that provide retirement pension benefit and other post-employment benefits.

Table of Contents

Although IAS 19 does not contain significant differences in the actuarial calculation of post-employment obligations in comparison to the previous criteria, it is required that the accumulated actuarial losses of previous periods not yet recognized (which were previously disclosed only in an explanatory note) must be recorded in the opening balance of January 1, 2009.

Thus, the Company has recorded an additional obligation in the amount of R\$642,574, with a counterpart in shareholders' equity, for the actuarial losses not yet recognized at January 1, 2009.

Additionally, and exclusively for post-employment obligations for retirement pension benefit, considering that the Company has a debt agreed with the Pension Fund for amortization of actuarial obligations and that this debt is greater than the obligation defined by the actuary under IAS 19, an additional posting was made in liabilities for the recognized obligation reflects the obligation to the Pension Fund, in the amount of R\$24,148. For more details, please see Note 20.

Thus, in view of the fact that for the post-employment obligations on retirement plans the amount recorded in liabilities corresponds to the debt, the monetary updating and the interest applying to this debt are recorded in financial expenses. For the other post-employment obligations on the Health Plan, the Dental Plan and Life Insurance, the expenses are recorded as operational.

g) IASB Framework – Regulatory Assets

The decision on whether regulatory assets and liabilities are within the conceptual framework for financial reporting has been discussed by the IASB since 2005.

As a result of these discussions, an exposure draft on the procedures to be adopted for recording regulatory assets and liabilities in regulated companies was issued by the IASB in 2009 for analysis and receipt of contributions. In 2010, the IASB decided to postpone the conclusion of the project until the last quarter of 2011.

Thus, for 2010, there is no specific rule in effect that permits the recognition of these regulatory assets and liabilities.

h) IAS 12 – Income Taxes

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Arising from the adjustments previously mentioned in this Note related to the first-time adoption of IFRS, the Company recorded the taxes applicable to these adjustments, as demonstrated below in the reconciliation of the consolidated statement of financial position and consolidated income statement.

### Reconciliation of the Consolidated Statement of Financial Position

The reconciliation of the Consolidated Statements of Financial Position as of 01/01/2009 and 12/31/2009 for the adjustments made as a result of the first-time adoption of the IFRS is as shown in the table below:

F-21

---

Table of Contents

ASSETS	Item	01/01/2009 BR GAAP	Adjustments	01/01/2009 IFRS
<b>CURRENT</b>				
Cash and cash equivalents		2,284		2,284
Consumers and traders	H	2,042	(24)	2,018
Extraordinary rate adjustment and Parcel A	H	329	(329)	
Concession holders transport of energy	H	463	(30)	433
Financial assets of the concession	A		141	141
Recoverable taxes		319		319
Income tax and social contribution recoverable		525	(68)	458
Additional Parcel A costs (CVA)	H	779	(779)	
Traders Energy transactions on CCEE	H	15	(15)	
Deferred income tax and social contribution	H	189	(189)	
Regulatory asset PIS, PASEP and COFINS taxes	H	46	(46)	
Deferred rate adjustment	H	133	(133)	
Inventories		36		36
Other credits		517	(42)	475
<b>TOTAL CURRENT</b>		<b>7,678</b>	<b>(1,514)</b>	<b>6,163</b>
<b>NON-CURRENT</b>				
Accounts receivable from the Minas Gerais State Government		1,801		1,801
Extraordinary rate adjustment and Parcel A	H	219	(219)	
Additional Parcel A costs (CVA)	H	297	(297)	
Deferred income tax and social contribution	E C F	748	980	1,728
Traders Energy transactions on CCEE	H	4	(4)	
Recoverable taxes	H	98		98
Income tax and social contribution recoverable		174		174
Escrow deposits		382	58	440
Consumers and traders		91		91
Other credits	H	143	(11)	132
Financial assets of the concession	A		2,891	2,891
Other investments		37		37
Property, plant and equipment	E D A B	12,056	(4,017)	8,039
Intangible assets	D A C	615	3,335	3,950
<b>TOTAL NON-CURRENT</b>		<b>16,664</b>	<b>2,717</b>	<b>19,381</b>
<b>TOTAL ASSETS</b>		<b>24,341</b>	<b>1,202</b>	<b>25,544</b>

