ENERGY CO OF MINAS GERAIS
Form 20-F
April 27, 2012
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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, 2011**
	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

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

None

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

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

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

x Yes o No

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

o Yes x No

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

x Yes o No

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

o Yes o No

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

Large accelerated filer 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 o IFRS x Other o

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

o Item 17 o Item 18

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

o Yes x No

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

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PRESENTATION OF FINANCIAL INFORMATION

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

We maintain our books and records in *reais*. We prepare our financial statements in accordance with accounting practices adopted in Brazil, and with International Financial Reporting Standards or IFRS , as issued by the International Accounting Standards Board (IASB). For purposes of this annual report we prepared the consolidated statements of financial position as of December 31, 2011 and 2010 and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders equity for the years ended December 31, 2011, 2010 and 2009, in *reais* in accordance with International Financial Reporting Standards or IFRS, as issued by the IASB. KPMG Auditores Independentes has audited our consolidated financial statements as of and for the years ended December 31, 2011, 2010 and 2009 as stated in their report appearing elsewhere herein.

This annual report contains translations of certain *real* amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such U.S. dollar amounts have been translated from *reais* at an exchange rate of R$1.8627 to US$1.00, as certified for customs purposes by the U.S. Federal Reserve Board as of December 30, 2011. See Item 3. Key Information Exchange Rates for additional information regarding exchange rates. We cannot guarantee that U.S. dollars can be converted into *reais*, or that *reais* can be converted into U.S. dollars, at the above rate or at any other rate.

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

Presentation of financial statements in accordance with IFRS

On July 13, 2007, the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM issued Rule No. 457, amended by Rule No. 485/2010, to require listed companies to publish their consolidated financial statements in accordance with IFRS, as issued by the IASB, starting with the year ending December 31, 2010.

Convergence of Brazilian GAAP to IFRS

On December 28, 2007, Law No. 11,638 was enacted and amended numerous provisions of Law No. 6,404/76, as amended or the Brazilian Corporate Law , relating to accounting principles and authority to issue accounting standards. Law No. 11,638, and which sought to enable greater convergence between Brazilian GAAP and IFRS. To promote convergence, Law No. 11,638 modified certain accounting principles of

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

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

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

MARKET POSITION AND OTHER INFORMATION

The information contained in this annual report regarding our market position is, unless otherwise indicated, presented for the year ended December 31, 2011 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.

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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 American Depositary Receipts, or Preferred ADRs and Common American Depositary Receipts, or Common ADRs, are referred to collectively as ADRs.

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

FORWARD-LOOKING INFORMATION

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

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

- inflation and changes in currency exchange rates;

- enforcement of legal regulation in Brazil s electricity sector;

- changes in volumes and patterns of consumer electricity usage;

- competitive conditions in Brazil s electricity generation, transmission and distribution markets;

- our expectations and estimates concerning future financial performance, financing plans and the effects of competition;

- our level of debt and the maturity profile of our debt;

- the likelihood that we will receive payment in connection with accounts receivable;

- trends in the electricity generation, transmission and distribution industry in Brazil, and in particular in Minas Gerais and Rio de Janeiro;

- changes in rainfall and the water levels in the reservoirs used to run our hydroelectric power generation facilities;

- our capital expenditure plans;

- our ability to serve our consumers on a satisfactory basis;

- our ability to renew our concessions, approvals and licenses;

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

- our ability to integrate the operations of companies we have acquired and that we may acquire;

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

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

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

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

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

- increase the costs of projects; and

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

The words believe, may, will, estimate, continue, anticipate, intend, expect and similar words are intended to identify forward-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 IFRS as of the dates and for each of the periods indicated. You should read the following information together with our consolidated financial statements, including the notes thereto, included in this annual report and the information set forth in Item 5. Operating and Financial Review and Prospects and Presentation of Financial Information.

The selected consolidated financial data as of December 31, 2011, 2010 and 2009 and for each of the years ended December 31, 2011, 2010 and 2009, in IFRS, has been derived from our audited consolidated financial statements and the notes thereto included elsewhere 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$1.8627 per US$1.00, the exchange rate as of December 30, 2011. 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 April 6, 2012, the exchange rate for *reais* was R$1.8218 per US$1.00. See Exchange Rates.

Selected Consolidated Financial Data in IFRS

	As and for the year ended December 31,			
Selected Consolidated Financial Data in IFRS	**2011**	**2011**	**2010**	**2009**
	(in millions of US$)(1)(2)	**(in millions of R$ except per share/ADS data or otherwise indicated)**		

Income Statement Data:				
Net operating revenues:				
Electricity sales to final consumers	8,031	14,959	13,219	13,233
Electricity sales to the interconnected power system	1,010	1,882	1,602	1,775
Use of basic transmission and distribution networks	1,850	3,447	2,856	2,235
Construction revenues	823	1,533	1,341	1,291
Other operating revenues	531	990	924	652
Tax on revenues	(3,756)	(6,997)	(6,095)	(5,737)
Total net operating revenues	8,489	15,814	13,847	13,449
Operating costs and expenses:				
Electricity purchased for resale	(2,297)	(4,278)	(3,722)	(3,199)
Use of basic transmission and distribution networks	(445)	(830)	(729)	(853)
Depreciation and amortization	(504)	(939)	(896)	(895)
Personnel	(671)	(1,249)	(1,211)	(1,318)
Gas purchased for resale	(176)	(329)	(225)	(167)
Royalties for use of water resources	(83)	(154)	(140)	(154)
Third-party services	(554)	(1,031)	(923)	(819)
Employee post-retirement benefits	(67)	(124)	(107)	(150)
Materials and supplies	(53)	(98)	(134)	(114)

