ENERGY CO OF MINAS GERAIS
Form 20-F
June 19, 2009
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

# WASHINGTON, D.C. 20549

# FORM 20-F

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

**or**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2008**

**or**

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

**or**

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

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

**Commission file number 1-15224**

COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG

**(Exact name of Registrant as specified in its charter)**

ENERGY CO OF MINAS GERAIS

**(Translation of Registrant s name into English)**

BRAZIL

**(Jurisdiction of incorporation or organization)**

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

**(Address of principal executive offices)**

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

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

**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:

216,923,394 Common Shares

279,166,540 Preferred Shares

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

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

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

Indicate by check mark whether the registrant 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 o No o

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

Large accelerated filer x Accelerated Filer o Non accelerated filer o

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

U.S. GAAP x IFRS o Other o

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

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

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

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**PRESENTATION OF FINANCIAL INFORMATION**

Companhia Energética de Minas Gerais CEMIG is a *sociedade de economia mista* (a state-controlled mixed capital company) organized and existing with limited liability under the laws of the Federative Republic of Brazil, or Brazil. References in this annual report to CEMIG, we, 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* (singular), the official currency of Brazil, and references to U.S. dollars, dollars or US$ are to United States dollars.

We maintain our books and records in *reais*. We prepare our financial statements in accordance with accounting practices adopted in Brazil, including the principles that are established primarily through Law No. 6,404 of December 15, 1976, as amended, including by Law 11,638 of December 28, 2007, which we refer to as the Brazilian Corporate Law. For purposes of this annual report we prepared balance sheets as of December 31, 2008 and 2007 and the related statements of operations and comprehensive income, cash flows and changes in shareholders equity for the years ended December 31, 2008, 2007 and 2006, in *reais* all in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. KPMG Auditores Independentes has audited our consolidated financial statements as of and for the years ended December 31, 2008 and 2007, as stated in their report appearing

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elsewhere herein, and Deloitte Touche Tohmatsu Auditores Independentes has audited our consolidated financial statements for the year ended December 31, 2006, 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$2.313 to US$1.00, the noon buying rate in New York City for cable transfers in *reais* as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, as of December 31, 2008. See Item 3. Key Information Exchange Rates for additional information regarding exchange rates. We cannot guarantee that U.S. dollars can be converted into *reais*, or that *reais* can be converted into U.S. dollars, at the above rate or at any other rate.

**MARKET POSITION AND OTHER INFORMATION**

The information contained in this annual report regarding our market position is, unless otherwise indicated, presented for the year ended December 31, 2008 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.

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 3, 2007, we effected a stock split in the form of a 50% stock dividend of our preferred shares, with a corresponding adjustment to our Preferred ADSs. Effective June 11, 2007, after giving effect to (i) a reverse stock split of our preferred shares in the form of a consolidation whereby every 500 preferred shares, par value R$0.01, were consolidated into one preferred share with a par value of R$5.00, and (ii) a 100% forward split of the Preferred ADSs, the Preferred ADS ratio was changed to one preferred share per Preferred ADS. In addition, 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 30, 2009, a 25.000000151% stock dividend was paid on the preferred shares, and 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 3, 2007, we effected a partial stock split in the form of a 50% stock dividend of our common shares. On June 11, 2007, we effected a reverse stock split of our common shares in the form of a consolidation whereby every 500 common shares, par value R$0.01, were consolidated into one common share with a par value of R$5.00. On June 12, 2007, we established an American Depositary Share program for our common shares, with each Common ADS representing one common share. In addition, 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 30, 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. 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 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;

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- 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 its maturity;
- 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;
- our ability to renew our concessions;

- existing and future governmental regulation as to electricity rates, electricity usage, competition in our concession area and other matters;

- our ability to integrate the operations of companies we may acquire;

- existing and future policies of the Federal Government of Brazil, which we refer to as the Federal Government;

- existing and future policies of the government of Minas Gerais, which we refer to as the State Government, including policies affecting its investment in us and the plans of the State Government for future expansion of electricity generation, transmission and distribution in Minas Gerais; and

- other risk factors as set forth under Item 3. Key Information Risk Factors.

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

- delay or prevent successful completion of one or more projects;

- increase the costs of projects; and

- result in the failure of facilities to operate or generate income in accordance with our expectations.

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

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**PART I**

**Item 1.** Identity of Directors, Senior Management and Advisers

Not applicable.

**Item 2.** Offer Statistics and Expected Timetable

Not applicable.

**Item 3.** Key Information

**Selected Consolidated Financial Data**

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

The selected consolidated financial data as of December 31, 2008 and 2007 and for each of the three years ended December 31, 2008, 2007 and 2006 have been derived from our audited consolidated financial statements and the notes thereto included elsewhere in this annual report. The selected consolidated data as of December 31, 2006, 2005 and 2004 and for the each of the two years ended December 31, 2005 and 2004 has been derived from our audited consolidated financial statements and notes thereto, which are not included in this annual report.

U.S. dollar amounts in the table below are presented for your convenience. Unless otherwise indicated, these U.S. dollar amounts have been translated from *reais* at R$2.313 per US$1.00, the noon buying rate as of December 31, 2008. 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 5, 2009, the noon buying rate for *reais* was R$1.9606 per US$1.00. See Exchange Rates.

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**Selected Consolidated Financial Data**

| | As of and for the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 (in millions of US$)(1)(2) | 2008 | 2007 | 2006 | 2005 | 2004 |
| | | (In millions of R$ except per share/ADS data or as otherwise indicated) | | | | |
| **Income Statement Data:** | | | | | | |
| Net operating revenues: | | | | | | |
| Electricity sales to final consumers | 4,538 | 10,497 | 10,191 | 9,319 | 8,708 | 8,541 |
| Deferred rate adjustment (3) | | | | | 110 | 640 |
| Electricity sales to the interconnected power system | 462 | 1,069 | 1,134 | 884 | 237 | 36 |
| Use of basic transmission and distribution networks | 806 | 1,865 | 1,705 | 1,780 | 1,523 | 245 |
| Other operating revenues | 104 | 241 | 236 | 200 | 176 | 625 |
| Tax on revenues | (1,662) | (3,844) | (3,836) | (3,543) | (3,241) | (2,608) |
| Total net operating revenues | 4,248 | 9,828 | 9,430 | 8,640 | 7,513 | 7,479 |
| | | | | | | |
| Operating costs and expenses: | | | | | | |
| Electricity purchased for resale | (980) | (2,267) | (2,147) | (1,907) | (1,455) | (1,370) |
| Natural gas purchased for resale | | | | | | (268) |
| Use of basic transmission and distribution networks | (274) | (634) | (564) | (687) | (709) | (538) |
| Depreciation and amortization | (332) | (769) | (878) | (810) | (669) | (677) |
| Personnel | (434) | (1,004) | (884) | (1,046) | (779) | (788) |
| Regulatory charges | (443) | (1,024) | (967) | (1,031) | (983) | (861) |
| Special liabilities | | | | (1,057) | | |
| Third-party services | (262) | (605) | (550) | (475) | (420) | (329) |
| Employee post-retirement benefits | (120) | (277) | (140) | (245) | (257) | (153) |
| Materials and supplies | (73) | (170) | (148) | (116) | (95) | (83) |
| Reversal (Provision) for loss on deferred regulatory assets (3) | (8) | (19) | (146) | (49) | (183) | (9) |
| Employee profit sharing | (157) | (362) | (455) | (210) | (260) | (110) |
| Other | (177) | (410) | (472) | (234) | (379) | (280) |
| Total operating costs and expenses | (3,260) | (7,541) | (7,351) | (7,867) | (6,189) | (5,466) |
| | | | | | | |
| Operating income | 988 | 2,287 | 2,079 | 773 | 1,324 | 2,013 |
| | | | | | | |
| Financial income (expenses), net | 7 | 17 | (48) | 335 | 754 | 350 |
| | | | | | | |
| Non-Operating Income | 88 | 204 | 272 | 91 | 29 | 105 |
| | | | | | | |
| Income before income taxes and minority interests | 1,083 | 2,508 | 2,303 | 1,199 | 2,107 | 2,468 |
| Income taxes expense | (326) | (755) | (685) | (497) | (300) | (731) |
| Minority interests | | | | | 2 | 2 |
| Net income (loss) | 757 | 1,753 | 1,618 | 702 | 1,809 | 1,739 |
| | | | | | | |
| Other comprehensive income (loss) | 129 | 299 | (400) | 140 | 25 | (474) |
| Comprehensive income | 886 | 2,052 | 1,218 | 842 | 1,834 | 1,265 |
| | | | | | | |
| Basic earnings (loss): (5) | | | | | | |
| Per common share | 1.53 | 3.53 | 3.33 | 1.44 | 3.72 | 3.58 |
| Per preferred share | 1.53 | 3.53 | 3.33 | 1.44 | 3.72 | 3.58 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Per ADS | 1.53 | 3.53 | 3.33 | 1.44 | 3.72 | 3.58 |
| Diluted earnings (loss): (5) | | | | | | |
| Per common share | 1.52 | 3.51 | 3.26 | 1.41 | 3.69 | 3.58 |
| Per preferred share | 1.52 | 3.51 | 3.26 | 1.41 | 3.69 | 3.58 |
| Per ADS | 1.52 | 3.51 | 3.26 | 1.41 | 3.69 | 3.58 |

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| | 2008 (in millions of US$)(1)(2) | 2008 | As of and for the year ended December 31, 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|
| | | | (In millions of R$ except per share/ADS data or as otherwise indicated) | | | |
| **Balance Sheet Data:** | | | | | | |
| Assets: | | | | | | |
| Current assets | 2,687 | 6,216 | 5,935 | 4,778 | 4,778 | 3,276 |
| Property, plant and equipment, net | 6,058 | 14,011 | 13,835 | 13,426 | 11,971 | 11,191 |
| Deferred regulatory assets long-term | 143 | 332 | 823 | 1,548 | 2,315 | 2,929 |
| Account receivable from State Government | 779 | 1,801 | 1,763 | 1,726 | 1,519 | 1,097 |
| Other assets | 1,047 | 2,421 | 1,997 | 1,841 | 763 | 504 |
| Total assets | 10,714 | 24,781 | 24,353 | 23,319 | 21,346 | 18,997 |
| | | | | | | |
| Liabilities: | | | | | | |
| Current portion of long-term financing | 518 | 1,197 | 941 | 691 | 985 | 1,417 |
| Other current liabilities | 1,596 | 3,692 | 3,572 | 3,639 | 3,953 | 2,286 |
| Long-term financing | 2,297 | 5,314 | 5,873 | 5,833 | 3,841 | 2,750 |
| Employee post-retirement benefits long-term | 763 | 1,765 | 2,182 | 1,666 | 1,535 | 1,606 |
| Shareholders equity | 4,035 | 9,333 | 8,224 | 8,370 | 9,252 | 9,209 |
| Capital stock | 989 | 2,288 | 2,239 | 1,428 | 1,428 | 1,428 |
| | | | | | | |
| **Other Data:** | | | | | | |
| Weighted average outstanding shares basic: (5) | | | | | | |
| Common | | 216,923,395 | 212,622,504 | 212,622,504 | 212,622,504 | 212,622,504 |
| Preferred | | 279,170,735 | 273,631,569 | 273,631,569 | 273,631,569 | 273,631,569 |
| Dividends per share (5) | | | | | | |
| Common | | R$1.90 | R$2.81 | R$2.77 | R$3.68 | R$1.19 |
| Preferred | | R$1.90 | R$2.81 | R$2.77 | R$3.68 | R$1.19 |
| Dividends per ADS (5) | | R$1.90 | R$2.81 | R$2.77 | R$3.68 | R$1.19 |
| Dividends per share (4)(5) | | | | | | |
| Common | | US$0.82 | US$1.58 | US$1.30 | US$1.58 | US$0.45 |
| Preferred | | US$0.82 | US$1.58 | US$1.30 | US$1.58 | US$0.45 |
| Dividends per ADS (4)(5) | | US$0.82 | US$1.58 | US$1.30 | US$1.58 | US$0.45 |
| | | | | | | |
| Weighted average outstanding shares diluted: (5) | | | | | | |
| Common | | 218,140,931 | 216,925,229 | 217,250,274 | 214,450,359 | 212,622,504 |
| Preferred | | 280,737,646 | 279,168,901 | 279,587,214 | 275,983,902 | 273,631,569 |
| Dividends per share diluted (5) | | | | | | |
| Common | | R$1.89 | R$2.75 | R$2.71 | R$3.65 | R$1.19 |
| Preferred | | R$1.89 | R$2.75 | R$2.71 | R$3.65 | R$1.19 |
| Dividends per ADS diluted (5) | | R$1.89 | R$2.75 | R$2.71 | R$3.65 | R$1.19 |
| Dividends per share diluted (4)(5) | | | | | | |
| Common | | US$0.82 | US$1.55 | US$1.27 | US$1.57 | US$0.45 |
| Preferred | | US$0.82 | US$1.55 | US$1.27 | US$1.57 | US$0.45 |
| Dividends per ADS diluted (4)(5) | | US$0.82 | US$1.55 | US$1.27 | US$1.57 | US$0.45 |

(1) Converted at the exchange rate of US$1.00 to R$2.313, the noon buying rate as of December 31, 2008. See Exchange Rates.

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

(3) See Note 4 to our consolidated financial statements.

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

(5) Per share numbers have been adjusted to reflect the stock dividend and consolidation of our shares, and per Preferred ADS numbers have been adjusted to reflect the 100% forward split of our Preferred ADSs, each of which occurred in May and June 2007.

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**Exchange Rates**

In March 2005, the National Monetary Council (*Conselho Monetário Nacional*) consolidated the commercial rate exchange market and the floating rate exchange market into a single floating rate exchange market, where all foreign exchange transactions are now carried out by financial institutions authorized 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 noon buying rates for *reais*, expressed in *reais* per US$1.00.

| | Reais per US$1.00 | | | |
|---|---|---|---|---|
| **Month** | **Low** | **High** | **Average** | **Period-end** |
| December 2008 | 2.2905 | 2.6187 | 2.3954 | 2.3130 |
| January 2009 | 2.1895 | 2.3698 | 2.3079 | 2.3130 |
| February 2009 | 2.2375 | 2.3898 | 2.3230 | 2.3750 |
| March 2009 | 2.2371 | 2.4420 | 2.3161 | 2.3007 |
| April 2009 | 2.1617 | 2.2860 | 2.2027 | 2.1724 |
| May 2009 | 1.9680 | 2.1730 | 2.0689 | 1.9678 |
| June 2009 (through June 5, 2009) | 1.9402 | 1.9606 | 1.9478 | 1.9606 |

| | Reais per US$1.00 | | | |
|---|---|---|---|---|
| **Year Ended December 31,** | **Low** | **High** | **Average** | **Period-end** |
| 2004 | 2.6510 | 3.2085 | 2.9262 | 2.6550 |
| 2005 | 2.1695 | 2.7755 | 2.4352 | 2.3340 |
| 2006 | 2.0549 | 2.3580 | 2.1738 | 2.1342 |
| 2007 | 1.7298 | 2.1520 | 1.9449 | 1.7790 |
| 2008 | 1.5580 | 2.6190 | 1.8322 | 2.3130 |

Source: U.S. Federal Reserve Board

**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. It is not possible to analyze the impact and effects this may have on us or our results of operations. The government of the State of Minas Gerais currently holds approximately 51% of our common shares and, consequently, has the right to the majority of votes in decisions of the General Meetings of our Shareholders, and can (i) elect the

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majority of the members of the Board of Directors of CEMIG, and (ii) decide matters requiring approval by a specific majority of our shareholders, including transactions with related parties, shareholding reorganizations and the date and payment of any dividends.

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

*We are subject to extensive 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.

Law No. 10,848/04 and Decree 5,163 of July 30, 2004 governing the purchase and sale of electricity under the New Industry Model Law remain subject to the implementation of resolutions by ANEEL. Moreover, the constitutionality of Law No. 10,848/04 is currently being challenged before the Brazilian Supreme Court. The Brazilian Supreme Court has not yet reached a final decision and, therefore, Law No. 10,848/04 is currently in force. If all or a portion of Law No. 10,848/04 is considered to be unconstitutional by the Brazilian Supreme Court, all or a portion of the regulatory scheme introduced by Law No. 10,848/04 may not come into effect, generating uncertainty as to how and when the Federal Government will be able to introduce changes to the electricity industry. Accordingly, we cannot now evaluate the impact of 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 generation 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 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 contracts up to a certain limit, exposing our generation companies to the risk of failing to sell its remaining energy at adequate prices.