Table of Contents

LIABILITIES	Item	01/01/2009 BR GAAP	Adjustments	01/01/2009 IFRS
<b>CURRENT</b>				
Suppliers		892		892
Regulatory charges		489		489
Employee profit sharing		117		117
Taxes payable	A	435	(16)	420
Income tax and social contribution payable	A	192	(78)	114
Interest on capital and dividends payable		960		960
Loans and financings		882		882
Debentures		398		398
Payroll and related charges		294		294
Regulatory liabilities (CVA)	H	488	(488)	
Employee post-retirement benefits		83		83
Provision for losses on financial instruments		99		99
Other obligations	H	479	(40)	439
<b>TOTAL CURRENT</b>		<b>5,808</b>	<b>(622)</b>	<b>5,186</b>
<b>NON-CURRENT</b>				
Regulatory charges		21		21
Regulatory liabilities (CVA)	H	157	(157)	
Loans and financings		4,824		4,824
Debentures		1,240		1,240
Taxes payable	A B C	123		123
Income tax and social contribution		249	798	1,047
Provisions	H	662	60	722
Concessions payable	C		76	76
Employee post-retirement benefits	F	1,397	643	2,039
Other obligations	H	167	(7)	159
<b>TOTAL NON-CURRENT</b>		<b>8,839</b>	<b>1,412</b>	<b>10,251</b>
<b>TOTAL LIABILITIES</b>		<b>14,647</b>	<b>790</b>	<b>15,437</b>
<b>SHAREHOLDERS EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>				
Share capital		2,482		2,482
Capital reserves	B	3,983		3,983
Profit reserves	A C D F H	2,860		2,860
Accumulated other comprehensive income			1,496	1,496
Funds allocated to increase of capital		27		27
Accumulated losses			(1,132)	(1,132)
		9,352	364	9,716
<b>NON-CONTROLLING INTEREST</b>		<b>343</b>	<b>48</b>	<b>391</b>
<b>TOTAL SHAREHOLDERS EQUITY</b>		<b>9,694</b>	<b>412</b>	<b>10,107</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>		<b>24,341</b>	<b>1,202</b>	<b>25,544</b>

Table of Contents

ASSETS	Item	12/31/2009 BR GAAP	Adjustments	12/31/2009 IFRS
<b>CURRENT</b>				
Cash and cash equivalents		4,425		4,425
Consumers and traders	H	2,107	171	2,278
Extraordinary rate adjustment and Parcel A	H	227	(227)	
Concession holders transport of energy	H	396	(29)	367
Financial assets of the concession	A		222	222
Recoverable taxes		344	13	357
Income tax and social contribution recoverable		550	(20)	530
Additional Parcel A costs (CVA)	H	754	(754)	
Traders Energy transactions on CCEE	H	46	(46)	
Deferred income tax and social contribution	H	142	(142)	
Transmission tariff review	H	83	(83)	
Inventories		35		35
Other credits		334	68	403
<b>TOTAL CURRENT</b>		<b>9,444</b>	<b>(827)</b>	<b>8,617</b>
<b>NON-CURRENT</b>				
Accounts receivable from the Minas Gerais State Government		1,824		1,824
Additional Parcel A costs (CVA)	H	200	(200)	
Deferred income tax and social contribution	E C F	572	536	1,108
Recoverable taxes	H	115		115
Income tax and social contribution recoverable		113	5	118
Escrow deposits		628	66	693
Consumers and traders		161		161
Regulatory asset PIS, PASEP and COFINS taxes	H	46	(46)	
Transmission tariff review	H	36	(36)	
Other credits	H	127	(12)	115
Financial assets of the concession	A		5,508	5,508
Other investments		26		26
Property, plant and equipment	E D A B	13,863	(5,560)	8,303
Intangible assets	D A C	1,712	1,994	3,705
<b>TOTAL NON-CURRENT</b>		<b>19,422</b>	<b>2,255</b>	<b>21,677</b>
<b>TOTAL ASSETS</b>		<b>28,866</b>	<b>1,427</b>	<b>30,294</b>

Table of Contents

LIABILITIES	Item	12/31/2009 BR GAAP	Adjustments	12/31/2009 IFRS
<b>CURRENT</b>				
Suppliers		852		852
Regulatory charges		324		324
Employee profit sharing		98		98
Taxes payable	A	429	(10)	419
Income tax and social contribution payable	A	187	(60)	127
Interest on capital and dividends payable		954		954
Loans and financings		4,244	1,634	5,878
Debentures		36	745	781
Payroll and related charges		353		353
Regulatory liabilities (CVA)	H	656	(656)	
Employee post-retirement benefits		94		94
Provision for losses on financial instruments		78		78
Other obligations		415	(95)	320
<b>TOTAL CURRENT</b>		<b>8,722</b>	<b>1,558</b>	<b>10,280</b>
<b>NON-CURRENT</b>				
Regulatory charges		152		152
Regulatory liabilities (CVA)	H	228	(228)	
Loans and financings		5,679	(1,634)	4,044
Debentures		1,335	(745)	590
Taxes payable	A B C	341	(14)	327
Income tax and social contribution payable	A B C	262	727	989
Provisions	H	495	67	562
Concessions payable	C		80	80
Employee post-retirement benefits	F	1,179	736	1,915
Other obligations	H	199	(9)	190
<b>TOTAL NON-CURRENT</b>		<b>9,869</b>	<b>(1,021)</b>	<b>8,849</b>
<b>TOTAL LIABILITIES</b>		<b>18,591</b>	<b>537</b>	<b>19,128</b>
<b>SHAREHOLDERS EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>				
Share capital		3,102		3,102
Capital reserves	B	3,969		3,969
Profit reserves	A C D F H	3,177		3,177
Accumulated other comprehensive income			1,343	1,343
Funds allocated to increase of capital		27		27
Accumulated losses			(453)	(453)
		10,276	890	11,166
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>		<b>28,866</b>	<b>1,427</b>	<b>30,294</b>