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Selected Consolidated Financial Data in IFRS	2011 (in millions of US$)(1)(2)	As and for the year ended December 31, 2011	2010	2009
		(in millions of R$ except per share/ADS data or otherwise indicated)		
Operational provision	(138)	(257)	(138)	(124)
Employee profit sharing	(118)	(221)	(325)	(239)
Construction cost	(821)	(1,529)	(1,328)	(1,410)
Other	(193)	(362)	(322)	(316)
Total operating costs and expenses	(6,120)	(11,401)	(10,200)	(9,758)
Operating income	2,369	4,413	3,647	3,691
Financial income (expenses), net	(567)	(1,057)	(825)	(354)
Income before income taxes and non-controlling interests	1,802	3,356	2,822	3,337
Income taxes expense	(505)	(941)	(564)	(1,131)
Net income before non-controlling interests	1,297	2,415	2,258	2,206
Non-controlling interests				(73)
Net income	1,297	2,415	2,258	2,133
Other comprehensive income (loss)	3	6		
Comprehensive income	1,300	2,421	2,258	2,133
Basic earnings (loss): (3)				
Per common share	1.90	3.54	3.41	3.69
Per preferred share	1.90	3.54	3.41	3.69
Per ADS	1.90	3.54	3.41	3.69
Diluted earnings (loss): (3)				
Per common share	1.90	3.54	3.41	3.69
Per preferred share	1.90	3.54	3.41	3.69
Per ADS	1.90	3.54	3.41	3.69

	2011 (in millions of US$)(1)(2)	As and for the year ended December 31, 2011	2010	2009
		(in millions of R$ except per share/ADS data or otherwise indicated)		
Balance Sheet Data:				
Assets:				
Current assets	4,581	8,532	8,086	8,617
Property, plant and equipment, net	4,650	8,662	8,228	8,303
Intangible assets	2,824	5,261	4,804	3,705
Financial assets	4,713	8,778	7,315	5,508
Account receivable from the Minas Gerais State Government	982	1,830	1,837	1,824
Other assets	2,306	4,295	3,283	2,337
Total assets	20,056	37,358	33,556	30,294
Liabilities:				
Current portion of long-term financing	4,200	7,821	2,203	6,659
Other current liabilities	2,333	4,348	4,200	3,620
Total current liabilities	6,533	12,169	6,403	10,279
Non-current financing	4,272	7,958	11,024	44,634
Employee post-retirement benefits non-current	1,174	2,187	2,062	1,915
Other non-current liabilities	1,772	3,299	2,591	2,301

Total non-current liabilities	7,218	13,444	15,677	8,850
Share capital	1,832	3,412	3,412	3,102

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	2011 (in millions of US$)(1)(2)	As and for the year ended December 31, 2011	2010	2009
		(in millions of R$ except per share/ADS data or otherwise indicated)		
Capital reserves	2,123	3,954	3,954	3,969
Profit reserves	1,768	3,293	2,874	3,177
Accumulated other comprehensive income	580	1,081	1,211	1,343
Other shareholders´equity	3	5	25	-426
Total shareholders´equity	6,305	11,745	11,476	11,165
Total liabilities and shareholders´equity	20,056	37,358	33,556	30,294
Other Data:				
Weighted average outstanding shares basic: (3)				
Common		298,269,668	298,269,668	271,154,243
Preferred		384,144,914	383,853,994	348,958,176
Dividends per share (3)				
Common		R$ 1.90	R$ 1.75	R$ 2.68
Preferred		R$ 1.90	R$ 1.75	R$ 2.68
Dividends per ADS (3)		R$ 1.90	R$ 1.75	R$ 2.68
Dividends per share (4)(3)				
Common		US$ 1.02	US$ 1.05	US$ 1.61
Preferred		US$ 1.02	US$ 1.05	US$ 1.61
Dividends per ADS (4)(3)		US$ 1.02	US$ 1.05	US$ 1.61
Weighted average outstanding shares diluted: (3)				
Common		298,269,668	298,269,668	271,154,243
Preferred		384,144,914	383,853,994	348,958,176
Dividends per share diluted (3)				
Common		R$ 1.90	R$ 1.75	R$ 2.68
Preferred		R$ 1.90	R$ 1.75	R$ 2.68
Dividends per ADS diluted (3)		R$ 1.90	R$ 1.75	R$ 2.68
Dividends per share diluted (4)(3)				
Common		US$ 1.02	US$ 1.05	US$ 1.61
Preferred		US$ 1.02	US$ 1.05	US$ 1.61
Dividends per ADS diluted (4)(3)		US$ 1.02	US$ 1.05	US$ 1.61

(1) Converted at the exchange rate of US$1.00 to R$1.8627, the exchange rate as of December 31, 2011. See Exchange Rates.

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

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

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

Exchange Rates

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

Brazilian law provides that whenever there (i) is a significant imbalance in Brazil s balance of payments or (ii) are major reasons to foresee a significant imbalance in Brazil s balance of payments, temporary restrictions may be imposed on remittances of foreign capital abroad. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange

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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. We cannot asure you that such measures will not be taken by the Brazilian Government in the future, which could prevent us from making payments to the holders of our 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 Risks Relating to Brazil - Exchange rate instability may adversely affect our business, results of operations and financial condition and the market price of our shares, the Preferred ADSs and the Common ADSs.

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

	Reais per US$1.00			
Month	**Low**	**High**	**Average**	**Period-end**
October 2011	1.6916	1.8815	1.7703	1.6933
November 2011	1.7355	1.8865	1.7864	1.8072
December 2011	1.7841	1.8812	1.8391	1.8627
January 2012	1.7392	1.8487	1.7850	1.7527
February 2012	1.6997	1.7383	1.7168	1.7148
March 2012	1.7108	1.8332	1.7953	1.8205
April 2012 (1)	1.8218	1.8296	1.8259	1.8218

(1) As of April 6, 2012.