We also perform trading activities through power purchase and sale contracts, mainly in the ACL market, through our generation and trading subsidiaries. Contracts in the ACL with consumers that are allowed to purchase energy directly from generating companies or from energy traders, referred to as Free Consumers, are generally consumers with demand equal to or greater than 3 MW or consumers with demand between 500 KW and 3 MW from so-called renewable energy sources, such as small hydroelectric facilities. Older contracts with consumers greater than 3MW 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.

If we are unable to sell all our energy in the auctions or in the ACL, our energy will be placed in the CCEE at a settlement price (Preço de Liquidação de Diferenças), or PLD, which has been very volatile. If this occurs in periods of low settlement prices, our revenues and results of operations could be adversely affected.

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

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

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

We have an account receivable from the State Government, referred to as the CRC Account, that totaled R$1,801 million as of December 31, 2008. The agreement between CEMIG and the State Government that governs the CRC Account receivable is referred to as the CRC Account Agreement. Historically we have had and continue to have difficulty collecting amounts due from the State Government under the CRC Account. We have renegotiated and amended the terms of the CRC Account on a number of occasions in connection with this difficulty. We cannot assure you we will be paid on a timely basis in the future or at all. 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 the ONS itself, shall be shared among generation, distribution and transmission companies. Until a final criteria is defined, the liability for such damages shall be shared in the proportion of 35.7% to distribution agents, 28.6% to transmission agents and 35.7% to generation agents. Therefore, our business, results of operations and financial condition may be adversely affected.

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

As a state controlled company, we are subject to rules and limits on the level of credit applicable to the public sector issued by the National Monetary Council and by the Central Bank. These rules set certain parameters and conditions for financial institutions to be able to offer credit to public sector entities. Thus, if our operations do not fall within these parameters and conditions, we may have difficulty in obtaining financing from Brazilian financial institutions, which could create difficulties in the implementation of our investment plan or in refinancing our financial obligations. Brazilian legislation also establishes that a state-controlled company, in general, may only use proceeds of external transactions with commercial banks (debt, including bonds) to refinance financial obligations. As a result of these regulations, our capacity to incur debt is again limited, and this could negatively affect the implementation of our investment plan or the refinancing of our obligations.

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

We are subject to certain restrictions on our ability to incur debt due to covenants set forth in our loan agreements. In the event of our non-compliance with any such covenants in our loan agreements, the total principal, future interest and any penalties due under these agreements may become immediately due and payable. In the past we have, at times, been in non-compliance with our covenants under our loan agreements, and although we were able to obtain waivers from our creditors, no assurance can be given that we would be successful in obtaining any waivers in the future. Early maturity of our obligations could adversely affect our financial condition especially in light of cross default provisions in several of our loan and financing contracts. The existence of limitations on our indebtedness could prevent us from borrowing to finance our operations or to refinance our existing obligations which could adversely affect our business, results of operations and financial condition.

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

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

- fines per breach of up to 2.0% of the concessionaire s revenues in the year ended immediately prior to the date of the relevant breach;

- injunctions related to the construction of new facilities and equipment;

- restrictions on the operation of existing facilities and equipment;

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- temporary suspension from participating in bidding processes for new concessions;

- intervention by ANEEL in the management of the concessionaire in breach; and

- termination of the concession.

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

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

*We are uncertain as to the renewal of our concessions.*

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

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

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

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

Shortages and/or rationing due to adverse hydrological conditions not covered by the Energy Reallocation Mechanism (as described in Item 4. The Brazilian Power Industry Energy Reallocation Mechanism ) could result in increased costs and reduced cash flow. In addition, if the new energy auctions under the New Industry Model Law fail to result in an expansion in electricity generation capacity to adequate levels to meet growing demand, rationing measures could be implemented. Any limitation on our electricity generation capacity could adversely affect our business, results of operations and financial condition.

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

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

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

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- we may not be able to obtain adequate working capital to finance our expansion projects; and

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

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

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

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

Non-compliance with environmental laws and regulations could, independently of the obligation to redress any damages that may be caused, result in the application of criminal and administrative sanctions being applied. Based on Brazilian legislation, criminal penalties such as restricting rights, and even imprisonment, may be applied to individuals (including managers of legal entities), and penalties such as fines, restriction of rights or community service may be applied to legal entities. With respect to administrative sanctions, depending on the circumstances, the environmental authorities may impose warnings and fines 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 or financial condition.

In addition, CEMIG is subject to Brazilian legislation requiring the payment of compensation in relation to the polluting effects of its activities. Pursuant to such legislation, up to 0.5% of the total amount invested in the implementation of a project that causes significant environmental impact must be directed towards environmental compensation measures. CEMIG has not yet assessed the effects that this legislation may have on it. See Item 4. Information on the Company Environmental Matters Compensation Measures. Any charges on CEMIG, as a result of this regulation, could be significant and may impact our business, results of operations or financial condition.

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

As of December 31, 2008, our total past due receivables from final consumers were approximately R$917 million, corresponding to 9.3% of our net revenues for 2008, and our allowance for doubtful accounts was R$244 million. Approximately 11.7% of the past due receivables were owed by entities in the public sector. We may be unable to recover debts from several municipalities and other defaulting clients. If these debts are not totally or partially recovered, we will experience an adverse impact on our business, results of operations and financial condition. In addition, any consumer defaults in excess of our allowance for doubtful accounts could have an adverse effect on our business, results of operations and

financial condition.

*The current global recession may have significant effects on our customers, which could adversely affect our business, operating results and financial condition.*

The current global recession, as well as slow recovery period, may lead to lower demand for our services, increased incidences of our customers inability to pay for our services, or the insolvency of our customers. Many economists are now predicting that the current recession in the global economy may be prolonged as a result of the deterioration in the credit markets and related financial crisis, as well as a variety of other factors. Any of these events may negatively impact our sales, revenue generation and margins, and consequently adversely affect our business, operating results and financial condition.

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

Our by-laws contemplate that we spend up to 40.0% of our annual EBITDA (earnings before interest, income taxes, depreciation and amortization), during the period from 2009 through 2013, on the construction of new power installations and the refurbishment and maintenance of existing power plants and transmission and distribution systems. Our ability to carry out this capital expenditure program is dependent upon a number of factors, including our ability to charge adequate rates for our services, our access to domestic and international capital markets and a variety of operating and other factors. In addition, our plans to expand our generation and transmission capacity are subject to the competitive bidding process governed by the Concessions Law. We cannot give any assurance that we will have the financial resources to complete this program.

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

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

Because Companhia Energética de Minas Gerais CEMIG is a holding company with no revenue-producing operations other than those of its operating subsidiaries, we will be able to distribute dividends to shareholders only if Companhia Energética de Minas Gerais CEMIG receives dividends or other cash distributions from its operating subsidiaries. The dividends that our subsidiaries may distribute to us depend on our subsidiaries generating a sufficient profit in any given fiscal year. Dividends can be paid out from accumulated profits from previous years or from capital reserves. Such profits are calculated and paid in accordance with Brazilian Corporate Law and the provisions of the by-laws of each of our regulated subsidiaries. Any capital reduction that would enable our shareholders to receive distributions would be subject to the prior approval of ANEEL.

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

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

*We will need short-term funds to pay our obligations and to fund our current and expected acquisitions.*

On December 31, 2008, our total debt was R$6,511 million, of which R$1,197 million matures in 2009. We will need funds in the short term to pay or refinance these obligations and to fund our current and expected acquisitions. 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 pay our obligations or finance our acquisitions. If we are unable to successfully raise funds as planned, we may not be able to entirely pay our debt or meet all our acquisition commitments, including the purchase of Terna Participações S.A., and our investment program could suffer significant delays, which could adversely affect our business, financial condition and prospects.

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

We are currently defending several legal proceedings relating to civil, administrative, environmental, tax and other claims. These claims involve a wide range of issues and seek substantial amounts of money. Several individual disputes account for a significant part of the total amount of claims against us. Our consolidated financial statements include reserves relating to litigation claims totaling R$390 million as of December 31, 2008 (excluding labor-related matters) for probable and reasonably estimable losses and expenses we may incur in connection with pending litigation. In the event that our reserves for litigation claims prove to be insufficient, the payment of litigation claims in an amount in excess of

the reserved amounts could have an adverse effect on our business, results of operations or financial condition.

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

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

We are currently defending a number of labor-related claims brought by our employees that generally relate to overtime and compensation for occupational hazards. We are also subject to claims related to labor outsourcing, in which employees of our contractors and subcontractors have brought actions against us for the payment of outstanding labor liabilities. As of December 31, 2008, our labor-related claims totaled, in the aggregate, approximately R$193.8 million, and at that date we had accrued a liability of approximately R$82 million for losses we expect from these claims. For a more detailed discussion of labor-related proceedings, see Item 8. Financial Information Legal Proceedings Labor and Pension Fund Obligations.

We have not experienced any material labor unrest during the last seven years, although in 2006 three work stoppages did occur, in 2007 four work stoppages occurred and in 2008, one minor work stoppage occurred. Our operations might be interrupted by a labor disturbance in the future. We do not carry insurance for losses incurred as a result of business interruptions caused by labor action. In the event of a strike, we might face an immediate loss of revenue.

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

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

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

*Effective control of CEMIG is subject to judicial challenge.*

In connection with the purchase in 1997 of approximately 33% of our common shares by Southern Electric Brasil Participações Ltda., or Southern, the State Government entered into a shareholders agreement with Southern, granting Southern control over certain significant corporate decisions. In 1999, the State Government filed a lawsuit seeking to nullify the shareholders agreement on constitutional grounds. In August 2001, after several rulings and appeals, the Minas Gerais State Court of Appeals ruled that the shareholders agreement is null and void. In December 2003, this ruling was appealed to the *Superior Tribunal de Justiça* (Superior Court of Justice), which upheld the Minas Gerais State Court of Appeals ruling. The decision of the Superior Court of Justice is subject to review and therefore the effective control of CEMIG remains subject to further judicial challenge in the *Supremo Tribunal Federal* (Supreme Court). For a more detailed discussion of this proceeding, see Item 8. Financial Information Legal Proceedings Shareholders Agreement.

**Risks Relating to Brazil**

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

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

- fluctuations in the exchange rate;

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

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

*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 2006, 2007 and 2008 were 3.1%, 4.5% and 5.9%, respectively. No assurance can be given that inflation will remain at these levels.

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

Substantially all of our cash operating expenses are denominated in *reais* and tend to increase with Brazilian inflation. Inflationary pressures may also hinder our ability to access foreign financial markets or may lead to further government intervention in the economy, including the introduction of government policies that could harm our business, results of operations and financial condition or adversely affect the market value of our shares and as a result, our 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 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 2008, the *real* depreciated 30.0% against the U.S. dollar, due in part to the global credit crisis and economic slowdown. Between December 31, 2008 and May 31, 2009, the *real* appreciated 15.0% 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, 2008, the noon buying U.S. dollar/*real* exchange rate was R$2.313/US$1.00. See Exchange Rates.

As of December 31, 2008, approximately 6.8% of our total indebtedness from loans, financings and debentures was denominated in currencies other than the *real* (70.8% of that 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. However, 36.6% of our debt denominated in foreign currencies is hedged under currency swaps that convert our foreign currency obligations into *reais*. Our foreign exchange losses increased from R$12 million in 2007 to R$126 million in 2008. However, despite the depreciation of the *real* against the U.S. dollar in 2008, our financial income (expenses) in 2008 improved from an expense of R$48 million in 2007 to income of R$17 million in 2008.

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

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

*Political and economic instability in Brazil may affect us.*

Periodically, allegations of unethical or illegal conduct are made with respect to figures in the Brazilian government, including legislators and/or party officials. In 2007, the first year of Lula s second term, other members of the government were accused of corrupt behavior for various reasons, resulting in the resignation of one minister and of the president of the senate. If these events lead to a materially adverse perception of Brazil among investors, the trading value of our shares, the Preferred ADSs and the

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Common ADSs could decline, and our ability to access international markets could suffer. In addition, any political instability resulting from these events could cause us to re-assess our strategies if the Brazilian economy suffers as a result.

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

*The preferred shares and Preferred ADSs and the Common ADSs generally do not have voting rights.*

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

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

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

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

Law No. 10,833 of December 29, 2003 provides that the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. This provision results in the imposition of income tax on the gains arising from a disposition of our preferred shares or common shares by a non-resident of Brazil to another non-resident of Brazil. There is no judicial guidance as to the application of Law No. 10,833 and, accordingly, we are unable to predict whether Brazilian courts may decide that it applies to dispositions of our Preferred ADSs and Common ADSs between non-residents of Brazil. However, in the event that the disposition of assets is interpreted to include a disposition of our Preferred ADSs and Common ADSs, this tax law would accordingly result in the imposition of withholding taxes on the disposition 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 abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds related thereto. If you decide to exchange your 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 Resolution No. 2,689 of January 26, 2000, of the Brazilian *Conselho Monetário Nacional*, or National Monetary Council, which entitles foreign investors to buy and sell on the Brazilian stock exchanges. If you do not obtain this certificate, you will be subject to less favorable tax treatment on gains with respect to the preferred or common shares. If you attempt to obtain your own certificate of registration, you may incur expenses or suffer significant delays in the application process. Obtaining a certificate of registration involves generating significant documentation, including completing and filing various electronic forms with the Central Bank and the *Comissão de Valores Mobiliários* (the Brazilian securities regulatory body), or the CVM. In order to complete this process, the investor will usually need to 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

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applicable to you, the disposition of the underlying preferred shares or the repatriation of the proceeds from disposition could not be imposed in the future.

*The r*elative volatility and illiquidity of the Brazilian securities market may adversely affect our shareholders.

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

- changes to the regulatory, tax, economic and political environment that may affect the ability of investors to receive payment, in whole or in part, with respect to their investments; and

- restrictions on foreign investment and on repatriation of capital invested.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. This may substantially limit your ability to sell the shares underlying your Preferred ADSs or Common ADSs at a price and time at which you wish to do so. The BM&F BOVESPA *Bolsa de Valores, Mercadorias e Futuros*, or São Paulo Stock Exchange, the only stock exchange in Brazil upon which shares are traded, had a market capitalization of approximately US$1.4 trillion as of December 31, 2008 and an average daily trading volume of approximately US$2.5 billion for 2008. In comparison, the operating companies listed on the New York Stock Exchange, Inc., or the NYSE, had a market capitalization of approximately US$15 trillion as of December 31, 2008 and an average daily trading volume of approximately US$110.9 billion for 2008.

*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 book 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 were not made for a fiscal year. See Item 8. Financial Information Dividend Policy and Payments for a more detailed discussion.

*Holders of the Preferred ADSs and Common ADS and holders of our shares have less well-defined shareholders rights than holders of shares in U.S. companies.*

Our corporate governance, disclosure requirements and accounting standards applicable to Brazilian companies are governed by our by-laws and by the Brazilian Corporate Law, which may differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as Delaware or New York, or in other jurisdictions outside Brazil. Your rights to protect your interests relative to actions taken by our Board of Directors or by our controlling shareholder may be less well defined and less well supported by established rules and judicial precedents than under the laws of certain jurisdictions outside Brazil.

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

*Shares eligible for future sale may adversely affect the market price of our shares and the Preferred ADSs and Common ADS.*

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

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*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 de economia mista* (a state-controlled mixed capital company) with limited liability and indefinite duration, pursuant to Minas Gerais State Law No. 828 of December 14, 1951 and its implementing regulation, Minas Gerais State Decree 3,710 of February 20, 1952. Our full legal name is Companhia Energética de Minas Gerais CEMIG, but we are also known as CEMIG. Our headquarters are located at Avenida Barbacena, 1200, Belo Horizonte, Minas Gerais, Brazil. Our main telephone number is (55-31) 3506-3711.

In order to comply with legal and regulatory provisions pursuant to which we were required to unbundle our vertically integrated businesses, in 2004 we incorporated two wholly-owned subsidiaries of CEMIG Cemig Geração e Transmissão S.A., referred to as Cemig Generation and Transmission, and Cemig Distribuição S.A., referred to as Cemig Distribution. Cemig Generation and Transmission and Cemig Distribution were created to carry out the activities of electricity generation and transmission, and distribution, respectively. Except as set forth below, this process is substantially complete. The following chart shows our corporate structure as of December 31, 2008.

Since December 31, 2008, there have been no material stockholding changes to our corporate structure as reflected in the chart below. The material changes expected to take place in the near future relate to the acquisition of the transmission company Terna Participações S.A. and the stockholdings in three wind farms. These acquisitions are still subject to regulatory approval and other conditions. See Recent Developments.

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The following are our principal subsidiaries, consolidated in our financial statements as of and for the year ended December 31, 2008:

- 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. (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 30, 1999. CEMIG acquired 100% of the shares of Rosal Energia S.A. from the Rede Group in December 2004.