Table of ContentsConsolidated Income Statement:

The reconciliation of the Consolidated Income Statement for the adjustments made in the opening balance sheet and for the year ended December 31, 2009 is as follows:

	Item	2009 BR GAAP	Adjustments	2009 IFRS
<b>REVENUES</b>	H A	<b>11,705</b>	<b>453</b>	<b>12,158</b>
<b>OPERATING COSTS</b>				
<b>COST OF ELECTRICITY AND GAS</b>				
Electricity purchased for resale	H	(3,706)	507	(3,199)
Charges for the use of the basic transmission grid	H	(831)	(22)	(853)
Gas purchased for resale	A	(167)		(167)
		(4,704)	485	(4,219)
<b>OPERATING COST</b>				
Personnel and management	E	(905)	(21)	(926)
Employees and management profit shares			(239)	(239)
Post-employment obligations	F	(91)	91	
Materials	E	(100)	(6)	(106)
Raw materials and supplies for energy generation		(4)		(4)
Outsourced services	H E	(642)	3	(639)
Depreciation and amortization	E A B C	(712)	(159)	(872)
Operating provisions	H	(27)	(18)	(46)
Royalties for use of water resources		(146)		(146)
Other	H E A B C	(98)	18	(80)
		(2,726)	(332)	(3,058)
<b>CONSTRUCTION COST</b>			(119)	(119)
<b>TOTAL COST</b>		<b>(7,430)</b>	<b>35</b>	<b>(7,396)</b>
<b>GROSS PROFIT</b>		<b>4,275</b>	<b>488</b>	<b>4,763</b>
<b>OPERATING EXPENSES</b>				
Selling expenses		(184)		(184)
General and administrative expenses		(677)		(677)
Other operating expenses		(111)	(99)	(210)
		(972)	(99)	(1,071)
<b>Operating profit before finance costs</b>		<b>3,303</b>	<b>389</b>	<b>3,692</b>
Financial revenues	C D	883	(50)	833
Financial expenses		(1,103)	(85)	(1,188)
<b>Profit before income tax</b>		<b>3,083</b>	<b>254</b>	<b>3,337</b>



Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Income tax and social contribution		(896)		(896)
Deferred income tax and social contribution	H F D B A E	(15)	(220)	(235)
Employees and management profit sharing		(239)	239	
<b>PROFIT FOR THE YEAR</b>		<b>1,934</b>	<b>272</b>	<b>2,206</b>
Profit attributable to the Company's shareholders		1,861	272	2,134
Profit attributable to non-controlling interest		73		73

F-26

Table of Contents

**2.8. Main Consolidated Financial Statement Impacts resulting from the first-time adoption of IFRS as compared to U.S. GAAP**

We present below the reconciliations between the U.S. GAAP balances presented in the consolidated financial statements included in the December 31, 2009 Form 20-F filed with the SEC as at January 1, 2009 (equivalent to information of December 31, 2008 disclosed) and December 31, 2009 and for the years then ended and the balances as adjusted to IFRS.

a) Regulatory assets and liabilities

According to U.S. GAAP, the Company's distribution business is subject to the provisions as set forth in FASB ASC Topic 980 - Regulated Operations (FASB Statement No. 71 - Accounting for the Effects of Certain Types of Regulation ). The rate-setting structure in Brazil is designed to provide for recovery of the Company's allowable costs. Therefore, the Company capitalizes incurred allowable costs as deferred regulatory assets when instructed by ANEEL and there is a probable expectation that future revenue equal to the costs incurred will be billed and collected as a direct result of the inclusion of the costs in an increased rate set by the regulator. The deferred regulatory asset is eliminated when the Company collects the related costs through billings to customers at the increased rate.

For IFRS purposes, the decision on whether regulatory assets and liabilities are within the conceptual framework of the IFRS has been discussed by the IASB since 2005. However, for 2010 financial reporting purposes, there is no specific rule in effect that permits the recognition of these regulatory assets and liabilities.

b) Concession Contracts

According to the IFRS Interpretation IFRIC 12, when an operator is remunerated by the users of public service, arising from the obtaining of the right to charge them a given price and for a period agreed with the grantor, the amount expended by the operator in the acquisition of this right is recognized in the intangible assets.

On the other hand, when the remuneration of the investments made by the operator is the responsibility of the grantor, and the agreement establishes that there is an unconditional right to receive cash or other financial asset, whether or not the infrastructure (demand) is actually used over the period of the concession, a financial asset must be recognized.