	Reais per US$1.00			
Year Ended December 31,	**Low**	**High**	**Average**	**Period-end**
2007	1.7298	2.1520	1.9449	1.7790
2008	1.5580	2.6190	1.8322	2.3130
2009	1.6995	2.4420	1.9976	1.7425
2010	1.6574	1.8885	1.7600	1.6631
2011	1.5375	1.8865	1.6723	1.8627

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 cannot be certain of the renewal of our concessions.

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

In light of the degree of discretion granted to the Federal Government, which is frequently advised by Aneel, by the Concessions Law with respect to new concession contracts and the renewal of existing concessions, and given the lack of long-standing precedents clearly setting out how the Federal Government intends to exercise its discretionary power and interpret and apply

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the Concessions Law, we cannot guarantee that new concessions will be obtained or that concessions will be renewed on terms as favorable as those currently in effect. See Item 4. Information on the Company Competition Concessions and Item 4. The Brazilian Power Industry - Concessions. Non-renewal of any of our concessions could adversely affect our business, results of operations and financial condition.

We might be unable to complete our proposed capital expenditure program.

Our by-laws state that we may use up to 40.0% of our annual EBITDA (earnings before interest, income taxes, depreciation and amortization), each fiscal year, on capital investments and acquisitions. Our ability to carry out our capital expenditure program is dependent upon a number of factors, including our ability to charge adequate rates for our services, our access to domestic and international capital markets and a variety of operating and other factors. In addition, our plans to expand our distribution capacity are subject to the competitive bidding process governed by the Concessions Law. We cannot give any assurance that we will have the financial resources to complete this program, which could affect our business, results of operations and financial condition.

Aneel has discretion to establish the rates Cemig Distribution charges consumers. These rates are determined pursuant to concession contracts entered into with Aneel (acting on behalf of the Federal Government) and in accordance with Aneel s regulatory decision-making authority.

Concession agreements and Brazilian law establish a price cap mechanism that permits three types of rate adjustments: (1) the annual readjustment; (2) the periodic revision; and (3) the extraordinary revision. We are entitled to apply each year for the annual readjustment, which is designed to offset the effects of inflation on rates and allows us to pass through to consumers certain changes in our costs that are beyond our control, such as the cost of electricity we purchase and government-imposed sector charges, including charges for the use of transmission and distribution facilities. In addition, Aneel carries out a periodic tariff revision every five years that is aimed at identifying variations in our costs as well as setting a factor based on our scale gains, which will be considered in our annual rate adjustments and passed on to our consumers. We are also entitled to request an extraordinary revision of our rates if unforeseen events significantly alter the economic and financial balance of our concession. The periodic revision and extraordinary revision are subject, to a certain degree, to the discretion of Aneel, in spite of there being pre-established rules at each review cycle.

Although our concession agreements provide that we 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.

We may incur losses in connection with pending litigation.

We are currently defending several legal and administrative proceedings relating to civil, administrative, environmental, tax, labor and other claims. These claims involve a wide range of issues and seek indemnities and reparation in money and by specific performance. Several individual disputes account for a significant part of the total amount of claims against us. Our consolidated financial statements include contingency provisions for actions in which the existence of a present obligation on the date of the financial statements was considered to be more likely than not. In addition, in the event our contingency provisions are insufficient, payments for actions in excess of the amounts provisioned could adversely affect our results of operations and financial condition.

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

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

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

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In addition to the Free Consumers mentioned above, there is a category of clients referred as Special Consumers , who are consumers with contracted demand between 500kW and 3MW, are eligible to buy energy in the Free Market so long as they buy electricity from alternative sources, such as Small Hydroelectric Plants, biomass plants or wind plants. We have already performed this type of trading operation from some own energy resources allocated to certain group companies, but from 2009, has been increased the trading in the alternative-energy, and made a portfolio of purchase contracts for this type of energy to take an important position in the Brazilian Energy Market. The agreements for sale to Special Consumers also have specific flexibilities to comply with their particular characteristics, linked to their historical consumption level. Very wide market variations might generate short-term positions that could have a prejudicial financial impact on our results.

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

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

Our operations related to generation, distribution and transmission of electricity, and distribution of natural gas, are subject to various federal, state and municipal laws and regulations, and also to numerous requirements relating to the protection of health and the environment. Delays by the environmental authorities, or refusal of license requests by them, and/or any inability on our part to meet the requirements established by the environmental authorities during the environmental licensing process may result in additional costs, or even prohibit or restrict, depending on each individual case, the construction or maintenance of these projects.

Non-compliance with environmental laws and regulations, such as building and operation of a potentially polluting facility without a valid environmental license or authorization, could, in addition to the obligation to redress any damages that may be caused, result in criminal, civil and/or administrative sanctions being applied to us. Under Brazilian legislation, criminal penalties such as restriction of rights, and even imprisonment, may be applied to individuals (including managers of legal entities), and penalties such as fines, restriction of rights or community service may be applied to legal entities. With respect to administrative sanctions, depending on the circumstances, the environmental authorities may: impose warnings or fines, ranging from R$50 thousand to R$50 million; require partial or total suspension of activities; suspend or restrict tax benefits; cancel or suspend lines of credit from governmental financial institutions; or prohibit us from contracting with governmental agencies, companies or authorities. Any of these events could adversely affect our business, results of operation and financial condition.