- Usina Térmica Ipatinga S.A. (100% interest) is a special-purpose company producing and selling electricity at the Ipatinga thermoelectric and steam power plant, with installed capacity of 40 MW. This company was formed in August 2000, began operating in 1986, and is on loan, without consideration, to CEMIG, for 15 years, until December 2014.

- 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. The company was formed in April 2001.

- 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 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 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 began operating in March 2004 under an authorization that expires in April 2032.

- Central Hidrelétrica Pai Joaquim S.A. (100% interest) operates the Pai Joaquim small hydro plant but is now a non-operational company after the plant was subsequently transferred to Cemig PCH S.A. Central Hidrelétrica Pai Joaquim S.A. was formed in July 2002.

- 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 Capim Branco I plant began operating in February 2006, and Capim Branco II in March 2007. The concession runs until August 2036.

- Cemig Baguari Energia S.A. (100% interest) is CEMIG s vehicle for participation in the Baguari Hydro Plant consortium, operating 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) trades electricity and 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.

- Empresa de Infovias S.A. (100% interest) provides telecommunications and related services, through multiservice networks using fiber optic cable, coaxial cable and other electronic equipment. The company was formed in January 1999,and in 2002, CEMIG acquired a stake in Empresa de Infovias S.A. held by AES.

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Our consolidated financial statements for the years ended December 31, 2008, 2007 and 2006 include the financial results of CEMIG and all its subsidiaries (operational and pre-operational) described above. (See Notes 2 and 9 to the consolidated financial statements.) At December 31, 2008, the following investments were not consolidated:

- Rio Minas Energia Participações S.A., or RME (25.0% interest) is the controlling stockholder of Light S.A., with a 52.13% 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. RME was formed in March 2006.

- 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, and entered into a Stockholders Agreement with, Petrobras and Gaspetro. Gasmig holds a concession for distribution of piped gas throughout the whole of Minas Gerais State for a period of 30 years beginning in January 1993, and this period may be extended.

- Empresa Paraense de Transmissão de Energia S.A., or ETEP (jointly controlled, 19.25% 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. The company was formed in March 2001 and CEMIG acquired its interest in ETEP in August 2006.

- Empresa Norte de Transmissão de Energia S.A., or ENTE (jointly controlled, 18.35% 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. The company was formed in September 2002 and CEMIG acquired its interest in ENTE in August 2006.

- Empresa Regional de Transmissão de Energia S.A., or ERTE (jointly controlled, 18.35% 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. The company was formed in September 2002 and CEMIG acquired its interest in ERTE in August 2006.

- Empresa Amazonense de Transmissão de Energia S.A., or EATE (jointly controlled, 17,17 % 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. The company was formed in March 2001, and CEMIG acquired its interest in EATE in August 2006.

- Empresa Catarinense de Transmissão de Energia S.A., or ECTE (jointly controlled, 7.50% 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. The company was formed in August 2000, and CEMIG acquired its interest in ECTE in August 2006.

- Companhia de Transmissão Centroeste de Minas (jointly controlled, 51.00% interest) engages in building, implementing, operating and maintaining the 345-kV transmission line from the substation of the Furnas hydroelectric power plant to a substation located in Pimenta. The company was formed in October 2004 and the period of the concession for the Furnas Pimenta transmission line is 30 years,,beginning in March 2005, and it may be extended to 2065.

- Companhia Transleste de Transmissão (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, and it may be extended to 2064.

- Companhia Transudeste de Transmissão (24.0% interest) built, operates and maintains the 345-kV transmission line from Itutinga to Juiz de Fora. The company 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, and it may be extended to 2065.

- Companhia Transirapé de Transmissão (24.5% interest) built, operates and maintains the 230-kV Irapé Araçuaí transmission line. The company 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, and it may be extended until 2065.

- Transchile Charrúa Transmisión S.A. (49% interest) is engaged in building, operating and maintaining the 220 kV Charrúa Nueva Temuco transmission line in Chile. This company 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.

- Baguari Energia S.A. (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 it has a 49% interest. The period of the concession is 35 years, beginning in August 2006.

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- Hidrelétrica Cachoeirão S.A. (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. This company was formed in January 2007 and began operating in December 2008. Its concession period is 30 years, beginning in July 2000.

- Axxiom Soluções Tecnológicas S. A. (49% interest) provides complete services of systems implementation and management to electricity sector companies (generation, transmission and distribution). This company was formed on August 27, 2007 and began operating in the second half of 2008.

- Hidrelétrica Pipoca S.A. (49% interest) is engaged in building, operating and selling electricity generated by the Pipoca power plant on the Manhuaçu River, in the municipalities of Caratinga and Ipanema. The company was formed in June 2004 and CEMIG acquired its interest in May 2008. The plant has installed capacity for 20 MW, with startup planned for May 2010. Its authorization period is 30 years, beginning in September 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. This company was formed in June 2006 and CEMIG acquired its interest in October 2007. Operational startup is planned for 2010. The period of the authorization for the small hydro plants is 30 years.

- Madeira Energia S.A. MESA (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 S.A. 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 2012. Its concession period runs for 35 years, beginning in June 2008.

- *Empresa Brasileira de Transmissão de Energia S.A.*, or EBTE (49% interest) was formed as a special-purpose company to build, operate and maintain the 230-kV transmission project made up of the 134 miles Juína Maggi double-circuit transmission line; 144 miles Maggi Juba double-circuit transmission line; the 66 miles Maggi Parecis double-circuit transmission line; the 138 miles Nova Mutum Sorriso Sinop single-circuit transmission line; and the new 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. Operational startup is planned for June 2010.

- Cemig Serviços S.A. (100% interest) was formed in April 2008 to provide services related to generation, transmission and distribution of electric power.

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 object of each consortium is the same: to produce technical and economic feasibility studies and plan, build, operate and maintain the respective power plants. On December 31, 2008 no construction had been begun on these

projects and all were still in the planning stage.

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, 2008, we generated electricity at 53 hydroelectric plants, four thermoelectric plants and one wind farm and had a total installed capacity of 6,580 MW. At the same date, we owned and operated 3,081 miles of transmission lines and 281,756 miles of distribution lines. We hold concessions to distribute electricity in 96.7% of the territory of Minas Gerais.

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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.

Pursuant to Minas Gerais state legislation, our by-laws were amended in 1984 to allow us to participate in an expanded range of activities relating to the energy sector through separate companies. In 1986, we created Companhia de Gás de Minas Gerais GASMIG, or Gasmig, as a subsidiary to undertake the distribution of natural gas through pipelines located in Minas Gerais, of which we sold a 40% stake in 2004.

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

**Recent Developments**

On May 28, 2009, our shareholders approved the execution of a share purchase agreement between Cemig Generation and Transmission and Terna Rete Ellettrica Nazionale S.p.A., or Terna S.p.A., for the acquisition of approximately 82.27% of the voting and 65.86% of the total capital of Terna Participações S.A., or Terna, for approximately R$2,330.5 million.

Terna is a holding company with interests in six electricity transmission companies with operations in eleven Brazilian states. Terna s subsidiaries include Transmissora Sudeste Nordeste S.A., or TSN; Novatrans Energia S.A.; Empresa de Transmissão de Energia do Oeste S.A., or ETEO; Empresa de Transmissão do Alto Uruguai S.A., or ETAU; Brasnorte Transmissora de Energia S.A.; and Terna Serviços Ltda.; which, jointly, control over 2,069 miles of transmission lines.

The closing of the acquisition and the payment of the purchase price is expected to occur on or after September 30, 2009, and Cemig Generation and Transmission shall, upon the closing, carry out a mandatory tender offer for the acquisition of the outstanding shares of Terna, for the same purchase price and subject to the same conditions as the purchase or shares from Terna S.p.A. (for an expected amount of approximately R$1,207.8 million), as required by the Brazilian Corporate Law, Terna by-laws, CVM Instruction No. 361/2002 and the Special Corporate Governance Level 2 of the São Paulo Stock Exchange. The acquisition remains subject to the approval of Brazilian antitrust authorities and the waiver by financial institutions of restrictive covenants to which CEMIG and Terna are subject relative to their indebtedness.

On February 5, 2009, Cemig Generation and Transmission executed a share purchase agreement with Energimp S.A. to purchase a 49% interest in three wind farms located in the State of Ceará, Brazil for the amount of R$213 million (to be adjusted at the closing of the transaction). The three wind farms, named UEE Praias de Parajurú, UEE Praia do Morgado and UEE Volta do Rio, are expected to be operating in the second half of 2009 and have a total installed capacity of 99.6 MW. The acquisition is subject to the approval of ANEEL, the Federal Savings Bank (*Caixa Econômica Federal*), Eletrobrás and the antitrust authorities (*Conselho Administrativo de Defesa Econômica*), or CADE.

**Investment in Light**

Through Rio Minas Energia Participações S.A., or RME, we hold an indirect 13.03% interest in Light S.A., or Light, which generates, transmits and distributes electricity in Rio de Janeiro. On March 28, 2006, RME signed an agreement with EDF International S.A., or EDFI, to purchase from EDFI 88.84% of its shares of Light, which represented 79.39% of the total registered capital of Light at the time of the purchase.

On May 16, 2007, the Brazilian Development Bank, or BNDES, which held convertible debentures issued by Light, exercised its option and converted 90% of the convertible debentures into shares. As a result of this conversion, representing approximately R$713 million, BNDES became the holder of 31.44% of the total capital of Light, thereby reducing the percentage holding of RME from 79.39% to 54.17%. On October 26, 2007, BNDES converted the remaining 10% of its convertible debentures into shares of Light, and as a result held 33.69% of the total capital of Light, diluting RME s percentage holding in Light from 54.17% to 52.25% (2.7% through its wholly owned subsidiary Lidil Comercial Ltda.).

In the second quarter of 2008, CEMIG recognized as revenue R$82.7 million from financial compensation to be paid by the other RME shareholders for CEMIG s waiver of its right to exercise an option to purchase the other RME shareholders holdings in the generation assets of Light, which option had been purchased by CEMIG for a agreed upon amount. One RME shareholder made full payment, according to its part of the agreement, in July 2008, and the others will make their payments over a maximum of nine years, with the amounts of such payments subject to adjustment based on the SELIC rate plus 1.00% per year. Payments to CEMIG by the other RME shareholders must equal at least 10.00% of the dividends paid by Light to those shareholders each year.

We recognize our interest in Light as an investment and we recorded R$132 million in income from our investment in Light in 2008.

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*Light Activities*

The main activities of Light are:

- Generation utilizing hydroelectric energy from the Paraíba do Sul and Ribeirão das Lajes rivers, with maximum total capacity of 855 MW.

- Distribution of electricity serving a total area of 4,236 square miles of the State of Rio de Janeiro, supplying electricity to 3.6 million consumers, representing approximately 10 million people in 31 municipalities and invoicing a total of 18,292 GWh in 2008.

- Energy trading operating in the ACL and dealing with alternative energy sources.

- Energy services providing energy and infrastructure services and focusing on energy solutions for its clients as an Energy Services Company, or ESCO.

Light invested a total of R$546.7 million in 2008 in the acquisition of fixed assets, improvements to and expansion of its distribution system and transmission network for generating facilities. This amount represented a 51.11% increase over the R$361.8 million of capital expenditures in 2007.

Light s concession agreement to provide electricity generation, distribution and transmission services in the State of Rio de Janeiro expires on June 4, 2026 but may be renewed upon application.

**Acquisition of 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 Empresa Amazonense de Transmissão de Energia S.A., or EATE, Empresa Norte de Transmissão de Energia S.A., or ENTE, Empresa Paraense de Transmissão de Energia S.A., or ETEP, and Empresa Regional de Transmissão de Energia S.A., or ERTE, and 40% of the voting stock of the transmission concession holder Empresa Catarinense de Transmissão de Energia S.A., or ECTE, for R$802 million. Together, we refer to the companies as the Brazilian Power Transmitters (*Transmissoras Brasileiras de Energia*), or TBE.

*Description of the transmission concession holders*

On December 31, 2008, Cemig had the following investments in EATE, ECTE, ENTE, ERTE and ETEP, shown in the table below.

| Company | Connection | Length (Miles) | Capacity (kV) | Operation | Annual Permitted Revenue (1) (R$million) | Concession contract (3) | Concession Expiration Date |
|---|---|---|---|---|---|---|---|
| EATE (2) | Tucuruí (Pará) to Presidente Dutra (Maranhão) | 577 | 500 | March/03 | 240.3 | June 12, 2001 | June 11, 2031 |
| ECTE (2) | Campos Novos (Santa Catarina) to Blumenau (Santa Catarina) | 157 | 525 | March/02 | 54.0 | November 1, 2000 | October 31, 2030 |
| ENTE (2) | Tucuruí (Pará) to Açailândia (Maranhão) | 285 | 500 | February/05 | 123.0 | December 11, 2002 | December 10, 2032 |
| ERTE (2) | Vila do Conde (Pará) to Santa Maria (Pará) | 96 | 230 | September/04 | 22.0 | December 11, 2002 | December 10, 2032 |
| ETEP (2) | Tucuruí (Parã) to Vila do Conde (Pará) | 201 | 500 | August/02 | 55.7 | June 12, 2001 | June 11, 2031 |

(1) Annual revenue set by ANEEL and adjusted for inflation.

(2) 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 Electronorte, and of ECTE by Centrais Elétricas de Santa Catarina S.A., or Celesc.

(3) Right acquired for commercial operation of public electricity transmission services for 30 years, renewable for the same period of time.

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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. 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. In 2008, we recognized R$22 million of income on these contracts.

On September 24, 2008 Brookfield Brasil TBE Participações Ltda., partner of CEMIG in the TBE companies, exercised its option to sell to CEMIG and Alupar Investimento S.A., 95% and 5%, respectively, its shares representing voting stockholdings of 24.99% in EATE, 24.99% in ETEP, 18.35% in ENTE, 18.35% in ERTE and 7.49% in ECTE. The amount to be paid by CEMIG for its share will be R$330.6 million, adjusted for inflation through the closing date. The acquisition of the shares by CEMIG has been approved by ANEEL, BNDES and other financing institutions.

On April 16, 2008, CEMIG, through its subsidiary EATE, executed two share purchase agreements with Alupar Investimento S.A. for acquisition of 80% of the capital of two companies operating transmission lines in the State of Santa Catarina: Lumitrans Companhia Transmissora de Energia Elétrica, or Lumitrans, and Companhia Transmissora de Energia Elétrica, or STC. Under the terms of these agreements, EATE paid R$32.4 million, and R$56.7 million, respectively, for the holdings in Lumitrans and STC. The transaction was approved on October 28, 2008 by ANEEL.

In ANEEL Auction 004/2008, the TBE Centro-Oeste Consortium, made up of EATE (51%) and Cemig Generation and Transmission (49%), bid for and won the concession to build and operate the following transmission lines comprising Lot D of that auction: Maggi Juba, Parecis Maggi and Juína Maggi (double-circuit, 230 kV); Nova Mutum Sorriso (230 kV), Sorriso Sinop (230 kV); and the Parecis 230/138/13.8 kV 300 MVA substation and the Juína 230/138/13.8 kV 100 MVA substation. In accordance with the auction requirements to receive the concession, the special-purpose company Empresa Brasileira de Transmissão de Energia S.A. was formed, with the same composition as that of the TBE Centro-Oeste Consortium. The concession contracts were signed on October 16, 2008.

**Capital Expenditures and Investments in Affiliates**

Capital expenditures and investments in affiliates for the years ended December 31, 2008, 2007 and 2006 in millions of *reais*, are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Acquisition of interest in Light through RME | - | - | 174 |
| Acquisition of interests in transmission companies | 37 | - | 349 |
| Other investments | 183 | 26 | 45 |
| Sale of Way TV | - | (49) | - |
| Total investments in affiliates | 220 | (23) | 568 |
| Generation power projects under property, plant and equipment | 121 | 242 | 264 |
| Transmission network expansion | 12 | 64 | 55 |
| Distribution network expansion | 792 | 790 | 983 |
| Others | 46 | 24 | 26 |
| Total capital expenditures under property, plant and equipment | 971 | 1,120 | 1,328 |
| Total capital expenditures and investments in affiliates | 1,191 | 1,097 | 1,896 |

We currently project capital expenditures in 2009 related to property, plant and equipment of approximately R$970 million. The principal uses of these capital expenditures are expected to be for the expansion of our distribution infrastructure and increases in our generation capacity.

We currently project investments in affiliates of approximately R$820 million in 2009. This projection does not include the acquisition of Terna discussed above. See Recent Developments.