Considering the characteristics of the Company's distribution concessions, a separated (bifurcated) model was used in the initial adoption, with the division of the infrastructure of the concession between intangible assets and financial assets.

The mentioned Interpretation applies to the Company's arrangements for distribution, transmission of electric energy and wind power generation and do not apply to the contracts for hydroelectric and thermoelectric power generation.

For the distribution and some transmission concessions, the Company considers that regarding the volume and age of its assets there is no conditions for a retrospective application of IFRIC 12. Hence, the book values of the assets, according to the BR GAAP, were used in the IFRS first-time adoption.

Table of Contents

CEMIG performed a revaluation of its older generation assets, recorded in its subsidiaries and jointly-controlled companies Cemig GT, Sá Carvalho, Rosal, Horizontes, Light and Cemig PCH, and contracted a specialized company to evaluate its generation assets and calculate the fair value by the replacement cost. The useful life of the assets was not modified since the Company adopted those estimated and set by ANEEL.

Conversely, according to US GAAP, the rights and assets related to the concession contracts are recorded as property, plant and equipment or intangible assets by their nature and are depreciated or amortized using the straight-line method, at annual rates based on the estimated useful life of assets, in accordance with ANEEL regulations and industry practice adopted in Brazil. The residual value at the end of the concession period that will be at least the book value of the property, plant and equipment, is equal to the amount to be reimbursed by the Brazilian government at that time. Additionally, no revaluation has been performed in the performed to its property, plant and equipment.

c) Post-employment obligations

Although there are no significant differences in the actuarial calculation of post-employment obligations for IFRS compared to US GAAP, it is required that the accumulated actuarial losses of previous periods not yet recognized must be recorded at the first-time adoption of the IFRS, in the opening balance of January 1, 2009.

d) Principles of consolidation

According to US GAAP, the consolidated financial statements include the accounts of CEMIG and its subsidiaries, except jointly controlled subsidiaries which are reported under the equity method. In accordance with FASB ASC Section 810-10-25 - Variable Interest Entities - (FASB Statement No. 46(R), Consolidation of Variable Interest Entities).

For IFRS purposes, the financial statements of its subsidiaries and jointly-controlled subsidiaries are included in the consolidated financial statements as from the date on which the control, or shared control, begins until the date on which the control or shared control ceases to exist. The assets, liabilities and results of the jointly-controlled subsidiaries have been consolidated based on the proportional consolidation method.

**Reconciliations**

a) The reconciliation of the shareholders' equity for the adjustments made as a result of the first-time adoption of IFRS is as shown in the table below:

	As of December 31, 2009	As of the transition date January 1, 2009
<b>Shareholders equity as originally presented under US GAAP</b>	<b>10,423</b>	<b>9,333</b>
Concession assets	1,152	961
Post-employment obligations	(327)	(17)
Regulatory assets and liabilities	(234)	(586)
Shareholders equity attributable to the non-controlling interest		391
Others	152	24
<b>Shareholders equity as presented under IFRS</b>	<b>11,166</b>	<b>10,106</b>

Table of Contents

b) The reconciliation of comprehensive income for the adjustments made as a result of the adoption of IFRS is as shown in the table below:

	<b>For the year ended December 31, 2009</b>
<b>Comprehensive income as originally presented under U.S. GAAP</b>	<b>2,021</b>
Concession assets	(68)
Post-employment obligations	(311)
Regulatory assets and liabilities	352
Settlement of a legal action – industrial consumer	117
Net income attributable to the non-controlling interest	72
Others	23
<b>Comprehensive income as presented under IFRS</b>	<b>2,206</b>

**2.9. Significant accounting policies**

The accounting policies described below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2009 for the purposes of the transition to IFRS.

The accounting policies have been applied consistently by the entities of the group.

a) Financial instruments

*Non-derivative financial assets* The Company initially recognizes loans and receivables and deposits on the date that they are originated. All the other financial assets (including assets designated at fair value through the income statement) are recognized initially on the trade date, which is the date that the Company becomes one of the parties to the contractual provisions of the instrument.

The Company derecognizes a non-derivative financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as an individual asset or liability.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

*Financial instruments at fair value through profit or loss* A financial asset is classified as a financial instrument at fair value through the profit or loss if it is classified as held for trading or is designated as

Table of Contents

such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in the income statement when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in the income statement for the period.

The Company holds the following types of financial instruments at fair value through profit or loss: short-term investments and balances of Treasury Financial Notes (LFTs), and National Treasury Notes (LTNs), included in cash and cash equivalents.

*Loans and receivables* Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at the amortized cost using the effective interest method, less any impairment losses.

The Company holds the following types of loans and receivables: consumers and traders, concession holders' transport of energy, cash and cash equivalents (except for LFTs and LTNs), accounts receivable from the Minas Gerais State Government, CRC account securitization fund (FIDC), and financial assets of the concession.