We are also subject to Brazilian legislation, which requires payment of compensation in the event that our activities have polluting effects. Under the federal legislation, up to 0.5% of the total amount invested in the implementation of a project that causes significant environmental impact must be applied toward compensation measures, in an amount to be determined on a case by case basis by the environmental authorities according to the extent of the environmental impact of the project. Certain provisions of the state legislation provide that compensation measures should be adopted retroactively for projects concluded before the relevant egislation was enacted. The retroactive nature of these provisions is being contested by some companies, and the matter is also being discussed between The Minas Gerais State Environment and Sustainable Development Office (Secretaria de Estado de Meio-Ambiente e Desenvolvimento Sustentável, or Semad), the Office of the Attorney General of the State (Procuradoria Geral do Estado, or PGE), and the Minas Gerais Industries Association (Federação das Indústrias de Minas Gerais, or Fiemg), and it is not yet clear whether such provisions they will be applied in practice. We have not yet evaluated the effects of this legislation on CEMIG, but such legislation may result in additional costs for us, which could adversely affect our business, results of operations and financial condition. See Item 4. Information on the Company Environmental Issues Compensatory Measures .

In addition, the laws of the State of Minas Gerais require the constitution of a Legal Forest Reserve, corresponding to 20% of the total area of rural property, used in our operations. Due to the Opinion of the Minas Gerais State Economic Development Office (Secretaria Estadual de Desenvolvimento Econômico, or SEDE), that the Legal Forest Reserve does not apply to hydroelectric operations and due to the debate for approval of the New Forest Code by the Senate, this issue has not yet been decided. There also has not been any final decision on the application of the Legal Forest Reserve requirement to projects already in operation and to future projects. We have not yet evaluated the effects of such legislation on us, but it might result in additional costs for us. See Item 4. Information on the Company Environmental Issues Legal Forest Reserves .

Finally, the adoption or implementation of new safety, health and environmental laws, new interpretations of existing laws, increased rigidity in the application of the environmental laws, or other developments in the future might require us to make additional capital expenditure or incur operating expenses in order to maintain our current operations; or to curtail our production activities or take other actions that could have an adverse effect on our business, results of operation or financial condition.

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We are controlled by the State Government which may have specific interests in our business 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 our business. The government of the State of Minas Gerais currently holds approximately 51% of our common shares and, consequently, has the right to the majority of votes in decisions of the General Meetings of our Shareholders, and can (i) elect the majority of the members of our Board of Directors, 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.

In the past, the State Government has used, and may in the future use, its status as our controlling shareholder to decide whether we should engage in certain activities and make certain investments aimed, principally, to promote its political, economic or social objectives and not necessarily to meet the objective of improving our business and/or operational results. Such actions could materially adversely affect our business, results of operation 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 and wind farm power plants, transmission lines and substations, and the evaluation of other potential expansion projects. Our ability to complete an expansion project on time, within a given budget and without adverse economic effects, is subject to a number of risks. For instance:

- we may experience problems in the construction phase of an expansion project; (e.g.: work stoppages, unforeseen geological conditions, environmental and political uncertainties, liquidity of partners and contractors.

- 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 the designated capacity the cost of the operation may be greater than forecast;

- we may face a delay in relation to planned deadlines on a project;

- 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 contruction or related to the transmission lines and substation construction.

If we experience these or other problems relating to the expansion of our electricity generation or transmission we may be exposed to increased costs or we may fail to achieve the revenues we expected in connection with such expansion projects.

We may be unable to collect the full amount of a significant receivable from the State Government.

We have an account receivable from the State Government, pursuant to an agreement referred to as the Contrato de Cessão de Crédito de Saldo Remanescente, or CRC Account Agreement. We renegotiated and changed the terms of the CRC Account Agreement on certain occasions, and on January 27, 2006 we placed the credits on the CRC Account Agreement into a Credit Receivables Fund (Fundo de Investimento em Direitos Creditórios, or FIDC), acquiring subordinated units of the Fund, which correspond to the difference between the total value of the FIDC and the value of the senior units. The value of the FIDC was established by the administrator, based on our long-term financial forecast, and an estimate of the dividends payable to the State Government that will be withheld for amortization of the debt under the CRC Account Agreement. The value of the FIDC on December 31, 2011 was R$1,830 million, the amount related to the subordinated units being R$1,001 million and the amount relating to the senior units being R$829 million.

Currently, the State Government of Minas Gerais is negotiating with financial institutions regarding raising capital for the early settlement of the amounts due under the CRC Account Agreement. We cannot guarantee that the dividends that will be withheld for amortization of the balance under the CRC Account Agreement will be sufficient for the amortization of the senior and subordinated FDIC units, and it may be necessary for us to exercise our co-obligation in relation to the senior units.We also cannot guarantee that early settlement of the CRC Agreement will take place.. See Item 5. Operating and Financial Review and Prospects Impact of Our Account Receivable from the State Government.

Aneel has discretion in setting the Permitted Annual Revenue of our transmission companies.

The Permitted Annual Revenue (Receita Anual Permitida, or RAP) that we receive through our transmission companies is determined in accordance with the concession contracts entered into with Aneel, on behalf of the Federal Government. The

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concession contracts and law provide that the revenues of transmission companies are decided by Aneel, and are calculated based on the availability of assets (lines and substations) to the Brazilian National Electric Grid (Sistema Interligado Nacional, or SIN). These contracts provide for two mechanisms for adjustment of revenues: (i) tariff adjustments; and (ii) the periodic tariff review (revisão tarifária periódica, or RTP). The adjustment of our transmission revenues takes place annually in June and is effective in July and, in our case, it is based on the IGP-M inflation index. The periodic tariff review takes place every four years. Our first periodic tariff review took place in July 2005 and the second in July 2009. The periodic tariff review is subject to some extent to the discretionary power of Aneel, and it may result in an adverse adverse effect on our business, results of operations and 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 collective bargaining agreements with the labor unions representing most of these employees.