We expect to fund our capital expenditures and investments in affiliates in 2009 mainly from our cash flow from operations and, to a lesser extent, through financing. As the financial markets improve, we expect to finance our expansion and projects by issuing debentures as well as through commercial paper to meet short term objectives.

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**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 and the interconnected power system. 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:

CEMIG S ELECTRIC ENERGY BALANCE

| (GWh) | Year ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| RESOURCES | 68,318 | 67,698 | 63,964 |
| Electricity generated by CEMIG (1) | 31,291 | 33,150 | 32,187 |
| Electricity generated by auto-producers | 1,062 | 1,047 | 1,147 |
| Electricity generated by Ipatinga | 355 | 362 | 300 |
| Electricity generated by Barreiro | 75 | 82 | 51 |
| Electricity generated by Sá Carvalho | 349 | 322 | 395 |
| Electricity generated by Horizontes | 41 | 36 | 41 |
| Electricity generated by Cemig PCH | 22 | 10 | 7 |
| Electricity generated by Rosal | 230 | 264 | 326 |
| Electricity generated by Amador Aguiar | 610 | 505 | 243 |
| Electricity bought from Itaipu | 12,323 | 12,135 | 12,109 |
| Electricity bought from CCEE and other companies (2)(3) | 21,960 | 19,785 | 17,158 |
| | | | |
| REQUIREMENTS | 68,318 | 67,698 | 63,964 |
| Electricity delivered to final consumers (4) | 42,940 | 39,056 | 37,707 |
| Electricity delivered to auto-producers | 982 | 990 | 1,013 |
| Electricity delivered by Ipatinga | 355 | 362 | 300 |
| Electricity delivered by Barreiro | 98 | 100 | 97 |
| Electricity delivered by Sá Carvalho | 473 | 472 | 472 |
| Electricity delivered by Horizontes | 84 | 84 | 95 |
| Electricity delivered by Cemig PCH | 122 | 122 | 105 |
| Electricity delivered by Rosal | 263 | 263 | 262 |
| Electricity delivered to the CCEE and other companies(2)(3) | 17,211 | 20,621 | 18,476 |

| | | | | | |
|---|---|---|---|---|---|
| Losses | 5,790 | | 5,629 | | 5,437 |

(1) Discounting the losses attributed to generation (606 GWh in 2008) and the internal consumption of the generating plants.

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

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

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

*Generation*

According to ANEEL, at December 31, 2008, we were the seventh largest electric power generation concessionaire in Brazil as measured by total installed capacity. At December 31, 2008, we generated electricity at 53 hydroelectric plants, four thermoelectric plants and one wind farm and had a total installed generation capacity of 6,580 MW of which hydroelectric plants accounted for 6,397 MW, thermoelectric plants accounted for 182 MW and our wind farm accounted for 1 MW. Eight of our hydroelectric plants accounted for approximately 81.7% of our installed electric generation capacity in 2008. During the year ended December 31, 2008, we recorded expenses totaling R$634 million relating to transmission charge payments made to the ONS and to transmission concession holders. See Item 5. Operating and Financial Review and Prospects and The Brazilian Power Industry.

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*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, 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, 2008, our transmission network in Minas Gerais consisted of 1,352 miles of 500 kV lines, 1,244 miles of 345 kV lines and 485 miles of 230 kV lines, as well as 35 substations with a total of 94 transformers and an aggregate transformation capacity of 15,506 MVA.

*Distribution*

We have a distribution concession in Minas Gerais that grants us rights to supply electric energy to consumers within our concession area except for consumers that may be eligible, in accordance with the legislation, to become Free Consumers (consumers with demand equal to or greater than 3 MW or consumers with demand equal to or greater than 500 KWh from alternative energy sources, such as wind, biomass or Small Hydroelectric Power Plants). Our concession area covers approximately 219,103 square miles, or 96.7% of the territory of the state. As of December 31, 2008, we owned and operated 281,756 miles of distribution lines, through which we supplied electricity to approximately 6.6 million consumers. At December 31, 2008, we were the largest electricity distribution concessionaire in Brazil in terms of GWh transported. Of the total amount of electricity we supplied to final consumers as of December 31, 2008, 60.1% was to industrial consumers, 16.7% was to residential consumers, 10.3% was to commercial consumers and 12.9% was to rural and other consumers.

*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 consolidated subsidiary, Gasmig, (ii) telecommunications through our consolidated subsidiary Empresa de Infovias 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., whose focus is to provide 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., incorporated on August 27, 2007. 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.

**Revenue Sources**

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Electricity sales to final consumers | 10,497 | 10,191 | 9,319 |
| Electricity sales to the interconnected power system | 1,069 | 1,134 | 884 |
| Use of basic transmission and distribution networks | 1,865 | 1,705 | 1,780 |
| Services rendered | 82 | 61 | 32 |
| Telecommunication and other | 159 | 175 | 168 |
| Total | 13,672 | 13,266 | 12,183 |

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**Generation and Power Trading**

*Overview*

The following table sets forth certain operating information concerning our electric power generation plants as of December 31, 2008:

| Facility | Installed Capacity (MW) | Assured Energy (1) (average MW) | Year Commenced Operations | Installed Capacity % of Total | Date Concession or Authorization Expires | CEMIG s Interest |
|---|---|---|---|---|---|---|
| Major Hydroelectric Plants | | | | | | |
| São Simão | 1,710 | 1,281.0 | 1978 | 26.0 | January 2015 | 100% |
| Emborcação | 1,192 | 497.0 | 1982 | 18.1 | July 2025 | 100% |
| Nova Ponte | 510 | 276.0 | 1994 | 7.8 | July 2025 | 100% |
| Jaguara | 424 | 336.0 | 1971 | 6.5 | August 2013 | 100% |
| Miranda | 408 | 202.0 | 1998 | 6.2 | December 2016 | 100% |
| Três Marias | 396 | 239.0 | 1962 | 6.0 | July 2015 | 100% |
| Volta Grande | 380 | 229.0 | 1974 | 5.8 | February 2017 | 100% |
| Irapé | 360 | 206.3 | 2006 | 5.5 | February 2035 | 100% |
| Aimorés | 161.7 | 84.3 | 2005 | 2.5 | December 2035 | 49% |
| Salto Grande | 102 | 75.0 | 1956 | 1.6 | July 2015 | 100% |
| Funil | 88 | 43.6 | 2002 | 1.3 | December 2035 | 49% |
| Queimado | 86.6 | 47.8 | 2004 | 1.3 | January 2033 | 82.5% |
| Sá Carvalho | 78 | 58.0 | 2000 (2) | 1.2 | December 2024 | 100% |
| Rosal | 55 | 30.0 | 2004 (2) | 0.8 | May 2032 | 100% |
| Itutinga | 52 | 28.0 | 1955 | 0.8 | July 2015 | 100% |
| Amador Aguiar I | 50.5 | 32.6 | 2006 | 0.8 | August/2036 | 21.05% |
| Amador Aguiar II | 44.21 | 27.6 | 2007 | 0.7 | August/2036 | 21.05% |
| Camargos | 46 | 21.0 | 1960 | 0.7 | July 2015 | 100% |
| Porto Estrela | 37 | 18.6 | 2001 | 0.6 | July 2032 | 33.3% |
| Igarapava | 30.4 | 24.4 (3) | 1999 | 0.5 | December 2028 | 14.5% |
| Pai Joaquim (5) | 23 | 13.9 | 2004 | 0.4 | April 2032 | 100% |
| Cachoeirão | 13,23 | 8.02 | 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 | |
| Smaller Hydroelectric Plants | 115.2 | 62.4 | | 1.6 | | |
| Thermoelectric Plants | | | | | | |
| Igarapé | 131 | 71.3 | 1978 | 2.0 | August 2024 | 100% |
| Ipatinga | 40 | 40 | 2000 (2) | 0.6 | December 2014 | 100% |
| Barreiro | 12.9 | 11.4 | 2004 | 0.2 | April 2023 | 100% |
| Formoso | 0.4 | 0.2 | 1992 | 0.0 | Indefinite | 100% |
| Wind Farm | 1 | 0.3 | 1994 | 0.0 | Indefinite | 100% |
| Total | 6,580.8 (4) | 3,979.4 (4) | | 100.0% | | |

(1) Assured Energy is the plant s long-term average output, as established by 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.

(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 Siderúrigica Nacional, Votorantim Metais e Zinco S.A and Anglogold Ashanti Brasil Ltda., is included.

(4)

This amount does not include energy related to our investment in Light, since we do not have ownership or operational control of any of Light s energy assets.

(5) 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.

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

| | Circuit Length of Generation Lines in Miles (from power plants to generation substations) As of December 31, | | |
|---|---|---|---|
| **Voltage of Connection Lines** | **2008** | **2007** | **2006** |
| 500 kV | 7 | 7 | 4 |
| 345 to 230 kV | 15 | 15 (1) | 10 |
| 161 to 138 kV | 112 | 112 (2) | 69 |
| 69 to 13.8 kV | 134 (4) | 102 | 102 |
| Total | 268 | 236 (3) | 185 |

| | Step-Down Transformation Capacity(5) of Generation Substations As of December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Number of step-down substations | 58 | 57 | 56 (3) |
| MVA | 7,141 (3) | 7,125 | 7,078 (3) |

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

(2) We increased the circuit length of our 138 kV connection lines in 2007 because the Amador Aguiar II Facility began operations.

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

(4) We increased the circuit length of our 69 kV connection lines in 2008 because the Cachoeirão Facility began operations.

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

*Generation Assets*

We have 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 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. This acquisition was funded by an issuance of debentures by a special trust, UHESC S.A., which we are obligated to repay. On June 5, 2003, we renegotiated the interest rate applicable to 46.67% of the aggregate principal amount of these debentures for the following two year period and the remaining 53.33% was redeemed for R$64 million.

*Rosal Energia S.A.* In 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 S.A**.**, is located on the Itabapoana River, which runs along the border between the States of Espírito Santo (Municipality of Guaçuí) and Rio de Janeiro (Municipality of Bom Jesus de Itabapoana). It operates in integrated connection with the *Alegre* and *Mimoso do Sul* electricity systems, which are owned by the electricity utility of the State of Espírito Santo, Escelsa (Espírito Santo Centrais Elétricas S.A.). The plant s first and second rotors started operating in December 1999 and January 2000, respectively. It has a concession contract for 35 years, maturing in 2032. ANEEL approved the transfer of control on December 20, 2004.

*Cemig Capim Branco Energia S.A.* We incorporated Cemig Capim Branco Energia S.A. to develop the Capim Branco 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

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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 sold up to the year 2010. The Salto do Paraopeba Power Plant is currently out of service for refurbishment. We expect that this power plant will resume its operations in 2010.

*Usina Termelétrica Barreiro S.A.* We formed Usina Termelétrica Barreiro S.A. to participate, in partnership with Vallourec & Mannesmann V&M do Brasil S.A., or Vallourec & Mannesmann, a metallurgic company, in the construction and operation of the 12.9 MW Barreiro Thermoelectric Power Plant, located on Vallourec & Mannesmann s premises in the Barreiro 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 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.

Cemig Generation and Transmission also operates the following power plants:

*Queimado Hydroelectric Power Plant* Our partner in this project is Companhia Energética de Brasília, or CEB, a state-controlled electricity company. CEB has a 17.5% interest and we have the remaining 82.5%. The plant, with an installed capacity of 105 MW, is located on the Preto River, and encompasses areas in the States of Minas Gerais and Goiás and in Brazil s Federal District. The power plant began its commercial generation on April 9, 2004, with the operation of its first unit. The commercial operation of the second and third units began on June 16, 2004, and July 8, 2004, respectively. As of December 31, 2008, we had invested R$209 million in the project. The concession relating to this plant expires on January 02, 2033.

*Aimorés Hydroelectric Power Plant* The Aimorés Hydroelectric Power Plant, located on the Doce River, 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. As of December 31, 2008, we had invested R$692 million in this project.

*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. *Construction began in September 2000, and its three rotors began to generate commercially on 2002 and 2003. The total investment was approximately R$211 million (in currency of 2002). 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, with an investment of R$101 million. 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.

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*Irapé Hydroelectric Power Plant* The Irapé Hydroelectric Power Plant, which has installed capacity of 360 MW, is located on the Jequitinhonha River, in northern Minas Gerais. Construction began in April 2002 and its three units began to generate electricity commercially on July 20, 2006, August 5 and October 3, 2006, respectively. At December 31, 2008, we had invested R$1,173.2 million in this project, including R$33 million, recorded at the present value, from debentures that were acquired by the State Government, using dividends that would otherwise have been payable to the State Government under an agreement between the State Government and our company. The concession relating to this plant expires on February 28, 2035.

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

*Expansion of Generation Capacity*

We are currently involved in the construction of seven hydroelectric power plants Baguari, Pipoca, Dores de Guanhães, Senhora do Porto, Fortuna II, Jacaré and Santo Antônio that will increase the installed generation capacity of our hydroelectric facilities by 92.19 MW 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.

*Baguari Hydroelectric Power Plant* A consortium formed by Cemig Generation and Transmission, Furnas Centrais Elétricas S.A., or Furnas, an electricity concessionaire of generation and transmission controlled by the Federal Government, and Baguari I Geração de Energia Elétrica S.A, a special purpose company, or SPC, that belongs to Neoenergia S.A., a private integrated electricity sector holding company, has the concession to build and operate the Baguari Hydroelectric Power Plant and sell its energy. The power plant will have an installed capacity of 140 MW and will be located on the Doce River, in the State of Minas Gerais. Cemig Generation and Transmission has a 34% interest in this consortium. The energy generated will be commercialized in the ACR. On December 15, 2006, the State of Minas Gerais Environmental Policy Council *(Conselho Estadual de Política Ambiental)*, or COPAM, issued the power plant installation license. Construction began on May 9, 2007. Commercial generation at Baguari is expected to begin in September 2009. The concession relating to this plant expires on August 15, 2041. As of December 31, 2008, we had invested R$140 million in this project of a total projected investment of R$158 million.

*Pipoca Small Hydroelectric Power Plant* Cemig Generation and Transmission has also negotiated a stake in the construction and operation of the Pipoca Small Hydroelectric Power Plant, in partnership with HP2 do Brasil S.A., founded by Hydro Partners, a US investment company, to implement and operate the project. We will have a 49% interest in this SPC. The plant, with installed capacity of 20 MW, will be located on the Manhuaçu River, in the eastern part of the State of Minas Gerais. Construction began in the first half of 2008 and commercial generation is expected to begin at the end of 2009. The concession relating to this plant expires on September 10, 2031. As of December 31, 2008, we had invested R$4 million in this project.

*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 SPC Guanhães Energia S.A, or Guanhães Energia. The purpose of Guanhães Energia is to build and operate these four PCHs, namly: 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%. In June 2007, Construtora Barbosa Mello S.A,, which has the authorization for commercial operation of the Guanhães, Senhora do Porto, Fortuna II and Jacaré PCHs, requested that ANEEL approve the transfer of its authorization to Guanhães Energia, which was approved. Construction began in March 2008, and commercial operation is expected to begin in August 2009. 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, 2008, we had invested R$10 million in this project.

*Madeira Energia S.A.* Madeira Energia S.A., or MESA, is a special purpose company created to implement, build, operate and maintain the Santo Antônio hydroelectric plant, in the basin of the Rio Madeira, in the northern region of Brazil. This facility will have a generating capacity of 3,150 MW. MESA is expected to begin operations in 2012. Cemig Generation and Transmission has a 10% interest in MESA, and based on our ownership interest, we expect to invest R$1,220 million in the development of the project.

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*Co-generation Joint Ventures with Consumers*

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

*Wind Farms*

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

On February 5, 2009, Cemig Generation and Transmission executed a share purchase agreement with Energimp S.A. to purchase a 49% interest in three wind farms located in the State of Ceará, Brazil for the amount of R$213 million (to be adjusted at the closing of the transaction). The three wind farms, named UEE Praia do Morgado, UEE Praias de Parajurú and UEE Volta do Rio, are expected to be operating in the second half of 2009 and will have a total installed capacity of 99.6 MW. The acquisition is subject to the approval of ANEEL, the Federal Savings Bank (*Caixa Econômica Federal*), Eletrobrás, and CADE.

*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 intensified this activity in 2009, which is complementary to the activity of the sale of its own generation, buying electricity for future sale, 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 are also submitted to 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.

**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, 2008, we recorded revenue totaling R$472 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 parts of the basic transmission network. See Item 5. Operating and Financial Review and Prospects and The Brazilian Power Industry.

We transmit both the energy that we generate and the energy that we purchase from Itaipu, the interconnected power system and other sources. On December 31, 2008, we also had 13 industrial consumers whom we supplied directly with high voltage (equal to or greater than 230 kV per industrial consumer) energy through their connections to our transmission lines. Ten of these industrial consumers are our clients and accounted for approximately 17.6% of the total volume of electricity we sold in the year ended December 31, 2008. We also transmit energy to distribution systems through the south/southeast-linked system of the grid.