Cash and cash equivalents comprise cash balances and financial deposits readily convertible to known amounts of cash and are subject to an insignificant risk of change in value, classified as loans and receivables. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

The Company recognizes a financial asset resulting from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition the financial assets are measured at amortized cost.

*Available-for-sale financial assets* Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Subsequent to initial recognition they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within shareholders' equity. When an investment is derecognized, the accumulated gain or loss in other comprehensive income is transferred to the income statement.

*Non-derivative financial liabilities* The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.





Table of Contents

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends to either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans and financings, debentures, suppliers and other obligations.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

*Share Capital* Common shares are classified as shareholders' equity. Preferred shares are classified as shareholders' equity if they are not redeemable, or redeemable only at the Company's option. Owners of preferred shares do not have the right to vote but do have preference in the liquidation. The rights to mandatory minimum dividends as established for the preferred shares are described in Note 22.

The mandatory minimum dividends as defined in the by-laws are recognized as a liability in the statement of financial position.

*Derivative financial instruments* The Company holds derivative financial instruments to hedge part of its foreign currency risk exposure. The derivative financial instruments are not used for speculative purposes. Derivatives are recognized initially at their fair value and directly attributable transaction costs are recognized in the income statement as incurred. Subsequent to the initial recognition derivatives are measured at fair value, and any changes to the fair value of these instruments which occur during a given period are recognized in the income statement for the respective period, unless the instruments qualify and are designated as cash flow hedges.

b) Foreign currency

Transactions in foreign currencies are translated to the Company's respective functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments made during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate on the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Gains and losses arising from foreign exchange of investments outside Brazil relating to the Company's jointly-controlled subsidiary Transchile are recognized directly in shareholders' equity in the accumulated foreign currency translation adjustment account, and are recognized in the income statement when these investments are sold, in whole or in part. The financial statements of subsidiary outside Brazil are adjusted to IFRS and are subsequently converted to the Company's functional currency at the exchange rate on the reporting date.

Table of Contents

c) Consumers and Traders

Accounts receivable from consumers and traders are recorded initially at fair value, whether already invoiced or not, and, subsequently, measured by amortized cost. The receivable balance includes the respective direct taxes that are the Company's tax responsibility, less any applicable tax credits that were withheld at the source.

The allowance for doubtful accounts is recorded at an amount estimated by management as sufficient to cover probable losses as follows: (i) for consumers with significant debts, an individual analysis of the balance is made, taking into account the history of default, negotiations in progress and the existence of real guarantees; (ii) for other consumers, the debts that are more than 90 days past due for residential consumers, or more than 180 days past due for commercial consumers, or more than 360 days past due for the other consumer types, are provisioned at 100%. These criteria are the same as those established by ANEEL.

d) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the principle of average cost and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. The materials purchased for inventory purposes are classified in current assets; the materials destined for construction of property, plant and equipment or intangible assets are classified in property, plant and equipment or intangible assets, and are not depreciated or amortized.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

e) Operating leases

Payments made under operating lease contracts are recognized as expenses in the income statement on a straight-line basis over the period of the leasing contract.

f) Assets linked to the concession

*Distribution activity*

The portions of the assets of the concession that will be fully amortized during the concession period are recorded as intangible assets and are amortized in full during the concession agreement period.

The amortization is calculated on a straight-line basis over the useful lives of the distribution assets, using the distribution amortization rates established by ANEEL, and reflect the estimated useful life of the assets.

The Company assesses the residual value of the distribution assets, which represents the amount that will not be fully amortized by the end of the concession period. The residual value is reported in the consolidated financial statements herein as a financial asset because it represents an unconditional right to receive cash or other financial asset directly from the grantor at the end of the concession agreement period.

New distribution assets are recorded initially in intangible assets, valued at acquisition costs, including the

Table of Contents

capitalized borrowing costs. When these assets are placed in service, the Company assesses whether there will be any residual value at the end of the concession agreement period and then reclassifies the residual value amount to financial assets, in accordance with the criteria mentioned in the previous paragraphs.

When an asset is replaced, the net book value of the asset is written off as an expense to the income statement.

*Transmission activity*

For newer transmission concessions, the costs related to the construction of the infrastructure are expensed when incurred. In the same amount, the Company recognizes construction revenue by reference to the stage of completion of a contract, which includes the taxes applicable to the revenue and any profit margin.

Only the costs of the infrastructure that will be used during the concession are recorded in the income statement. The portion of the assets that will not be used during the concession is recorded as a financial asset, because there is an unconditional right to receive cash or other financial assets directly from the grantor at the end of the concession agreement period.

For newer transmission concessions, the transmission revenue to be received throughout the concession agreement period, adjusted at fair value, is recorded in financial assets, during the construction period of the transmission lines.