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

In 2008 and 2009 we did not face any material labor unrest. In the negotiations for reaching the 2010 collective agreement, part of our employees went on strike for 20 days. Our Operational Emergency Committee was activated and the strike did not affect the supply of electricity to our consumers. During the 2011 negotiations for renewal of the Collective Employment Agreement (Acordo Coletivo de Trabalho, or ACT), there were five intermittent days of stoppages by our employees. The Operational Emergency Committee was again activated and no negative events took place. We do not have insurance against losses incurred as a result of business interuptions caused by employment-related actions. In the event of a strike, we might face an immediate loss of revenue. Contractual disputes, strikes, complaints or other types of conflicts relating to our employees or to unions that represent them may cause an adverse effect on our business, results of operations or financial condition, or on our ability to maintain normal levels of service.

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

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

We are subject to extensive and uncertain governmental legislation and regulation and any changes to such legislation and regulation could materially adversely affect our business, results and financial condition.

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, Law of the New Industry Model, introduced a new regulatory framework for the Brazilian electricity industry.

The constitutionality of the New Industry Model Law is currently being challenged before the Brazilian Supreme Court, or the STF. The STF has not yet reached a final decision and, therefore, the New Industry Model Law is currently in force. If the New Industry Model Law is considered to be unconstitutional by the STF, the regulatory scheme introduced by such law might cease to be in effect, which would generate uncertainty as to how and when the Federal Government will be able to introduce changes to the electricity industry. Any decision on the constitutionality of the New Industry Model Law could have a material adverse effect on our future activities, results of operations and financial condition.

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 2009, 2010 and 2011, we had been in non-compliance with our

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covenants under our loan agreements, and although we were able to obtain waivers from our creditors in regards to such non-compliance, no assurance can be given that we would be successful in obtaining any waivers in the future. Early maturity of our obligations could adversely affect our financial condition especially in light of cross default provisions in several of our loan and financing contracts. The existence of limitations on our indebtedness could prevent us from executing new agreements to finance our operations or to refinance our existing obligations which could adversely affect our business, results of operations and financial condition.

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

We do not have general third party liability insurance covering accidents, other than in connection with Aeronautical events, and have not asked for bids related 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, nor for business interruption risk; nor for operating system failures. Accidents or catastrophic events may adversely affect our business, results of operations or financial condition. See Item 10. Additional Information Insurance. The insurance contracted by us may be insufficient to compensate for damages

The Company maintains insurance only for Fire, Aeronautical risk, and Operational risks, such as damage to equipment, as well as those types of cover that are legally obligatory, including Transport Insurance for goods belonging to legal entities.

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

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

As of December 31, 2011, our total past due receivables from final consumers were approximately R$1,476 million, corresponding to 9.35% of our net revenues for 2011, and our allowance for doubtful accounts was R$621 million. Approximately 10.84% of our total receivables were owed by entities in the public sector. We may be unable to recover debts from several municipalities and other defaulting consumers. If these debts are not totally or partially recovered, we will experience an adverse impact on our business, results of operations and financial condition. In addition, any consumer defaults in excess of our allowance for doubtful accounts could have an adverse effect on our business, results of operations and financial condition.

We 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 distribution services. In addition, when damages are caused to end consumers as a result of outages or disturbances in the generation, transmission and distribution system, whenever these autages or disturbances are not attributed to an identifiable member of the National System Operator (*Operador Nacional do Sistema*, or ONS) or to the ONS itself, the liability fir such damages is shared among generation, distribution and

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

Aneel may impose fines on us for failing to comply with the terms and conditions of our concession agreements, and/or the authorizations granted to us, which could result in fines, other penalties and, depending on the severity of non-compliance, expropriation of the concession agreements or revocation of the authorizations.

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

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

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

- restrictions on the operation of existing facilities and equipment;

- temporary suspension from participating in bidding processes for new concessions for a period of up to two years;

- intervention by Aneel in the management of the concessionaire that it is in breach; and

- termination of the concession.

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

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

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

Our ability to distribute dividends is subject to limitations.

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

of the preferred shares.

Because we are 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 we receive dividends or other cash distributions from our operating subsidiaries. The dividends that our subsidiaries may distribute to us depend on our subsidiaries generating sufficient profit in any given fiscal year. Dividends can be paid out from the profit accrued on each fiscal year, or from accumulated profits from previous years, or from capital reserves. Such dividends are calculated and paid in accordance with Brazilian Corporate Law and the provisions of the by-laws of each of our regulated subsidiaries.

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

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

Foreign shareholders may be unable to enforce judgments against our directors or officers.

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

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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 flows; and/or
- limits on foreign trade.

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

and economic situations deteriorate, we may face increased costs.

The new President of Brazil took office at the beginning of 2011. The President has considerable power to determine governmental policies and actions that relate to the Brazilian economy. Uncertainties in relation to any political crises might contribute to economic instability. This could increase the volatility of the market for Brazilian securities and could have an adverse effect on the Brazilian economy and our business, results of operations and financial condition. It is not possible to predict whether the present government or any subsequent governments will have an adverse effect on the Brazilian economy, and consequently on our business.

Uncertainties in relation to the economic situation and the policy to be adopted by the new president of Brazil might also increase the volatility of market prices and/or have a significant effect on the Brazilian economy, and/or our business, operational results or financial condition.

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

Brazil has in the past experienced extremely high rates of inflation. Inflation, and some of the Federal Government s measures taken in an attempt to curb inflation, have had significant negative effects on the Brazilian economy. Since the introduction of the real in 1994, Brazil s inflation rate has been substantially lower than in previous periods. According to the Amplified National Consumer Price Index, (Índice Nacional de Preços ao Consumidor Amplo, or IPCA), Brazilian annual inflation rates in 2009, 2010 and 2011 were 4.3%, 5.9% and 6.5%, respectively. No assurance can be given that inflation will remain at these levels.

Future measures taken by the Federal Government, including interest rate changes, intervention in the foreign exchange market or actions to adjust the value of the real might trigger increases in inflation, and consequently, have adverse economic impacts on our business, results of operations and financial condition. If Brazil experiences high inflation in the future, we might be unable to adjust the rates we charge our consumers to offset the effects of inflation on our cost structure.