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

| | Circuit Length of Transmission Lines in Miles (from generation substations to distribution substations) As of December 31, | | |
|---|---|---|---|
| **Voltage of Transmission Lines** | **2008** | **2007** | **2006** |
| 500 kV | 1,352 | 1,352 | 1,352 |
| 345 kV | 1,244 | 1,244 | 1,202 |
| 230 kV | 485 | 485 | 467 |
| Total | 3,081 | 3,081 | 3,021 |

| | Step-Down Transformation Capacity(1) of Transmission Substations As of December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Number of step-down substations | 35 | 35 | 33 |
| MVA | 15,503 | 15,503 | 15,393 |

(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.

*Transmission Assets*

*Montes Claros Irapé* In September 2003, a consortium formed by Companhia Técnica de Engenharia Elétrica ALUSA, or ALUSA, Furnas, Orteng Equipamentos e Sistemas Ltda., or Orteng, and CEMIG, won the concession auctioned by ANEEL to the Montes Claros Irapé transmission line. As required in the bidding process, the partners formed the Companhia Transleste de Transmissão, which is responsible for building and operating the transmission line. We have a 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. Construction of the project began in January 2005 and transmission line operations began on December 18, 2005. The concession expires on February 18, 2034. As of December 31, 2008, we had invested R$12.4 million in this project.

*Itutinga Juiz de Fora* In September 2004, a consortium formed by ALUSA, Furnas, Orteng and CEMIG, with interests of 41%, 25%, 10%, and 24% respectively, won the concession auctioned by ANEEL to the Itutinga Juiz de Fora transmission line. As required in the bidding process, the partners formed the Companhia Transudeste de Transmissão, which will be responsible for building and operating this transmission line. This 345 kV transmission line, with a length of approximately 89 miles, will connect the substation of the Itutinga Hydroelectric Power Plant and a substation located in Juiz de Fora, a city in southeastern Minas Gerais. We began the project in March 2005, and commercial operations began on February 23, 2007. As of December 31, 2008, we had invested R$7.3 million in this project.

*Irapé Araçuaí* In November 2004, a consortium formed by ALUSA, Furnas, Orteng and CEMIG with interests of 41%, 24.5%, 10% and 24.5% respectively, won the concession auctioned by ANEEL to the Irapé Araçuaí transmission line. As required in the bidding process, the partners formed the Companhia Transirapé de Transmissão, which will be responsible for building and operating this transmission line. This 230 kV transmission line, with a length of approximately 38 miles, will connect the substation of the Irapé Hydroelectric Power Plant and a

substation to be built in Araçuaí, a city located in northeastern Minas Gerais. We began the project in March 2005, and commercial operations began on May 23, 2007. As of December 31, 2008, we had invested R$5.5 million in this project.

*Expansion of Transmission Capacity*

We believe that our transmission system will need to be reinforced and expanded through the construction of new substations and transmission lines within the next five years.

In accordance with the new regulatory framework in the Brazilian electricity sector, concessions for the expansion of the electricity transmission infrastructure in Brazil are awarded by means of public biddings or are authorized by ANEEL. The following is a brief description of our current transmission projects, the completion of which are subject to various contingencies, certain of which are beyond our control:

*Furnas Pimenta* In September 2004, a consortium formed by Furnas and CEMIG, with interests of 49%, and 51%, respectively, won the concession auctioned by ANEEL to the Furnas Pimenta transmission line. As required in the bidding process, the partners formed the Companhia de Transmissão Centroeste de Minas, which will be responsible for building and operating the

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transmission line. This 345 kV transmission line, with a length of approximately 47 miles, will connect the substation of the Furnas Hydroelectric Power Plant and a substation located in Pimenta, a city in the west-central region of Minas Gerais. We began the project in March 2005, and we expect the transmission line operation to begin in December 2009. As of December 31, 2008, we had invested R$6.8 million in this project.

*Charrúa Nueva Temuco* In April 2005 a consortium formed by ALUSA and CEMIG, with interests of 51% and 49%, respectively, won the concession auctioned by Centro de Despacho Económico de Carga del Sistema Interconectado Central, 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 116 miles, the transmission line will connect the substations of Charrúa and Nueva Temuco in central Chile. We began the project in June 2005 and construction began in April 2007. 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 operations are expected to begin in 2009. As of December 31, 2008, we had invested R$34 million in this project.

*EBTE Transmission Lines in the State of Mato Grosso* In June 2008, an SPC formed by EATE and Cemig Generation and Transmission, with interests of 51%, and 49%, respectively, won the concession auctioned by ANEEL to a group of five transmission lines and two substations. As required in the bidding process, the partners formed the Empresa Brasileira de Transmissão de Energia S.A., or EBTE, which will be responsible for building and operating the transmission lines. The 230 kV transmission lines and substations consist of three double-circuit lines extending 344 miles and two simple-circuit lines extending 138 miles, reaching a total length of 775 482 miles, and will connect seven substations in districts of Juína, Brasnorte, Sapezal, Nova Mutum, Sorriso, Sinop, Tangará da Serra, Campo Novo dos Parecis, Lucas do Rio Verde and Vera, all located in the northern region of the State of Mato Grosso. The project was initiated in January 2009, and we expect the transmission lines operation to begin in July 2010. As of December 31, 2008, we had invested R$11.8 million in this project.

**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.

During the year ended December 31, 2008, we recorded expenses totaling R$634 million relating to transmission payments made to the ONS and other transmission concession holders. See Item 5. Operating and Financial Review and Prospects and The Brazilian Power Industry.

From January 1, 2002 through December 31, 2008, we invested approximately R$971 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 (other than Light), as of the dates presented:

| | Circuit Length of Distribution Lines in Miles - High Voltage (from distribution substations to final consumers) As of December 31, | | |
|---|---|---|---|
| **Voltage of Distribution Lines** | **2008** | **2007** | **2006** |
| 161 kV | 34.2 | 34.2 | 34.2 |
| 138 kV | 6,824.5 | 6,756.8 | 6,736.9 |
| 69 kV | 2,817.7 | 2,802.4 | 2,804.2 |
| 34.5 kV + Others | 600.2 | 600.2 | 600.2 |
| Total | 10,276.6 | 10,193.6 | 10,175.5 |

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| | Circuit Length of Distribution Lines in Miles - Medium and Low Voltage (from distribution substations to final consumers) As of December 31, | | |
|---|---|---|---|
| **Type of Distribution Lines** | **2008** | **2007** | **2006** |
| Overhead urban distribution lines | 53,685.9 | 53,064.8 | 52,642.9 |
| Underground urban distribution lines | 426.9 | 257.9 | 471.6 |
| Overhead rural distribution lines | 217,366.8 | 210,014.4 | 191,809.9 |
| Total | 271,479.6 | 263,337.1 | 244,924.4 |

| | Step-Down Transformation Capacity(1) of Distribution Substations As of December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Number of substations | 360 | 358 | 355 |
| MVA | 8,160 | 8,145 | 8,162 |

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

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

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

*Expansion of Distribution Capacity*

Our distribution expansion plan for the next five years is based on projections of market growth. For the next five years, we anticipate an increase of approximately 930,500 new urban consumers and 103,000 rural consumers. In order to accommodate this growth, we expect that we will need to add 238,200 medium-voltage poles, 1,002 miles of transmission lines and 24 step-down substations, adding 816.5 MVA to our distribution network, increasing the network s installed capacity by 1,553 MVA, including reinforcement. Ongoing projects for development of our distribution capacity include the following:

*Luz para Todos* We have adopted a rural electricity development program called the Light for All program (*Luz para Todos*) 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 program includes the Light in the Know sub-program (*Luz no Saber*), which uses solar energy to illuminate schools, community centers and rural homes in remote locations not yet connected to the distribution network. 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$375.8 million. In 2009, the Federal Government, the State Government and the concessionaires launched a second phase of the program. A total investment of R$491 million is projected for the second phase of the program, of which CEMIG is responsible for approximately R$80 million.

*Projeto Noroeste* Planned in 2003 and 2004, we launched the Northwest Project (*Projeto Noroeste*) in 2004 with the goal of adding 150 MVA of installed capacity to our distribution system in the northeastern region of the State of Minas Gerais, increasing the total available distribution capacity to 300 MVA. We aim to supply energy to the region to replace the diesel fuel traditionally used by rural producers, with the objective of contributing to local growth in a sustainable manner. The cost of the project is estimated to be R$154 million, of which we have funded R$133 million to date.

*Cresce Minas* The Grow Minas (*Cresce Minas*) project was launched in 2007 to revitalize and expand the distribution system in the northern region 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 the State of Minas Gerais, encompassing a total population of approximately 4.1 million, including approximately 1.1 million consumers. In 2008, CEMIG invested R$167.5 million in capital expenditures exclusively to strengthen the medium-voltage distribution system, out of a total of R$270.8 million projected, the balance of which is expected to be invested in turn-key projects in 2010. CEMIG also invested R$118.9 million in 2008 to strengthen the sub-transmission system. In the next three years, we expect to invest an aggregate of R$132.3 million in our sub-transmission and transmission systems.

*Minas Gerais Administrative Center* On December 24, 2008, through Dispatch No. 4,795, ANEEL consented to the execution of the convention for technical and financial cooperation between Cemig Distribution and the Companhia de

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Desenvolvimento Econômico de Minas Gerais, or Codemig, providing for the construction of electricity distribution facilities to supply energy to the new administrative center of the State of Minas Gerais at a total development cost to Cemig Distribution of R$41.6 million. Pursuant to the convention, Cemig Distribution is required to expend R$10.5 million on a 26-month term in development of the project.

*Purchase of Electric Power*

During the year ended December 31, 2008, we purchased 9,021 GWh of electricity from Itaipu, which represented approximately 36.0% of the electricity we sold to final users. In addition to the electricity purchased from Itaipu, we have two other basic types of supply arrangements: (i) purchases through public auctions, which accounted for approximately 55.0% of the electricity purchased for resale during the year ended December 31, 2008, and (ii) long-term agreements existing prior to the New Industry Model Law, which represented approximately 9.0% of the electricity purchased in 2008.

*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 electric 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. The Federal Government allocates Brazil s portion of Itaipu s power among these electric companies in amounts proportionate to their respective historical market share of total electricity sales. We are currently required to purchase approximately 17.3% of the total amount of electricity purchased by Brazil from Itaipu at rates fixed to defray Itaipu s operating expenses and payments of principal and interest on Itaipu s dollar-denominated borrowings and the cost in *reais* of transmitting such power to the interconnected power system. These rates have been above the national average for bulk supply of power and are calculated in U.S. dollars. Therefore, fluctuations in the U.S. dollar/*real* exchange rate affect the cost, in real terms, of electricity we are required to purchase from Itaipu. Historically, we have been able to recover the cost of such electricity by charging supply rates to consumers. According to our concession agreement, increases in the supply rate may be transferred to the final consumer upon approval by ANEEL.

In the second half of 2007, ANEEL determined the decrease in the amount of energy to be purchased by some distribution companies from Itaipu. Beginning in January 2008, the amount of electricity purchased from Itaipu by each of the electric power distribution companies is being reviewed and reallocated based on the actual consumption of each of these companies in 2004. This change will result in either an increase or decrease in the energy required to be purchased from Itaipu by each of these electric power distribution companies. In our case, this resulted in a reduction of approximately 326 average MW of the total amount of energy we purchase from Itaipu, and we purchased the shortfall at MME auctions as well as in the spot market. We cannot yet predict the impact of such changes on the rates charged to the final consumer.

*Auction Contracts* We purchased electricity in public auctions at the CCEE. These contracts were formalized between CEMIG and the several sellers in accordance with the terms and conditions established in the invitation to bid. The following table sets forth the amounts of electricity contracted, average tariff and prices related to the CCEAR contracts arising from the electricity acquired by CEMIG in auctions during 2008. It also includes contracts signed before 2008 but still effective during that year. See The Brazilian Power Industry for more information on CCEE and CCEAR.

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| Average Tariff | Electricity Contracted (MW average per year) | Term of the Contract |
|---|---|---|
| 57.51 | 530.17 | 2005 to 2012 |
| 67.33 | 919.14 | 2006 to 2013 |
| 57.51 | 530.17 | 2005 to 2012 |
| 67.33 | 919.14 | 2006 to 2013 |
| 138.74 | 3.50 | 2008 to 2008 |
| 83.13 | 105.47 | 2008 to 2015 |
| 106.95 | 4.47 | 2008 to 2037 |
| 132.27 | 35.31 | 2008 to 2022 |
| 145.77 | 140.52 | 2009 to 2009 |
| 114.28 | 3.16 | 2009 to 2038 |
| 126.77 | 60.41 | 2009 to 2038 |
| 129.26 | 41.32 | 2009 to 2023 |
| 132.39 | 38.43 | 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 |

*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, 2008, Cemig Distribution purchased 1,798 GWh pursuant to these agreements, which represented 6.44% of the total electricity required by Cemig Distribution during 2008.

**Other Businesses**

*Natural Gas Distribution*

Companhia de Gás de Minas Gerais, or 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 2008, Gasmig supplied approximately 2.4 million cubic meters of natural gas per day to 271 consumers: 171 industrial and commercial clients, 92 retail distribution stations for natural gas

vehicles, two thermal power plants and six distributors of compressed natural gas, or CNG. Gasmig supplied 0.8 million cubic meters of gas per day to thermal power plants and 1.6 million cubic meters of gas per day to retail consumers. In addition to serving the conventional market and the thermal power plants, Gasmig also supplied eight clients with re-gasified liquefied natural gas, or LNG. In 2008, Gasmig distributed approximately 4.0% of all natural gas distributed in Brazil.

Gaspetro acquired its 40% equity interest 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 m³/day of natural gas, in addition to the 3.5 million m³/day that was

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previously contracted for. This additional supply agreement is for the supply of natural gas to the regions of the Steel Valley (*Vale do Aço*) and the south of Minas Gerais, and also for expansion of service to the regions of 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 expect to begin commercial supply pursuant to the agreement in the second half of 2009, based on market demand. Under this agreement the price will be 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 2009 and 2010 will be mostly used for the expansion of our distribution network in highly industrialized areas of Minas Gerais. Gasmig has already begun the necessary expansions to serve the regions of the Steel Valley and the southern region of the State of Minas Gerais.

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

Other than with respect to the 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 mainly 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 clients 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 clients through rates increases.

Minas Gerais accounted for approximately 11% of the total natural gas consumption in Brazil in 2008. Many energy-intensive industries such as cement, steel, ferroalloys and metallurgy have significant operations in the state. We estimate that the total demand for natural gas in Minas Gerais will amount to nearly 5 million cubic meters of gas per day by 2012, which exceeds the available supply we project. 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 VNG retail distribution stations 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. Gasmig accelerated the start date to August 2006, providing service to the southern region of the State of Minas Gerais, through re-gasification of the LNG contracted with GásLocal, a joint venture of Petrobras and White Martins.

In 2008, Gasmig had gross revenues of approximately R$545 million and net income of approximately R$85 million. We recognized R$47 million as income from Gasmig in 2008.

In 2008, Gasmig invested approximately R$126 million in the expansion of its gas pipeline network to serve more clients in the State of Minas Gerais. The funds to finance the expansion came primarily from its own cash flow and reinvestment of the dividends payable to CEMIG. There were no changes in the Gasmig´s shareholder structure. Currently, the natural gas pipeline which brings natural gas from the Campos oil basin (State of Rio de Janeiro, Brazil) operates at full capacity, and further investment by the Federal Government will be necessary to expand its capacity or construct a new pipeline to supply the anticipated growing natural gas demand in the State of Minas Gerais.

*Exploitation and Production of Crude Oil and Natural Gas*

*On December 18, 2008, a consortium composed of CEMIG, Companhia de Desenvolvimento Econômico de Minas Gerais - Codemig, Comp Exploração e Produção de Petróleo e Gás S.A., Sipet Agropastoril Ltda. and Orteng Equipamentos e Sistemas Ltda. 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 Biodiesel), or ANP, in order to grant the execution of concession agreements for exploratory blocks. The consortium became the concessionaire of four blocks (SF-T-104, SF-T-114, SF-T-120 and SF-T-127) in the São Francisco Basin, one block (POT-T-603) in the Potiguar Basin, and one block (REC-T-163) in the Recôncavo Baiano Basin. The participation of both CEMIG and Codemig is 24.5% each. The total participation of Comp, Sipet, and Orteng is 51%, but the individual participation of these three companies varies, depending on the block. The execution of the concession agreement is scheduled to take place on June 30, 2009, and CEMIG s projected investment is not expected to exceed R$30 million in the exploitation phase.*

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*Telecommunications, Internet and Cable Television*

On January 13, 1999, we incorporated Empresa de Infovias S.A. in Minas Gerais, Brazil, as a joint venture with AES Força Empreendimentos Ltda., an affiliate of AES Corporation Group. Currently, we own 100% of the common shares of Empresa de Infovias S.A., which has an optical fiber-based long-distance communications backbone installed along our power grid using optical ground wire cables. This communications backbone is connected to an access network that is based on hybrid fiber-coaxial cable technology and is deployed along our power grid. Pursuant to Brazilian telecommunications law, we also make our network infrastructure available to other telecommunications providers interested in leasing it.