For older transmission concessions, the Company has not adopted the IFRIC 12 retrospectively due to the volume and age of its assets. Instead, the net book values of these assets were used and classified as financial assets for purposes of the first-time adoption of IFRS.

As the Company earns transmission revenue through making its transmission network available to users, and there have been no historical issues with respect to the demand for transmission activity, the Company considers there to be no significant risk of a shortage of demand for transmission activity. As such, the transmission assets have been classified as financial assets in the consolidated financial statements herein.

Of the total amounts billed, the portion relating to the operation and maintenance of the assets is recorded as revenue, and the portion relating to the construction revenue, originally recorded at the time of formation of the assets, is used to recover the financial assets.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Additional expenditures incurred for purposes of capital expansion and improvements to the transmission assets are capitalized into the financial asset balance, as the Company is entitled to be reimbursed from the grantor for these costs incurred.

### *Gas Activity*

The portions of the assets of the concession that will be fully amortized during the concession period are recorded as intangible assets and are amortized in full during the concession agreement period.

The amortization for the gas related assets is calculated on a straight-line basis over the useful lives of the gas related assets, using the amortization rates based on the useful life estimates made by Management.

Table of Contents

The Company has measured the value of the assets which will not be fully amortized by the end of the concession agreement period and reports this amount as a financial asset because it is an unconditional right to receive cash or other financial asset directly from the grantor.

New gas related assets are recorded initially in intangible assets, valued at acquisition costs, including capitalized borrowing costs. When these assets are placed in service, the Company assesses whether there will be any residual value at the end of the concession agreement period and then reclassifies the residual value to financial assets, in accordance with the criteria mentioned in the previous paragraphs.

When an asset is replaced, the net book value of the assets is written off as an expense to the income statement.

g) Intangible assets

Intangible assets are assets relating to service concession agreements and software.

The Company recognizes intangible assets either through acquisition from third parties or through internal generation. For an intangible asset acquired from third parties, the Company values the asset in the financial statements at its total acquisition cost, net of accumulated amortization. For an internally-generated intangible asset, the Company recognizes the intangible asset during its development phase only if the asset's use is technically feasible and if the asset has a probable likelihood of producing future economic benefits. The Company values its internally-generated intangible assets at cost, net of accumulated amortization and accumulated impairment losses.

For intangible assets linked to the concession, the accounting practices as described in the item assets linked to the concession are applied.

h) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation. Cost includes expenditures that are directly attributable, including borrowing costs, to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.

When an asset is replaced, the net book value of the asset is written off as an expense to the income statement.



Depreciation and amortization are calculated on the balance of property, plant and equipment in service and on the underlying asset balances of investments in consortia, on a straight-line basis, using the rates determined by ANEEL for the assets related to electricity activities, and reflect the estimated useful life of the assets.

The principal depreciation rates applied to the Company's property, plant and equipment assets are shown in Note 14.

The Company revalued its property, plant and equipment balance as of the January 1, 2009, the transition date, using the deemed cost of its older generation assets. For the newer generation assets, the Company

Table of Contents

values the property, plant and equipment assets at historical cost, less accumulated depreciation and accumulated impairment losses to be the accounting treatment that most accurately reflects the value of its fixed assets.

The Company will not alter its dividend policy as a function of the adoption of deemed cost for the older generation assets.

Interest and other financing charges incurred on financings during the construction period on third-party financing are capitalized.

For borrowings raised for construction purposes of a specific plant, property and equipment asset, the Company capitalizes all of the financial costs related to the borrowings directly to the respective asset constructed. For other borrowings raised that are not linked directly to specific property, plant and equipment asset, a weighted average rate is used to capitalize and allocate of the borrowing costs to specific assets in property, plant and equipment.

i) Impairment

*Financial assets*

A financial asset not carried at fair value through the income statement is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of

Table of Contents

impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in the income statement. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

*Non-financial Assets*

The carrying amounts of the Company's non-financial assets, other than inventories and deferred income tax and social contribution, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Property, plant and equipment and intangible assets have their carrying amount tested. If there was an indication that an asset may be impaired.

j) Employee benefits

*Defined contribution plans*

A defined contribution plan is a post-employment benefits plan under which an entity pays fixed contributions into a separate entity (pension fund) and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the income statement in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

*Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in

return for their services rendered in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the asset recognized is limited to the total of any unrecognized past service costs and net actuarial losses and the present value of the economic benefits available in the form of future reimbursements available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of the economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit related to the past service

Table of Contents

of the employees is recognized in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the income statement.

The Company recognizes all actuarial gains and losses in excess of 10% of the plan assets or 10% of the plan liabilities in the income statement over the average time of future service of the present active participants.