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

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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 2011, the real depreciated 12% 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, 2011, the buy exchange rate for the U.S. dollar against the real was R$1.8627/US$1.00. See Exchange Rates.

As of December 31, 2011, approximately 2.27% of our total indebtedness under loans, financings and debentures was denominated in currencies other than the real 88.9% of that being denominated in U.S. dollars). If the real depreciates against the U.S. dollar, our related financial expenses will increase and our results of operations and financial condition could be adversely affected. We recorded foreign exchange-related gain of R$13 million in 2010 and foreign exchange-related gain losses of R$19 million in 2011. We also have entered into certain power purchase agreements that are dollar denominated. We cannot guarantee that derivatives instruments and the proceeds from our dollar-denominated purchase agreements will be sufficient to avoid an adverse effect on our business, results of operations and financial condition in the event of adverse exchange rate fluctuations. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Exchange Rate Risk for information about our foreign exchange risk hedging policy.

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

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

Political and economic instability in Brazil may affect us.

The new president of Brazil took office in January, 2011 and her administration has suffered with the resignation of several ministers on charges of unethical or illegal conduct. Nevertheless, the political landscape has become more stable than in previous years.

Further allegations on unethical or illegal conduct might be made at any time in relation to persons of the Brazilian government, including legislators and/or party representatives.

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

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

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

In accordance with the Brazilian Corporate Law and our by-laws, holders of our preferred shares, and, by extension, holders of our Preferred ADSs representing preferred shares, are not entitled to vote at our shareholders meetings, except in very limited

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circumstances. Holders of our Common ADSs representing common shares are not able to vote at our shareholders meetings, but rather vote by proxy by providing voting instructions to the depositary. Holders of our Preferred ADSs may also encounter difficulties in the exercise of certain rights, including limited voting rights. Under some circumstances, such as failure to provide the depositary with voting materials on a timely basis, holders of our Preferred ADSs and Common ADSs may not be able to vote by instructing the depositary.

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. Restrictions of this type would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of preferred shares or common shares from *reais* into U.S. dollars. We cannot guarantee that the Federal Government will not take similar measures in the future. See Item 3. Key Information Exchange Rates.

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

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

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

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

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

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

Investing in Brazilian securities, such as the preferred shares, common shares, Preferred ADSs or Common ADSs, generally involves a higher degree of risk than investing in securities of issuers from countries with more stable political and economic

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environments and such investments are generally considered speculative in nature. These investments are subject to certain economic and political risks, such as, among others:

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

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

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. This may substantially limit your ability to sell the shares underlying your Preferred ADSs or Common ADSs for the desired price and within the desired period. In 2011 the BM&FBOVESPA, the only stock exchange in Brazil on which shares are traded, had an average market capitalization of approximately R$2.4 trillion and average daily trading volume of approximately US$6.5 billion. In comparison, the operating companies listed on the New York Stock Exchange, Inc., or the NYSE, had a market capitalization of approximately US$13.2 trillion as of December 31, 2011 and an average daily trading volume of approximately US$71.8 billion in 2011.

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 International Financial Reporting Standards IFRS , issued by the International Accounting Standards Board (IASB) and also in accordance with the accounting practices adopted in Brazil,, and holders of preferred shares have priority of payment. Our by-laws also require that the mandatory annual dividend we pay to holders of our preferred shares equal a least the greater of 10% of the par value of our shares or 3% of the net worth value of our shares, should the payment based on 50% of our net income not surpass this amount. If we do not have net income or our net income is insufficient in a fiscal year, our management may recommend at the annual shareholders meeting in respect of that year that the payment of the mandatory dividend should not be made. However, under the guarantee of the State Government, our controlling shareholder, a minimum annual dividend of 6% of par value would in any event be payable to all holders of common shares and preferred shares issued up to August 5, 2004 (other than public and governmental holders) in the event that mandatory distributions have not been made in a given fiscal year. 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 may have different shareholders rights than holders of shares in U.S. companies.

Our corporate governance, disclosure requirements and accounting standards are governed by our by-laws, by the Level 1 Differentiated Corporate Governance Practices of the BM&FBOVESPA, by the Brazilian Corporate Law and by the CVM. These regulations may differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as Delaware or New York, or in other jurisdictions outside Brazil. In addition, the rights of an ADS holder, which are derivative of the rights of holders of our common or preferred shares, as the case may be, to protect their interests against actions by our board of directors and controlling shareholders, are different under Brazilian Corporate Law than under the laws of other jurisdictions. Rules against insider trading and self- dealing and other rules for the preservation of shareholder interests may also be different in Brazil than in the United States, potentially disadvantaging holders of the preferred

shares, common shares, Preferred ADSs and Common ADSs.

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

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

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

You may not be able to exercise the preemptive rights relating to the shares underlying your Preferred ADSs or Common ADSs unless a registration statement under the United States Securities Act of 1933, as amended, or the Securities Act, is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights, and we cannot assure you that we will file

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any such registration statement. Unless we file a registration statement or an exemption from registration applies, you may receive only the net proceeds from the sale of your preemptive rights by the depositary or, if the preemptive rights cannot be sold, they will be allowed to lapse.

Item 4. Information on the Company

Organization and Historical Background

We were organized in Minas Gerais, Brazil on May 22, 1952 as a *sociedade por ações de economia mista* (a state-controlled mixed capital company) with indefinite duration, pursuant to Minas Gerais State Law No. 828 of December 14, 1951 and its implementing regulation, Minas Gerais State Decree 3,710 of February 20, 1952. Our full legal name is Companhia Energética de Minas Gerais CEMIG, but we are also known as CEMIG. Our headquarters are located at Avenida Barbacena, 1200, Belo Horizonte, Minas Gerais, Brazil. Our main telephone number is (55-31) 3506-3711.