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

Empresa de Infovias S.A. provides the network for cable television service in 12 cities in Minas Gerais pursuant to a 15-year service agreement, that expires on December 31, 2015, with WAY TV Belo Horizonte S.A., or WAY TV, and Brasil Telecomunicações S.A., each a holder of concessions to provide cable television and Internet service in certain cities in Minas Gerais, under which Empresa de Infovias S.A. allows these companies to use its network infrastructure. In return, WAY TV and Brasil Telecomunicações are obligated to deliver to Empresa de Infovias S.A. a percentage of the revenues derived from their cable television and Internet subscribers.

Empresa de Infovias S.A. held a 69.25% equity interest in WAY TV, including 49.9% of its common shares. On November 12, 2007, Empresa de Infovias S.A. received final approval from the National Telecommunications Agency (*Agência Nacional de Telecomunicações*) for the sale of its equity interest in WAY TV to TNL PCS Participações S.A., an affiliate of the Oi Group. The sale was consummated on November 14, 2007 for approximately R$103.4 million, which represented the R$91.4 million purchase price plus interest due to such purchase price being held in escrow since the signing of the sale contract on August 1, 2006. On June 4, 2008, CADE approved the sale, subject to certain restrictions.

Empresa de Infovias S.A. 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.

In 2008, Empresa de Infovias S.A.  s gross revenues were R$99.3 million, while its net income was R$24 million.

Empresa de Infovias S.A.  s capital expenditures for the past five years were an aggregate of R$100.9 million, and its capital expenditures for 2009 are expected to be mostly used for expansion of its telecommunications network.

*Consulting and Other Services*

We provide consulting services to governments and public utility companies in the electricity industry in order to derive additional revenues from the technology and expertise we have developed through our operations. During the past ten years, we have provided such services to government agencies and utilities in ten countries, including Canada, Paraguay, Honduras, 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. Efficientia has increased its market share and revenues in the Brazilian market for specialized consultancy services every year since it began operations. Such services include consultancy in the areas of efficiency, energy solutions, reduction of non-technical losses in other electricity distribution concession holders and the provision of preventive maintenance services.

In 2008, Efficientia had net income of R$6.5 million. Efficientia s gross revenues in 2008 were R$10.7 million, a 24.3% increase from 2007. This increase in gross revenue was accompanied by operational costs of R$2.3 million, about 50% lower than in 2007. Highlights of the consultancy projects of Efficientia in 2008 include consulting with respect to the implementation of a cogeneration power plant that uses residual gas from metallurgy facilities operations and with respect to five energy savings solutions for electrical systems. The consultancy projects also included the connection of a cogeneration power plant to Cemig Distribution s grid, which will permit injection of surplus energy generated by Louis Dreyfus Commodities Bioenergia (sugar and alcohol company) into Cemig Distribution s grid. The power plant generates 100% clean and renewable energy.

In partnership with Concert Technologies S.A., Nansen S.A. Instrumentos de Precisão, Leme Engenharia Ltda. and FIR Capital Partners Ltda, we created Focus Soluções Tecnológicas S.A. in August 27, 2007, which name was changed in 2008 to Axxiom Soluções Tecnológicas S.A., to offer solutions in technology and systems for operational management of public service

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concession holders, including electricity, gas, water, and sewerage and other public utility companies. The company began operations in the second quarter of 2008.

In addition, The Strategic Technology Management Center (*Centro de Gestão Estratégica de Tecnologia*), or CGET, created in 2005, as a non-profit entity whose objectives include studies and research, development of alternative technologies, production of technical and scientific information and knowledge, encouragement of industrial development measures, plans and programs, projects for research and incorporation of developed or adapted technological innovations, and implementation of centers of excellence and institutions for the development of studies and provision of technological services.

**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 s total energy losses in 2008 were 5,790 GWh, compared to 5,629 GWh in 2007. Of this total in 2008, 606 GWh were related to losses in the Basic Grid attributed to CEMIG by the ONS. The remaining 5,184 GWh were both technical and non-technical losses in CEMIG s own local distribution system and represent 11.6% of the total energy (46.301 GWh) that passed through the local system.

Technical losses accounted for approximately 80% of our energy losses in the local distribution grid in 2008. 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 our energy losses in 2008 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 2008, the indicators that measure the quality of supply by Cemig Distribution, DEC Consumer Outage Duration in hours per year and FEC Number of Outages Per Year, were 13.65 and 6.53, respectively, compared to 13.14 and 6.39 in 2007.

**Consumers and Billing**

*Consumer Base*

Our distribution and generation business consumers, who are located within our concession area in Minas Gerais and outside the state, 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, 2008, we sold 42,926 GWh of energy, which includes the energy sold by Cemig Generation and Transmission to the so-called Free Consumers, mainly industrial.

For 2008, as compared to 2007, the volume of electric power sold by us to industrial and commercial consumers increased by 8.4% and 7.6%, respectively, and the volume of electric power sold by us to rural consumers increased by 4.3%. The other consumer category grew 2.6% (this excludes wholesale supply). The residential consumption increased 5.2% from 2007 to 2008. The following table provides information regarding the number of our consumers as of December 31, 2008 and consumption by consumer category for the years ended December 31, 2008, 2007 and 2006.

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| Consumer Category | Number of consumers at December 31, 2008 | Consumption (GWh) Years ended December 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Industrial | 74,482 (1) | 26,198 (2) | 24,183 (2) | 23,759 (2) |
| Residential | 5,400,214 | 7,164 | 6,813 | 6,647 |
| Commercial | 578,021 | 4,423 | 4,111 | 3,851 |
| Rural | 482,952 | 2,296 | 2,200 | 1,938 |
| Own consumption | 829 (3) | 35 | 34 | 30 |
| Other | 65,708 (4) | 2,810 | 2,738 | 2,666 |
| Total | 6,602,206 | 42,926 | 40,079 | 38,891 |

(1) Includes subsidiaries and affiliated companies.

(2) The industrial consumer category includes consumption by Sá Carvalho S.A., Usina Térmica Ipatinga S.A., Horizontes Energia S.A., Cemig PCH S.A., Usina Termelétrica Barreiro S.A., Rosal Energia S.A., Cemig Capim Branco S.A.

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

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

In 2008, we added and billed 162,001 new final consumers, representing growth of 2.5% compared to 2007, through the expansion of our transmission and distribution systems.

The largest portion of the energy we sell is purchased by large industrial consumers. At December 31, 2008, thirteen of our industrial consumers had high voltage electrical energy supplied through direct connections to our transmission lines. These consumers constituted 14.5% of our total volume of electrical power sales during 2008, and approximately 6.6% of our revenues. In the same period, our thirteen largest industrial consumers accounted for nearly 19.0% of energy consumed. None of our ten largest consumers is owned by the State Government or by the Federal Government.

As of December 31, 2008, we had entered into power purchase agreements with 889 of our industrial consumers. Our power purchase agreements with industrial consumers have terms of three or five years and contain a minimum demand clause that requires the consumer to pay for the contracted demand, which represents the system capacity reserved for that consumer, as well as the consumer s actual consumption. We believe that this billing method provides us a relatively stable source of revenue.

The following table shows our industrial energy sales volumes by type of industrial consumer as of December 31, 2008:

| Industrial Consumers (1) | Energy Sales Volume in GWh | Consumption as a Percentage of Total Industrial Energy Sales Volume |
|---|---|---|
| Steel industry | 7,117 | 27% |

| | | |
|---|---|---|
| Ferroalloy industry | 4,967 | 19% |
| Chemical industry | 2,865 | 11% |
| Non-ferrous metal industry | 1,045 | 4% |
| Mining industry | 412 | 9% |
| Food processing | 1,528 | 6% |
| Cement industry | 954 | 4% |
| Others | 7,310 | 28% |
| Total | 26,198 | 100 |

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

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The following table sets forth the names and related industries of our ten largest consumers in 2008:

| Ten Largest Consumers (listed in order of total GWh of electricity purchased from us in 2007) | Industry |
|---|---|
| Companhia Siderúrgica Paulista COSIPA | Steel |
| Usinas Siderúrgicas de Minas Gerais S.A. USIMINAS | Steel |
| Ligas de Alumínio S.A. | Ferroalloys |
| Companhia Brasileira de Carbureto de Cálcio CBCC | Ferroalloys |
| White Martins Gases Industriais S.A. | Chemical |
| Italmagnésio Nordeste S.A. | Ferroalloys |
| Companhia Ferro Ligas Minas Gerais | Ferroalloys |
| Saint Gobain Materiais Cerâmicos Ltda. | Chemical |
| Belgo Siderurgia S.A. | Steel |
| Votorantim Metais e Zinco S.A. | Non-ferrous |

As a result of our strategy to maintain and capture a larger market share in the free market, we have entered into contracts with large Free Consumers within and outside of Minas Gerais, leading to electricity sales volume in 2008 of 22,609 GWh to those customers. As a result of the unbundling, most of our contracts with large consumers within our concession area were assigned to Cemig Generation and Transmission in 2008. Most of our large clients, that represent almost 50% of the MWh of our energy sold, have already contracted to buy electricity from Cemig Generation and Transmission for the next several years. Consumers that opt to become Free Consumers are primarily industrial consumers whose demand generally exceeds 3 MW. Consumers that consume between 500 kW and 3 MW may opt to purchase energy from other sources, if the source is a renewable one, such as small hydroelectric facilities or biomass.

In 2008, we entered into two relevant groups of contracts with large Free Consumers. The first group of contracts was with the Votorantim Group, through which we will provide variable amounts of energy, from the current 145 average MW up to 670 average MW in some years. The total amount of this group of contracts is approximately R$10.5 billion, and will expire in 2028. These contracts are expected to generate revenue to CEMIG of approximately R$500 million per year through their expiration in 2028. The second group of contracts was signed on May 26, 2008, with the ArcelorMittal Group, for the provision of up to 313.5 average MW (twice the volume we currently provide to the ArcelorMittal Group). The total amount of this second group of contracts is approximately R$4.4 billion and will expire in 2020. This group of contracts is expected to generate revenue to CEMIG of approximately R$360 million per year through the expiration of the contracts in 2020.

*Billing*

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

*Seasonality*

Our sales are affected by seasonality. Usually, an increase in consumption by industrial and commercial consumers occurs in the third fiscal quarter due to increases in industrial and commercial activities. In addition, there is generally an increase in usage across all consumer categories during the summer months of January, February and March due to the increase in temperatures. Certain figures representing fiscal quarterly consumption by final consumers from 2006 through 2008, in GWh, are set forth below:

| Year | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| 2006 (1) (2) | 9,485 | 9,619 | 9,901 | 9,886 |
| 2007 (1) (2) | 9,337 | 10,016 | 10,238 | 10,488 |
| 2008 (1) (2) | 9,948 | 10,438 | 11,312 | 11,228 |

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

(2) Does not include supply to other concessionaires.

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**Competition**

*Contracts with Free Consumers*

We had 157 contracts with Free Consumers as of December 31, 2008. Of these contracts, 16 are with companies located outside the distribution company s concession area and represent 1,870 GWh of energy per year. These contracts with Free Consumers have terms of three to ten years and represent a total volume of approximately 19,150 GWh/year.

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 high Take or Pay, translates into lower risk and greater predictability of the Company s results.

At the end of 2008 we were the largest seller of energy in the Free Market.

*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 clients may become SPPs pursuant to the Concessions Law in order to obtain the right to generate electricity for their own use. The granting of certain concessions to our large industrial clients could adversely affect our results of operations.

**Raw Materials**

Water is our main raw material used for the production of energy, representing 97% of the total raw materials used. Our principal raw material expense is the purchase of fuel oil, which is consumed by our three thermoelectric plants in the electricity generation process. Fuel oil consumption for the year ended December 31, 2008 represented an expense of R$70 million. See The Brazilian Power Industry Regulatory

Charges and Item 5. Operating and Financial Review and Prospects. We believe that supplies of fuel oil are readily available.

**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 and suspension of activities, while criminal sanctions may include fines and, for individuals, possible 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 in all material respects with the relevant laws and regulations.

We are certified under the Cemig Environmental Management System (EMS) for our operations in many municipalities, our materials storage and logistics warehouses, the Volta Grande environmental station, the Galheiros Environmental Reserve, and our management units for industrial safety, property management and operational contingency services.

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At the end of 2008, the following plants were certified under the Cemig EMS: Camargos, Salto Grande, Volta Grande, Jaguara, Três Marias, Emborcação, and Igarapé and the following were certified under ISO 14001: São Simão, Miranda, Rosal, Irapé, Nova Ponte and Itutinga. Together, these plants represent 5,767 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 2008, we invested approximately R$28.3 million in environmental compliance projects for plant and equipment and in the implementation of new projects, and also spent R$42.2 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 pruning and oil policies in place, environmental education programs, maintenance of conservation units, training and other activities. We also invested R$476 thousand 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.

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 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.

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 the Environmental Foundation (*Fundação Estadual do Meio Ambiente*), or FEAM, of the State of Minas Gerais.

*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 IBAMA and FEAM to obtain the corrective environmental operation licensing for all our plants that began operating prior to February 1986. Generation facilities located within the State of Minas Gerais fall within the jurisdiction of FEAM for purposes of corrective licensing. We have agreed with FEAM to bring our facilities located in Minas Gerais into compliance on a gradual basis. We do not currently anticipate any costs and commitments in connection with any recommendations that may be made by IBAMA and FEAM.

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Currently, those Cemig Generation and Transmission facilities 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 and Sá Carvalho; (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 (v) the Transmission System of the Eastern Region of the State of Minas Gerais.

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 or shelter or protection of native fauna and flora.

In Minas Gerais, where the greater part of CEMIG s undertakings are located, State Law No. 14,309, of July 19, 2002, implemented in regulation by Decree 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.

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 real estate 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 undertakings of 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.

Grounded on different legal opinions, SEDE submitted a new consultation to the AGE, requesting a revision of the said Legal Opinion.

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 concession-granting power, through ANEEL as intermediary, and is given on a temporary basis, which is to say that at the end of the concession or authorization, the assets revert to national ownership.

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3. The environmental impacts caused to biodiversity by the implementation of the electricity sector s undertakings have already been amply compensated for. As an example of the environmental compensation specified in Brazilian legislation, already applying to the sector, we refer to the following: (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 §4º 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 would characterize a double charge imposed on concession holders.

CEMIG has submitted its justifications to SEDE, presenting the arguments in opposition to the said obligation of establishing Legal Forest Reserves.

To date, the AGE has not responded to the request for revision of the Legal Opinion formulated by SEDE. CEMIG has not yet evaluated the effects of such decision on its business and activities.

*Compensation Measures*

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, regulates 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.

In the State of Minas Gerais, where CEMIG has most of its facilities and enterprises, the Chairman of COPAM issued Regulatory Ordinance No. 94 in April 2006, applying an environmental compensation charge, at rates between 0.5% and 1.1% of the total amounts invested in the implementation of the projects that cause environmental harm. This regulatory ordinance also indicated that the compensation charge applies to projects implemented before the issuance of the new legislation. We have not yet assessed the effects such legislation will have on CEMIG, but it could result in additional costs for CEMIG.

*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 that pass through our dams will be redirected to fishways, through which they can pass safely.

There has been no decision by the environmental authorities regarding the building of fishway projects at CEMIG s hydroelectric plants; and there is a possibility that future decisions by the environmental authorities, or changes in the environmental legislation, or even new information obtained from the studies that are in progress, may lead to a need for the construction of fishways at all of CEMIG s hydroelectric plants.

*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. We paid 50% of the fine and the rest is being negotiated with the environmental authority for application in research projects.

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Although the amount is not a material liability for us, we are implementing an environmental project 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.

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.

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 prolonged drought, fish deaths occurred in a lake associated with the Pandeiros River, 50 km 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 ) 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 MP.