For the Company's defined benefit pension plan obligations, the liability recorded in the statement of financial position is the greater of: a) the debt agreed-upon with the foundation for amortization of the actuarial obligations, and b) the present value of the actuarial obligation after deduction of the fair value of plan assets, as calculated by a qualified actuary and provided in the actuarial opinion. In the exercises presented, the debt agreed-upon with the foundation is greater than the amounts of the actuarial opinion. In this case, the annual amount recorded in the income statement corresponds to the charges and monetary variation on that debt, which is allocated as a financial expense of the Company.

*Other long-term employee benefits*

The Company's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method. Any actuarial gains and losses are recognized in the income statement in the period in which they arise.

The procedures mentioned above are used for the actuarial obligations relating to the Company's employee health plan, life insurance plan, and dental plan.

*Termination benefits*

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be reliably estimated reliably.

*Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee, and the obligation can be estimated reliably. Employees' profit shares specified in the Company's by-laws are accrued for in accordance with the requirements established in the collective agreements with the employee unions and recorded in personnel expenses.

Table of Contents

k) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

l) Interest on capital

The Interest on capital paid in substitution of cash dividends, although recorded for tax purposes as a financial expense, is presented in the consolidated financial statements as an amount reducing shareholders' equity, so as to reflect the essence of the transaction.

m) Income tax and social contribution

Income tax and the social contribution, current and deferred, are calculated based on the rates of 15%, plus the additional rate of 10% on taxable income exceeding R\$0.24, for income tax, and 9% on taxable income for the social contribution, and take into account offsetting of tax loss carryforwards and negative balances for calculation of social contribution, limited to 30% of the taxable income.

Income tax and social contribution expense comprises current and deferred tax. The current tax and the deferred tax are recognized in the income statement except to the extent that it relates to a business combination, or items directly recognized in shareholders' equity or other comprehensive income.

Current tax is the tax payable or receivable expected on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted up to the reporting date.



## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

n) Operating revenues, costs and expenses

Revenues, costs and expenses are recognized on an accrual basis.

In general, for Company's business in electricity, gas, telecommunications and other sectors, revenues are recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the

Table of Contents

consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from electric energy sales are recorded based on the electric energy delivered and the tariffs specified in the contractual terms or in effect in the market. Revenues from retail supply of electric energy to final consumers are recorded when the delivery has taken place. Billing is performed monthly. Unbilled retail supply of electric energy, from the period between the last billing and the end of each month, is estimated based on the billing from the previous month and is accrued for at the end of the month. The differences between the amounts accrued and the actual revenues realized, which have not historically been significant, are recorded in the following month.

Revenue from the supply of electric energy to the Brazilian grid system is recorded when the delivery has taken place and is invoiced to consumers on a monthly basis, in accordance with the payment schedules specified in the concession agreement.

Revenue from other operators and from free consumers that use its transmission (older concessions) and distribution grids is recorded in the month in which the network services are provided.

For newer transmission concessions, the portion of the invoicing relating to operation and maintenance of the transmission lines is recorded on a monthly basis as revenues in the income statement. The revenue related to construction services under the contract for service concessions is recognized on a percentage of completion basis.

For the older transmission concessions, the fair value of the operation and maintenance of the transmission lines and the remuneration of the financial asset are recorded as revenue in the income statement each month.

The services provided include charges for connection and other related services and the revenues are accounted when the services are provided.

o) Finance income and finance costs

Finance income includes interest income on funds invested, fee income for consumer payments made late, interest income on financial assets of the concession, interest income on other financial assets. Interest income is recognized in the income statement using the effective interest method.

Finance costs include interest expense on borrowings and foreign exchange and monetary variation on borrowings. Interest expense on the Company's borrowings is recognized using the effective interest method.

p) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit or loss attributable to the controlling shareholders and non-controlling interest of the Company by the weighted average number of the common and preferred shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the controlling shareholders and non-controlling interest and the weighted average number of the common and preferred shares outstanding, adjusted for own shares held, for the

Table of Contents

effects of all dilutive potential shares, with the diluted effect in the periods presented.

q) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax and social contribution assets and liabilities assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

r) New accounting standards not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2010, and have not been applied in preparing these consolidated financial statements. The possible effects of which might impact the consolidated financial statements in future periods of CEMIG are still being evaluated by the Management:

- *IFRS 9 Financial Instruments* Effective starting on January 1, 2013 This standard simplifies the model for measurement of financial assets and establishes two main categories of measurement: amortized cost and fair value. Any alterations in the fair value of liabilities valued at fair value would not have an income statement effect, because they would be recognized in the accumulated other comprehensive income.
- *IFRIC 14 Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* Effective starting on January 1, 2011: This interpretation removes the unintentional consequences that arise from treatment of early payment, in which there is a minimum requirement for provision of funding. The results of early payments of contributions in certain circumstances are recognized as an asset, instead of an expense. This was made effective starting on January 1, 2011. This alteration will not have an impact on the Company's consolidated

financial statements.