In order to comply with legal and regulatory provisions pursuant to which we were required to unbundle our vertically integrated businesses, in 2004 we incorporated two wholly-owned subsidiaries of CEMIG: Cemig Geração e Transmissão S.A., referred to as Cemig Generation and Transmission, and Cemig Distribuição S.A., referred to as Cemig Distribution. Cemig Generation and Transmission and Cemig Distribution were created to carry out the activities of electricity generation and transmission, and distribution, respectively.

The following are our principal subsidiaries, which are consolidated in our financial statements as of and for the year ended December 31, 2011, all of which are incorporated in Brazil:

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Our subsidiaries and jointly controlled entities include, mainly:

- Cemig Geração e Transmissão S.A., or Cemig Generation and Transmission (100% interest) engages in electricity generation and transmission.

- Cemig Distribuição S.A., or Cemig Distribution (100% interest) engages in electricity distribution.

- Light S.A. (Light) (jointly controlled, 26.06% direct and an indirect 6.41% interest in its total capital) The main holdings of Light S.A. are Light Energia, a generator of electricity, Light Serviços de Eletricidade S.A., an electricity distributor, and Light Esco Ltda., which operates in energy trading and energy efficiency. For further details, please see Acquisition of Interest in Light.

- Companhia de Gás de Minas Gerais (Gasmig) (jointly controlled, 55.19% interest) acquires, transports, distributes and sells natural gas.

- Trasmissora Aliança de Energia Elétrica S.A. (TAESA), formerly Terna Participações S.A., (jointly controlled, 56.69% indirect interest in its total capital) is a holding company which operates in electricity transmission in 16 states of Brazil through the following companies, which it controls or in which it has stockholding interests: Empresa de Transmissão do Alto Uruguai S.A. (ETAU) (holding 52.58% of the registered capital), Brasnorte Transmissora de Energia S.A. (holding 38.67% of the registered capital), NTE - Nordeste Transmissora de Energia S.A. (NTE) (holding 100% of the registered capital) and União de Transmissoras de Energia Elétrica Holding S.A. (UNISA), formerly Abengoa Participações Holding S.A. (holding 50% of the registered capital). UNISA holds 100% interest in STE Sul Transmissora de Energia S.A., ATE Transmissora de Energia S.A., ATE II Transmissora de Energia S.A. and ATE III Transmissora de Energia S.A.

Strategy

Cemig s Vision, Mission and Values are the pillars of the Company s business.

Our vision and goal is to be, in 2020, one of the two largest electricity groups in Brazil by market capitalization, with a significant presence in the Americas, and a world leader in sustainability in the sector .

In order to achieve our vision of the future and to follow our 2005-2035 Long Term Strategic Plan, we have the following goals:

- Strive to be a national leader in the markets we operate, with a focus on market share;

- Strive for operational efficiency in asset management;

- Be one of the most attractive companies for investors;

- Be a benchmark in corporate management and governance;

- Be innovative in the search for technological solutions for our business;

- Be a benchmark in social, economic and environmental sustainability.

We have taken part in several transactions in the last year, which includes among others, the following::

Acquisition of Interest in Light

On May 12, 2011, our subsidiary Parati S.A. Participações em Ativos de Energia Elétrica (Parati), an unlisted special purpose company, incorporated in October, 2008, has as its corporate purpose the participation in the capital stock of other companies, domestic or foreign, as a partner or shareholder, acquired from Fundo de Investimento em Participações PCP (FIP PCP) 54.08% of the total share capital of Redentor Energia S.A., which holds indirectly 13.03% of the share capital of Light, through its subsidiary RME Rio Minas Energia Participações S.A.

On July 7, 2011, Parati acquired from Enlighted Partners Venture Capital LLC 100% of its holdings in Luce LLC (Luce), owner of 75% of the unit shares of Luce Brasil Fundo de Investimento em Participações (FIP Luce), which holds indirectly 13.03% of the total shares of Light, through Luce Empreendimentos e Participações S.A. (LEPSA). With this acquisition Parati, which

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already indirectly held 7.05% of the total and voting capital of Light S.A., became indirect holder of 16.82% of the total and voting stock of Light.

On July 28, 2011, Parati acquired, from Fundação de Seguridade Social Braslight (Braslight) the totality of Braslight s unit shares in FIP Luce. The amount received by Braslight for the sale of FIP Luce s total shares was R$ 171,981,877.12. Thus Parati became the holder of 100% of the unit shares of FIP Luce, and, indirectly, the holder of the equivalent of 20.08% of the total and voting stock of Light.

As a result of the acquisition of the stockholding of FIP PCP, and in accordance with the rules of the Novo Mercado, the highest standard of corporate governance for companies listed in BM&FBOVESPA, Parati made a firm offer to acquire the shares held by the non-controlling stockholders of Redentor Energia S.A., granting them rights similar to tag-along rights.

On September 30, 2011, Parati acquired 46,341,664 shares held by minority stockholders, increasing its stockholding interest in Redentor Energia S.A. to 96.80% of its total capital. The remaining 3.20%, or 3,467,599 common shares, continued to be held by minority stockholders. After this transaction, Parati indirectly holds the equivalent of 25.64% of the total and voting stock of Light.

On November 11, 2011, the Board of Directors of Parati authorized a public offer for acquisition of shares for the cancellation of Redentor Energia S.A. s Listing Registration and its exit from the Novo Mercado. It is expected that this transaction will be effected in the first half of 2012.

On December 31. 2011, Parati held, directly, 25.64% of the registered capital of Light S.A. (Light). We held 25% of Parati s share capital; and Redentor Fundo de Investimento em Participações held 75%. On CEMIG s consolidation total assets and profit for the period have been impacted in R$0.8 billion and R$0.3 million, respectively.On December 31, 2011, we held a 32.47% total interest in Light, which included a direct 26.06% interest and an indirect 6.41% interest through Parati.