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

**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, through its Dig Safely (*Escave com Segurança*) program, has been building partnerships with the community, mainly with public authorities and holders of concessions, in addition to the companies which carry out digging in public rights of way, to ensure that before digging close to the natural gas network, they telephone Gasmig s 24-hour helpline and request support for safe execution of their work.

*Transmission Lines* Several of the areas to which we have a right of way in relation to our transmission lines have been occupied by unauthorized facilities (buildings, etc.) and dwellings. These occupations generate risks of electric shock and accidents involving people living at the location and constitute an obstacle for the maintenance of our electricity system. It is thus necessary to solve this situation over the coming years, either removing some of the occupants, or introducing improvements to make it possible to safely and efficiently maintain our electricity system with these occupations intact. Faced with the risks associated with this situation, we have planned two approaches for the coming years. The first is preparation of a report entitled Diagnosis of areas invaded and under risk of invasion, for strengthening of inspection activities, including installation of improvements in locations classified as having high invasion risk, for which CEMIG is identifying the areas with potential for invasion and making possible decisions on measures and procedures in relation to the control, monitoring and inspection of the transmission line paths where there is a high risk of invasion. The second line of action involves the evacuation of areas already invaded. The removal of people from these areas

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involves payment of indemnities, regularization of electricity connections and the opening of areas for the construction of parks and streets.

*Reservoir Areas* We have implemented security measures to protect our generation facility properties from trespass, using both fixed security posts and mobile patrol units, as well as electronic surveillance systems, or ESSs, where appropriate. The banks of the reservoirs of our hydroelectric generation facilities have signs indicating ownership and advising of the existence of security systems. Trespassers are deterred by the mobile patrol unit s periodic patrol of the reservoir banks. When trespassers are apprehended, police reports are filed, which are sent to the Company s legal department for review. Due to the vast area and number of reservoirs, we are continually subjected to new trespasses and occupation of margins by unauthorized constructions. However, we are committed to preventing 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. We are studying the possibility of implementing more CDM projects and evaluating carbon projects for each of our new enterprises. In 2008 we began the process of obtaining carbon credits under the CDM for the following projects: (i) co-generation of electricity using blast furnace gas; and (ii) the small hydroelectric plants of Cachoeirão (27 MW), Dores de Guanhães (12 MW), Senhora do Porto (14 MW), Fortuna II (9 MW) and Jacaré (9 MW).

**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 44 extra high and high voltage substations and approximately 27 major generating power plants.

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

*Regional Distribution Operation Centers*

Our distribution network is managed through seven Regional Distribution Operation Centers (*Centros de Operações Regionais de Distribuição*), or CODs. The CODs monitor and coordinate our distribution network operations in real time. The CODs are responsible for the supervision and control of 360 distribution substations, 271,480 miles of medium voltage distribution lines, 10,277 miles of sub-transmission lines and 6.6 million consumers in our concession area, comprising 774 municipalities of Minas Gerais.

We provided an average of 16,500 services a day in 2008. All of the CODs are certified according to ISO Quality Standard 9001: 2000. There are various systems in use to automate and support the CODs processes including: trouble call, field crew management, distribution substation supervision and control, restoration of power, emergency switching, network disconnection, and inspection. Technologies including a geographic information system and radio/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*

We are intensively using geospatial and technical document management technology to support and improve engineering processes. Geo-referenced information on the electrical network, satellite and aerial photographs of the concession area, diagrams and technical document images are stored in geospatial databases and can be easily retrieved by computers connected to our corporate network, helping technicians to plan, design, construct, operate and maintain the generation, transmission and distribution network.

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We are using mobile technology in service dispatch for distribution network maintenance and medium and high-voltage network data acquisition.

We have developed the Enterprise Image Management System GeoImagem which organizes and publishes the georeferenced images to GIS (Geographic Information System) users. We continue to invest in enterprise georeferenced applications based on GIS technology for advanced spatial analysis.

*Internal Telecommunications Network*

Our telecommunications network is one of the largest in Brazil. It includes high performance microwave links with more than 200 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 338 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 network integrates enterprise servers (eight Risc machines for the ERP and the new commercial systems), 9,774 Intel microcomputers, 480 servers and 1,500 connectivity devices, serving 200 sites in 130 cities of Minas Gerais. The centralized infrastructure uses modern servers and devices with service level agreements for hardware maintenance and software support. The process of reception of meter reading data, digital calculation of electricity bills, and issuance of electricity bills to consumers in CEMIG s secondary network has been ISO 9001:2000 certified since 2005. In 2008, new network and storage technologies were put in place, improving the network s performance and availability of applications. Our information security systems are constantly updated for access control, firewalls, antispam and antivirus, to protect all data and functionalities against unauthorized access. We use mobile solutions, such as wireless devices, PDAs and cellular phones for easy access to data and field operations.

*IT Governance Program*

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

Numerous actions have been taken in recent years. The most important was the adoption of ITIL® best practices. The following ITIL® processes and functions were prioritized for implementation: Incident Management, Configuration Management, Change Management, Problem Management, Capacity Management, Service Level Management, and Service Desk

In 2008, we improved certain IT processes and as a result of this effort, the Change Management and Incident Management processes received recommendation for ISO 9001:2000 certification. A certification plan has now been set up for the other ITIL processes. Actions to establish IT strategy and IT steering commities were also taken, to serve initiatives defined by the corporate strategic planning.

*Call Centers*

We have one call center, in Belo Horizonte. Clients 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 CODs, allowing us to give clients up-to-date information on service issues. The call center has modern facilities, with a staff of over 1,200, and is able to receive about 100,000 calls per day. Clients can also contact us by e-mail, by fax or via our website. As an indication of the service quality provided, our call center has had ISO 9001 Quality Certification since 1999.

*Commercial Management System*

To update the technology of our Consumer Information System, or SICO, which has been on a mainframe platform since the 1970s, Cemig Distribution has invested R$178 million in a new Commercial Management System, or SGC (*Sistema de Gestão de Clientes*), based on the CCS (Customer Care & Service), CRM (Customer Relationship Management) and BW (Business Warehouse) SAP systems. This new system serves low, medium and high-voltage clients. It was implemented in 24 months, from April 2006 to May 2008, through the Evolution Project, which employed a team of, on average, 250 specialists from CEMIG and the Aliança Consortium (Accenture, Newcom, and Indra).

This process involved approximately 28,000 hours of program code development. A large number of tests, including stand-alone tests, assembly, software integration, performance, comparison and user acceptance tests, were performed to assure the quality

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of the SGC system. All high, medium and low voltage customers of the State of Minas Gerais were successfully transferred to the new system by May 2008.

We believe that benefits from the new system include better quality of client registry data and better information access tools, yielding greater information reliability and allowing tracking of all operations conducted by system users; better integration with other systems and increased simplicity, due to a reduction from 74 subsystems to just 14; more up to date technology, including the replacement of the mainframe computers, ensuring lower maintenance costs; and better controls. Benefits from SGC to the client include a greater focus on customer relationships; registration of all contacts, resulting in faster services and improved information quality; integration of the Virtual Agency into the new system, with a greater number of services offered; better interaction among all client communication channels, including e-mail, telephone, electricity bill messages, etc.; new electricity bill layout, allowing for better information visualization; and new meter reading management system, including the simultaneous printing of the electricity bill.

*Maintenance and Repair Systems*

The 10,277 miles of high voltage transmission lines in Cemig Distribution s network, operating at 34.5 kV to 161 kV, are supported by approximately 53,495 structures, mainly made of metal. Cemig Generation and Transmission s network has 3,081 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 Cemig Distribution and Cemig Generation and Transmission are inspected from the air once a year, using a helicopter equipped with a gimbal-gyro-stabilized camera, followed by simultaneous visual and thermographic (infra-red) inspections. Land-based inspections are also carried out at intervals of between one and three years, depending on the characteristics and age of the transmission line, number of outages, type of structure, and the line s importance to the electricity system as a whole.

We use modern modular aluminum structures to minimize the impact of emergencies involving fallen towers. Most of our maintenance work on transmission lines is done using live-line methods. Being the first company in Brazil to use bare-hand, live-line techniques in the maintenance of transmission lines and substations, we have accumulated, over the last 31 years, significant experience in this area. We have trained our staff in this area and have special vehicles and other necessary tools to support live- and dead-line maintenance.

We also maintain spare transformers and mobile substations to promptly reestablish 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, in 138/13.8 kV and 15 MVA, which is completely insulated with vegetable oil. We are also a pioneer in the use of 138 kV power transformers that are completely insulated with vegetable oil.

*Information Security Management*

As part of our Corporate Information Security Project Plan for 2008, we have prioritized and developed three projects to improve information security and to address the requirements of the Sarbanes-Oxley Act, including specifying information security management processes, developing an information security project plan, and revising the IT service continuity plan.

We also developed the Information Security Update awareness program, involving 1,248 employees, which focuses on social engineering, basic concepts of security and phishing threats.

**Management Tools**

Our current Enterprise Resource Planning software (SAP R/3), or ERP, provides functions covering accounting, costs and funds control, budget, project management and human resources management. The ERP also includes data warehouse functionality, balanced scorecard methodology and long-term cash flow monitoring. In quality management, we have received ISO 9001/2000 certification for, among other things, the following aspects of our business: consumer service offices, call centers, laboratories, maintenance of remote protection system equipment, data reception, and billing.

In 2008, we implemented a self-service employee portal to allow employees easy access to information in the SAP/R3 HR Module.

*Enterprise-Wide Risk Management*

With the assistance of a leading consulting firm chosen through a formal selection process, we began establishment of a Corporate Risk Management System in 2003, and consolidated it during the period of 2004 through 2006, in connection with our unbundling process. As holder of a concession in the Brazilian electricity sector, we operate in environments where factors such as

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corporate restructurings, regulations issued by energy sector government agencies, technological development, globalization and changes in the consumer market generate uncertainties and threats.

The implementation of a coherent risk vision and strategy at the corporate level is a new management trend, encouraged not only by the requirements of the Sarbanes-Oxley Act and the methods recommended by the Committee of Sponsoring Organizations, or COSO II, but also by the perception that management of risk 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: operate as an auxiliary in achievement of the objectives set by the strategic plan; create awareness among shareholders of the possible events that could constitute a risk of loss of value; structure the company to be able to take proactive stances in relation to its risk environment; provide the company s executives with a methodology and tools for effective management of risk, 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. During 2008, the most important facts were that: (i) the third update of CEMIG s Corporate Risks Matrix was initiated, considering the review of its risks position, the risks control environment and its mitigation plans in order to adapt to the regulatory changes and economic and market context, and (ii) the improvement of the Corporate Risk Matrix from the shareholder s perspective, allowing management to understand what stakeholders see as strategic threats and to identify risks that do not exist in the Corporate Risks Matrix.

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

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.

**Property, Plant and 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, including our investment in certain consortia that operate electricity generation projects, was R$14,011 million at December 31, 2008 (including ongoing construction projects). Generation facilities represented 42.2% of this net book value, transmission and distribution facilities represented 52.7% and other miscellaneous property and equipment, including telecommunication facilities and intangible assets, represented 5.1%. The average annual depreciation rate applied to these facilities was 2.5% for hydroelectric generation facilities, 3.0% for transmission facilities, 4.7% for distribution facilities, 12.1% for administration facilities, and 8.3% for telecommunication facilities. Apart from our distribution network, no single one of our properties produced more than 10% of our total revenues in 2008. 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.

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**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 of either the Federal Government or the State Government. In the past, several companies controlled by the state were privatized, in an effort to increase efficiency and competition. The previous administration, ruled by Fernando Henrique Cardoso (1995 2002), stated its objective to privatize the state-controlled part of the electricity sector, but the present administration has stopped this process, and has implemented a New Industry Model for the Brazilian electricity sector as set forth in Law No. 10,848, of March 15, 2004, 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 creates 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 agencies 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 Eléctrica*), or CCEE, a private company, which is the successor of the Wholesale Energy Market, 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 eliminates self-dealing, forcing distributors to purchase electricity at the lowest available prices rather then buying electricity from related parties. The New Industry Model also exempts 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 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 a decision may be reached. Therefore, the New Industry Model Law is currently in force. Regardless of the Supreme Court s final decision, certain portions of the New Industry Model Law relating to restrictions on distributors performing activities unrelated to the distribution of electricity, including sales of energy by distributors to Free Consumers and the elimination of contracts between related parties are expected to remain in full force and effect.

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***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 CCEAR.

Under the New Industry Model Law, the estimate of demand from distributors is the principal factor in determining how much electricity the system as a whole will contract. Under the new system, distributors are 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.

A consumer that is eligible to choose its supplier, known as potentially free consumer , and that has a contract with a distribution company for an undetermined duration, may only be able to purchase electricity from other suppliers in the year following the declaration of its intention to terminate such contract, which 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 may 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

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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.

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

***Limitation on Pass-Through***

The rules also limit the pass-through of costs of electricity to final consumers. The Annual Reference Value corresponds to the weighted average of the electricity prices in the A-5 and A-3 auctions, calculated for all distribution companies, and creates an incentive for distribution companies to contract for their expected electricity demands in the A-5 auctions, where the prices are expected to be lower than in A-3 auctions. The Annual Reference Value will be applied in the first three years of the power purchase agreements from new power generation projects. After the fourth year, the electricity acquisition costs from these projects will be allowed to be fully passed-through. The decree establishes the following limitations on the ability of distribution companies to pass through costs to consumers:

- no pass-through of costs for electricity purchases that exceed 103% of regulatory demand;

- limited pass-through of costs for electricity purchases made in an A-3 auction, if the volume of the acquired electricity exceeds 2.0% of the demand verified in A-5 auctions;

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- limited pass-through of electricity acquisition costs from new electricity generation projects if the volume re-contracted through CCEARs of existing generation facilities is below a Contracting Limit defined by Decree No. 5,163;

- from 2007 to 2009, electricity purchases from existing facilities in the A-1 auction is limited to 1.0% of distribution companies demand. If the acquired electricity in the A-1 auction exceeds 1.0%, pass-through of costs of the exceeding portion to final consumers is limited to 70.0% of the average value of such acquisition costs of electricity generated by existing generation facilities. The MME will establish the maximum acquisition price for electricity generated by existing projects;

- electricity purchases in market adjustment auctions are limited to 1% of a distribution concessionaire s total demand (except for the years 2008 and 2009, when it will be 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 (*Indice 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 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.

We were subject to a periodic rate revision *(revisão periódica*) in April 2008, and therefore an annual rate adjustment did not occur in 2008.

On April 7, 2008, ANEEL established the results of our second periodic rate revision. Based on the financial components of this rate adjustment, the rates decreased, on average, 12.24%. However the legislation that regulates the periodic revision process has changed and these results were considered provisional. For more detailed information, see Item 5. Operating and Financial Review and Prospects Rates.

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

ANEEL has also issued regulations that govern the access to the distribution and transmission facilities and establish the rate for use of the local distribution grid, or Distribution Usage Rates, 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.

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***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 3.0% 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 246,695 MW, of which only 30% has been developed, according to the Energy Research Company, or EPE, and Eletrobrás.

Brazil has an installed capacity in the interconnected power system of 92.40 GW, approximately 84% 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 50,000 miles of transmission lines with voltages equal to or higher than 230 kV in Brazil.

Approximately 42% of Brazil s installed generating capacity and 64% 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 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:

- 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.

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- Beginning in 1995, a portion of the controlling interests held by Eletrobrás and various states in generation and distribution companies were sold to private investors. At the same time, certain state governments also sold their stakes in major distribution companies. While the majority of the distribution companies have been privatized, most generation capacity is still controlled by Eletrobrás, by means of its subsidiaries Chesf, Eletronorte and Furnas.

- In 1998, the Federal Government enacted Law No. 9,648, or the Power Industry Law, to overhaul the basic structure of the electricity industry. The Power Industry Law provided for the following:

- the establishment of a self-regulated body responsible for the operation of the short-term electricity market, or the Wholesale Energy Market, which replaced the prior system of regulated generation prices and supply contracts;

- a requirement that distribution and generation companies enter into initial energy supply agreements, or the Initial Contracts, generally take or pay commitments, at prices and volumes approved by the Brazilian National Electric Energy Agency ANEEL. The main purpose of the Initial Contracts was to ensure distribution companies have access to a stable electricity supply at prices that guarantee a fixed rate of return for the electricity generation companies during the transition period leading to the establishment of a free and competitive electricity market;

- the creation of the National Integrated System Operator (Operador Nacional do Sistema, or ONS), a non-profit, private entity responsible for the operational management of the generation and transmission activities of the interconnected power system; and

- the establishment of public bidding processes for concessions for the construction and operation of power plants and transmission facilities, in addition to the bidding process requirements under the Concessions Law and the 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, know 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 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.

The National Bank of Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social*, or BNDES), created a special program to finance 90% of the amounts recoverable by means of the RTE. The loans are repayable over the rate increase collection period.