- IAS 32 *Financial Instruments* Effective for fiscal years starting on or after February 1, 2010 This standard alteration, issued in October 2009, provides authoritative guidance for accounting for share rights denominated in a currency other than the issuer's functional currency. Provided that certain conditions are met, share rights are now required to be classified as equity, independently of the currency in which the exercise price is denominated. Previously, the shares were required to be accounted for and classified as derivative liabilities. The alteration applies retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This alteration will not have an impact on the Company's consolidated financial statements.

Table of Contents

**3. PRINCIPLES OF CONSOLIDATION**

The financial statements of the subsidiaries and jointly-controlled subsidiaries mentioned in Note 1 have been consolidated for purposes of the consolidated financial statements herein.

(a) In subsidiaries and jointly-controlled subsidiaries

The financial statements of subsidiaries and jointly-controlled subsidiaries are included in the consolidated financial statements from the date on which the control, or shared control, commences until the date on which the control or shared control ceases. The assets, liabilities and results of the jointly-controlled subsidiaries have been consolidated into the consolidated financial statements herein using proportional consolidation. The accounting policies of subsidiaries and jointly-controlled subsidiaries are aligned with the policies adopted by the Company.

(b) Consortia

The quota-part of the assets, liabilities and revenues and expenses of consortium operations is registered in the subsidiary that owns the corresponding participation interest.

(c) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Non-controlling interests in the shareholders' equity of the subsidiaries is presented separately in the consolidated statement of financial position.

The references to jointly-controlled subsidiaries herein are made in relation to the Company's interest only.

## Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

The financial statements of Transchile, for consolidation purposes, are converted from US dollars (the Transchile's functional currency) to Reais based on the exchange rate at the reporting date, since CEMIG's functional currency is the Real. foreign currency differences are recognized in accumulated foreign currency translation adjustment and are presented in shareholders' equity.

The reporting dates of the subsidiaries and jointly-controlled subsidiaries used for consolidation purposes coincide with those of the holding company.

In The consolidated financial statements herein include the balances and transactions of the exclusive investment funds, the only unit holders of which are the Company and its subsidiaries, comprising public and private debt securities and debentures of companies with a minimum Brazilian long-term risk rating of A+(bra), ensuring high liquidity of the securities.

The exclusive fund, the financial statements of which are regularly reviewed and audited, is subject to obligations restricted to payment for services rendered for administration of the assets, attributed to operation of investments, such as custody fees, audit fees and other expenses. There are no significant financial obligations or assets of the unit holders to guarantee these obligations.

As shown in the table below, the Company uses the full and proportional consolidation criteria in preparing its consolidated financial statements. The proportion of holding indicated in the table below represents the percentage of the subsidiary's total capital held by CEMIG.

Table of Contents

Subsidiaries and jointly controlled companies	Form of consolidation	2010		2009		01/01/2009	
		Direct stake (%)	Indirect stake (%)	Direct stake (%)	Indirect stake (%)	Direct stake (%)	Indirect stake (%)
<b>Subsidiaries and jointly controlled companies</b>							
Cemig GT	Full	100.00		100.00		100.00	
Cemig Baguari	Full		100.00		100.00		100.00
Cachoeirão	Proportional		49.00		49.00		49.00
Guanhães Energia	Proportional		49.00		49.00		49.00
Madeira	Proportional		10.00		10.00		10.00
Pipoca	Proportional		49.00		49.00		49.00
Baguari Energia	Proportional		69.39		69.39		69.39
EBTE	Proportional		49.00		49.00		49.00
Parajuru	Proportional		49.00		49.00		49.00
Volta do Rio	Proportional		49.00		49.00		49.00
Morgado	Proportional		49.00		49.00		49.00
TAESA	Proportional		56.69		32.27		
Transmissora Alterosa de Energia	Proportional				49.00		
Light Ger	Proportional		49.00				
Cemig D	Full	100.00		100.00		100.00	
Cemig Telecom	Full	100.00		100.00		100.00	
Ativas Data Center	Proportional		49.00				
Rosal	Full	100.00		100.00		100.00	
Sá Carvalho	Full	100.00		100.00		100.00	
Horizontes	Full	100.00		100.00		100.00	
Ipatinga	Full	100.00		100.00		100.00	
PCH	Full	100.00		100.00		100.00	
Capim Branco	Full	100.00		100.00		100.00	
Cemig Trading	Full	100.00		100.00		100.00	
Efficientia	Full	100.00		100.00		100.00	
Central Termelétrica de Cogeração	Full	100.00		100.00		100.00	
Barreiro	Full	100.00		100.00		100.00	
Pai Joaquim	Full	100.00		100.00		100.00	
Cemig Serviços	Full	100.00		100.00		100.00	
RME	Proporcional					25.00	
Lidil Comercial	Full						25.00
Light	Full						13.03
GASMIG	Proportional	55.19		55.19		55.19	
Transleste	Proportional	25.00		25.00		25.00	