In April 2003, the Federal Government, fearing that rate increases may contribute to overall inflation in Brazil, decided to delay a rate increase to which distribution companies were entitled under ANEEL resolutions to recover intra-annual variation of Parcel A costs. On November 11, 2003, 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

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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 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, 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

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- 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

- 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.

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*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.

***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 February 6, 2007, ANEEL issued Resolution No. 252, which revoked item (1) above, and on January 8, 2008, it issued Resolution No. 299, which revoked items (2) and (3) above. These were limits on the concentration of certain services and activities within the power industry. Currently there is only one restriction: under the Brazilian Grid, a distribution company may only buy electricity from related companies or devote energy produced by itself to provide up to 30% of the energy sold to its captive consumers. A public hearing is set to discuss the development of a regulatory action to establish the limits, conditions and restrictions to the participation of economic agents in the sector of electric energy. There is no guarantee whether or not ANEEL will establish the new restrictions.

***Incentives for Alternatives Sources of Power***

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

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In 2002, the Proinfa Program was established by the Federal Government to create certain incentives for the development of alternative sources of energy, such as wind energy projects, Small Hydroelectric Power Plants and biomass projects. Under the Proinfa Program, Eletrobrás will purchase the electricity generated by these alternative sources for a period of 20 years and will pass it on to distributors. In its initial phase, the Proinfa Program is limited to a total contracted capacity of 3,300 MW.

Law 9,427/96, as amended by Law 10,762/03, further established that hydroelectric plants with installed capacity of 1,000 kW or less, generation plants classified as small hydroelectric plants, and those with qualifying solar, wind, biomass or cogeneration sources with installed capacity of 30,000 kW or less, used for independent production or self-production, will have the right to a discount of 50% on the rates for use of the transmission and distribution systems, charged on production and consumption of the energy sold. This article of the law was regulated by ANEEL through its 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 RGR is scheduled to be phased out by 2010, and ANEEL is required to revise the rate so that the consumer will receive some benefit from the termination of the RGR.

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.

*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.

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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 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 hydrological electricity by mandating that all hydrogenerators share the hydrological risks within the Brazilian Grid. According to Brazilian law, the revenue arising from the sale of energy by generators does not depend on the energy effectively generated by them, but rather on the Assured Energy (the Effective Power, a reference amount of electricity established by the MME in accordance with studies conducted by the ONS, that considers the probability of long term average hydrology) of each plant, which is determined by the government 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 a 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.

***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 reajusted 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. Its is readjusted annually according to an inflation index and the annual revenue of the transmission companies adjustment. According to criteria established by ANEEL, owners of the different parts of the transmission grid 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 beyond the control of the distributor, or Parcel A costs, and (2) costs that are under the control of

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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:

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

Each distribution company s concession agreement provides for an annual rate adjustment (*reajuste*). In general, Parcel A costs are fully passed through to consumers. Parcel B costs, however, are restated for inflation in accordance with General Market Price Index (Indice Geral de Preços do Mercado), or IGP-M index, adjusted by an X Factor. Electricity distribution companies, according to their concession contracts, are also entitled to periodic revisions (*revisão periódica*). 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 U.S. GAAP and presented in reais.*

**Critical Accounting Estimates**

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. We evaluate our estimates on an ongoing basis and base them on a combination of historical experiences and various other assumptions that we believe

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to be reasonable under the circumstances. Actual results could differ materially from those estimates. Our critical accounting policies that affect our more significant judgments used in the preparation of our consolidated financial statements are set forth below.

*Fair Value Measurements*

On January 1, 2008, we adopted the provisions of FASB Statement No. 157, Fair Value Measurements, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Statement 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement 157 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, delays the effective date of Statement 157 until fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. In accordance with FSP FAS 157-2, we have not applied the provisions of Statement 157.

On January 1, 2009, we will be required to apply the provisions of Statement 157 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. We are in the process of evaluating the impact, if any, of applying these provisions on its financial position and results of operations.

In October 2008, the FASB issued FASB Staff Position FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active, which was effective immediately. FSP FAS 157-3 clarifies the application of Statement 157 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. We have considered the guidance provided by FSP FAS 157-3 in its determination of estimated fair values during 2008.

*Regulatory Assets*

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

SFAS No. 71 requires rate-regulated public utilities such as CEMIG to record certain costs and credits allowed in the rate-setting process in different periods than for non-regulated entities. These costs and credits are deferred as regulatory assets and are recognized in the consolidated statement of operations at the time they are reflected in rates. Accordingly, we capitalize allowable incurred costs as deferred regulatory assets when there is a probable expectation that future revenue equal to the costs incurred will be billed and collected as a direct result of the inclusion of the costs in an increased rate set by the regulator. The deferred regulatory asset is realized when we collect the related costs through billings to consumers. ANEEL performs a rate review on an annual basis. If ANEEL excludes all or part of a cost from recovery, that portion of the deferred regulatory asset is impaired and is accordingly reduced to the extent of the excluded cost. We evaluate and revise the accounting for our regulatory assets on an ongoing basis as new regulatory orders are properly issued and account for our activities under SFAS No. 71. As we recognize regulatory assets in accordance with rulings of the regulatory authorities of the Federal Government, future regulatory rulings may impact the carrying value and accounting treatment of our regulatory assets.

During 2001, the electricity markets in significant portions of Brazil experienced rationing, or reduced availability of electricity to consumers, due to low rainfall, reduced reservoir levels and Brazil s significant dependence on electricity generated from hydrological resources. These factors resulted in lower sales. In December 2001, electricity concessionaires in Brazil, including us, reached an industry-wide agreement with the Federal Government that provided resolution to rationing related issues as well as certain electricity rate-related issues. This agreement, known as the General Agreement of the Electricity Sector, generally allows for increased rates to be charged to electric power consumers until the amounts lost by the power generation and distribution concessionaires as a result of the rationing are recovered. The rate increases set forth in the General Agreement of the Electricity Sector intended to reimburse rationing-related losses were in effect from January 2002 to February 2008. We recorded a loss of R$349 million because this period was not long enough to collect the regulatory assets related to billing losses.

*Valuation of Long-Lived Assets*

We have long-lived assets, including power generation plants. Many of these assets are the result of recent capital investments and have not yet reached a mature life cycle in construction. We assess the carrying amount and potential impairment of these long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider in determining whether an impairment review is necessary include a significant underperformance of the assets relative to

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projected future operating results and significant negative industry or economic trends. We determine when an impairment review is necessary through a comparison between the expected undiscounted future cash flows and the carrying amount of the asset. If the carrying amount of the asset is the larger of the two amounts, an impairment loss is recognized by the amount that the carrying amount of the asset exceeds the fair value of the asset. The fair value is determined by quoted market prices, appraisals or the use of valuation techniques such as expected discounted future cash flows. We must make assumptions regarding these estimated future cash flows and other factors to determine the fair value of the respective assets. In determining estimated future cash flows, we consider historical experience as well as future expectations and estimated future cash flows are based on expected future rates and expected future consumer demand. A significant reduction in actual cash flows and estimated cash flows may have a material adverse impact on our operating results and financial condition.

*Accrual for Contingencies*

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

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

*Employee Post-Retirement Benefits*

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

The determination of the amount of our obligations for pension and other post-retirement benefits depends on certain actuarial assumptions. These assumptions are described in Note 16 to our consolidated financial statements and include, among others, the expected long-term rate of return on plan assets and increases in salaries and healthcare costs. In accordance with U.S. GAAP, actual results that differ from our assumptions are accumulated and amortized over future periods and generally affect our recognized expenses and recorded obligations in such future periods. While we believe that our assumptions are appropriate, significant differences in actual results or significant changes in our assumptions may materially affect our pension and other post-retirement obligations.

*Deferred Taxes*

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

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

We have also adopted FIN 48, Accounting for Uncertainty in Income Taxes , that prescribes a recognition threshold and measurement attribute for the financial statement of a tax position taken or expected. FIN 48 resulted in increased relevance and comparability in financial reporting of income taxes because all tax positions accounted for in accordance with FASB Statement 109, Accounting for Income Taxes, will be evaluated for recognition, derecognition, and measurement using consistent criteria. The adoption of FIN 48 did not result in any adjustments in our financial statements.

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*Depreciation*

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

*Allowance for Doubtful Accounts*

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

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

**Recently Issued U.S. GAAP Pronouncements**

In December 2007, the FASB issued FASB Statement No. 141(R), Business Combinations, and FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment to ARB No. 51. Statements 141(R) and 160 require most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both Statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. Statement 141(R) will be applied to business combinations occurring after the effective date. Statement 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. All of the Company s subsidiaries are wholly owned, so the adoption of Statement 160 is not expected to impact its financial position and results of operations. The Company is currently evaluating the impact of adopting Statement 141(R) on its financial position and results of operations.

In February 2008, the FASB issued FASB Staff Position FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions. The objective of the FASP Staff Position, or FSP, is to provide guidance on accounting for a transfer of a financial asset and repurchase financing. The FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under Statement 140. However, if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under Statement 140. FSP FAS 140-3 is effective for annual and interim periods beginning after November 15, 2008, and early adoption is not permitted. The Company is currently evaluating the provisions of this standard, but does not expect adoption to have a material impact on its financial position and results of operations.

In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment to FASB Statement No. 133. Statement 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. Statement 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of Statement 133 have been applied, and the impact that hedges have on an entity s financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of Statement 161 on the disclosures about its hedging activities and use of derivatives.

In April 2008, the FASB issued FASB Staff Position FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement 142. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact, if any, of adopting FSP FAS 142-3 on its financial position and results of operations.

In June 2008, the FASB s Emerging Issues Task Force reached a consensus on EITF Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock. This EITF Issue provides guidance on the determination of whether such instruments are classified in equity or as a derivative instrument. The Company will adopt the provisions of EITF 07-5 on January 1, 2009. The Company is currently evaluating the impact, if any, of adopting EITF 07-5 on its financial position and results of operations.

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In November 2008, the FASB s Emerging Issues Task Force reached a consensus on EITF Issue No. 08-6, Equity Method Investment Accounting Considerations. EITF 08-6 continues to follow the accounting for the initial carrying value of equity method investments in APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, which is based on a cost accumulation model and generally excludes contingent consideration. EITF 08-6 also specifies that other-than-temporary impairment testing by the investor should be performed at the investment level and that a separate impairment assessment of the underlying assets is not required. An impairment charge by the investee should result in an adjustment of the investor s basis of the impaired asset for the investor s pro-rata share of such impairment. In addition, EITF 08-6 reached a consensus on how to account for an issuance of shares by an investee that reduces the investor s ownership share of the investee. An investor should account for such transactions as if it had sold a proportionate share of its investment with any gains or losses recorded through earnings. EITF 08-6 also addresses the accounting for a change in an investment from the equity method to the cost method after adoption of Statement 160. EITF 08-6 affirms the existing guidance in APB 18, which requires cessation of the equity method of accounting and application of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, or the cost method under APB 18, as appropriate. EITF 08-6 is effective for transactions occurring on or after December 15, 2008. We do not anticipate that the adoption of EITF 08-6 will materially impact the Company s financial position or results of operations.

In December 2008, the FASB issued FASB Staff Position FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. FSP FAS 132(R)-1 provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by FSP FAS 132(R)-1 must be provided for fiscal years ending after December 15, 2009. The Company is currently evaluating the impact of the FSP on its disclosures about plan assets.

**Analysis of Electricity Sales and Cost of Electricity Purchased**

Electricity rates in Brazil are set by ANEEL, which has the authority to readjust and review rates in accordance with the applicable provisions of the concession contracts. See 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.

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| | Year ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| **Electricity Sales:** | | | |
| Average rate to final consumers (R$/MWh) | | | |
| Industrial rate | 145,09 | 132.99 | 123.62 |
| Residential rate | 473.06 | 517.98 | 488.04 |
| Commercial rate | 429.12 | 453.66 | 429.50 |
| Rural rate | 241.29 | 268.64 | 260.58 |
| Public services rate and others | 301.42 | 313.73 | 288.82 |
| | | | |
| Total sales to final consumers (GWh) | | | |
| Industrial consumers | 26,198 | 24,183 | 23,759 |
| Residential consumers | 7,164 | 6,813 | 6,647 |
| Commercial consumers | 4,423 | 4,111 | 3,851 |
| Rural consumers | 2,296 | 2,200 | 1,938 |
| Public services and other consumers | 2,810 | 2,738 | 2,666 |
| | | | |
| Average rate (R$/MWh) | 244.74 | 254.49 | 239.80 |
| Total revenues (millions of R$) | 10,497 | 10,191 | 9,319 |
| Sales to distributors: | | | |
| Volume (GWh) | 11,162 | 12,755 | 10,914 |
| Average rate (R$/MWh) | 82.60 | 86.87 | 63.86 |
| Total revenues (millions of R$) (1) | 922 | 1,108 | 697 |
| **Electricity Purchases from Itaipu:** | | | |
| Volume (GWh) | 9,021 | 12,135 | 12,109 |
| Average cost (R$/MWh) | 86.02 | 82.40 | 67.88 |
| Total cost (millions of R$) | 776 | 1,000 | 822 |

Does not include R$147million, R$26 million and R$187 million relating to energy transactions on the CCEE during 2008, 2007 and 2006, respectively.

**Rates**

Our results of operations in the past have been significantly affected by fluctuations in the levels of rates that Cemig Distribution is permitted to charge for the generation and distribution of electricity. The rate-setting process in Brazil has historically been influenced by government attempts to control inflation. With the restructuring of the electric power sector in Brazil that commenced in 1995 and under the terms of the renewal of the concession agreement that we signed with ANEEL in 1997, the process by which rates are set has changed to a significant degree. Electricity that Cemig Distribution distributes to captive consumers (those consumers that have demand lower than 3 MW and connected at voltage levels lower than 69 kV, including residential, commercial and some industrial consumers) is provided at rates that are adjusted and revised by ANEEL in accordance with the provisions of our concession contract. Cemig Distribution has entered into electricity supply contracts at freely negotiated rates with our Free Consumers (those consumers that have a demand of 3 MW or more of electricity at voltage levels of 69 kV or more that have chosen to become Free Consumers) that elected not to be subject to ANEEL s rate-setting structure. Under Law No. 10,848, distribution companies are no longer allowed to enter in new contracts for sale of electricity to Free Consumers at non-regulated prices. See Item 4. The Brazilian Power Industry Rates.

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.

On April 8, 2003, we went through our first periodic rate revision, and on April 4, 2005, ANEEL, through Resolution No. 71, reconsidered such decision. The average rate adjustment applied to our rates on April 8, 2003, as part of our periodic rate review, was 31.53%. However, according to Resolution No. 71, such rate adjustment was entitled to be 44.41%. ANEEL has indicated that the rate adjustments expected for the years from 2004 to 2007 would be adjusted in order to recover the differences between the 44.41% rate adjustment we were entitled to and the 31.53% rate adjustment that was authorized. However during the last annual readjustment, in April of 2007, ANEEL postponed the recovery of the last portion we were in entitled to receive in 2007 to the April 2008 periodic rate revision.

The difference between the revenue under the 31.53% rate adjustment and the revenue that would have been earned based on the 44.41% rate adjustment was recorded by CEMIG as a deferred regulatory asset of R$133 million as of December 31, 2008, including monetary variation and accrued interest at a rate of 11.26%. See Note 4 to our consolidated financial statements.

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ANEEL issued Resolution No. 626 on April 7, 2008, which established the results of our second periodic rate revision. However these results were considered provisional since ANEEL, by public auction, had been changing the legislation regarding the revision process. ANEEL re-issued the result of CEMIG´s second period revision based on the results of this public auction. The final components were as follows: (i) a 19.62% decrease in the Rate Adjustment Index; (ii) a 1.88% decrease due to intra-annual variation of fixed costs, or CVA; (iii) a 7.38% increase due to the deferred regulatory asset; (iv) a 4.29% increase due to the anticipation of subsidies on rates and; (v) a 1.35% increase due to other financial adjustments. When considering these financial components, the rates decreased, on average, by 8.48%. The difference between the final and the provisional rate revision between April 8, 2008 and the re-issuing on April 7, 2009 was considered in the 2009 annual adjustment. We expect to experience such rate decreases periodically as our concession contracts are regulated under a price cap regime. Through the periodic rate revisions, our productivity gains are passed on to consumers through reductions in the rates.

ANEEL issued Resolution No. 797 on April 07, 2009, which established our 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. The 2008 periodic rate adjustment and the 2009 and 2007 average annual rate adjustments with their respective components are presented in the table below:

| | **2009** | **2008** | **2007** |
|---|---|---|---|