Acquisition of Interest in Transmission Companies from Abengoa

On November 30, 2011, Transmissora Aliança de Energia Elétrica S.A. TAESA, one of our jointly controlled companies, completed acquisition of interests of the ABENGOA Group (comprised of the companies disclosed below), as follows:

(i) 50% of the shares held by Abengoa Concessões Brasil Holding S.A. in the share capital of União de Transmissoras de Energia Elétrica Holding S.A. (UNISA), the current name of Abengoa Participações Holding S.A., which holds 100% of the total share capital of the transmission companies STE Sul Transmissora de Energia S.A. (STE), ATE Transmissora de Energia S.A. (ATE), ATE II Transmissora de Energia S.A. (ATE II), and ATE III Transmissora de Energia S.A. (ATE III), and

(ii) 100% of the shares held by Abengoa Concessões Brasil Holding S.A. and by Abengoa Construção Brasil Ltda. in the share capital of NTE Nordeste Transmissora de Energia S.A.

Under the pricing provisions in the share purchase agreement with the Abengoa Group, the total amount paid by TAESA for the acquisition was R$ 1,163 million, with the proceeds of its fourth issue of promissory notes, financial settlement of which took place on November 29, 2011. The operating assets acquired include 1,579 miles of transmission lines, with a Permitted Annual Revenue (*Receita Anual Permitida*, or RAP) of R$509 million, representing an increase of R$309 million in TAESA s RAP.

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This illustration shows the structure of the company after the transaction was completed:

On March 16, 2012, TAESA signed a share purchase agreement with Abengoa Concessões Brasil Holding S.A. to acquire the remaining 50% interest in the shares held by Abengoa in União de Transmissoras de Energia Elétrica Holding S.A. (UNISA), which holds 100% of the total shares of STE, ATE, ATE II and ATE III. Under the share purchase agreement TAESA will pay R$ 863.5 million, adjusted by the SELIC rate from December 31, 2012 until the closing date of the acquisition. The conclusion of this transaction is subject to approval by TAESA s EGM, Aneel, the companies financing banks and CADE.

Acquisition of Interest in Renova

Renova Energia S.A. (Renova) is a company generating electricity from renewable sources focused on wind farms and small hydroelectric plants (PCHs). Renova prospects for, develops and implements renewable energy enterprises and is currently the only company listed on the BM&FBovespa dedicated to working with alternative energy sources in Brazil. It has created the largest wind farm complex in Brazil, located in the semi-arid region of the Brazilian state of Bahia, and sold a total of 668MW of installed electricity generation capacity in the reserve energy auctions of 2009 and 2010 and the A 3 auction of 2011.

On August 19, 2011 Light, through its subsidiary Light Energia S.A. (Light Energia), subscribed 50,561,797 of Renova s common shares. As a result, Light Energia holds 34.44% of Renova s common shares and 25.81% of its total capital. The transaction included a private placement of Renova s shares in the approximate amount of R$ 360.0 million. Renova1s minority shareholders participated in the private placement, resultin a total capital injection of R$ 376.0 million.

The common shares subscribed by Light Energia are part of the controlling stockholding block of Renova, and represent half of the shares comprising the control block, with the same rights and preferences attributed to the other common shares issued by Renova. To make the transaction possible, RR Participações and certain stockholders of Renova waived their right of first refusal in favor of Light Energia. Light

Energia and RR Participações entered into a stockholders agreement which regulated the exercise of the right to vote, purchase and sale of shares issued by the Renova held by the parties, and their rights and obligations as stockholders of the Renova.

Light has experience in building and operating generation projects, and sale and placement of electricity. We understand that this combination will enable Renova to position itself as one of the largest players in wind generation in Latin America, with unique and extremely attractive characteristics. The agreement also contains a commitment by Light to purchase 400MW of installed power capacity provided by Renova s wind projects. The companies further have the right of first refusal in the purchase or sale, as applicable, of wind energy in long-term The principal purpose of this acquisition is to accelerate the growth of Renova through a combination of its

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own technical capacity and pioneering experience in development of new projects and business with our own experience and contracts entered into in the Free Market.

The table below shows tha Renova portfolio of projects.

Contracted Capacity (MW)	**1068**
LER 2009	294
LER 2010	162
A-3 2011	212
PPA Free Market	400
Certified Projects (MW)	**2200**
Developing Projects (MW)	**2400**

Acquisition of 9.77% interest in Norte Energia S.A.: the Belo Monte Hydroelectric Plant

The Belo Monte Hydroelectric Plant (Belo Monte) is the largest plant currently under construction in the world, and when completed will have installed capacity of 11,233 MW, with Assured Energy of 4,571 MW average. The commercial operation is planned to start in February 2015, and the concession period is 35 years. The concession for the construction and operation of the Belo Monte Hydroelectric Plant, on the Xingu River, in the Brazilian state of Pará, belongs to Norte Energia S.A. (Norte Energia), which won the auction held in April 2010.

The Northern region of Brazil is the principal expansion frontier for generation of hydroelectric energy in Brazil, and more than 60% of the potential for hydroelectric expansion is still available. Therefore, we understand that the participation in this project has strategic value. The Belo Monte Hydroelectric Plant is the second project in the region in which Cemig Generation and Transmission is participating, the first being its 10% interest in the consortium building the Santo Antônio Hydroelectric Plant in the Brazilian State of Rondônia.

Amazônia Energia Participações S.A. (Amazônia Energia) is a special-purpose company in which the stockholders are: Light S.A., with 51% of the voting stock and 25.5% of the total stock; and Cemig Generation and Transmission, with 49% of the voting stock and 74.5% of the total stock. On October 25, 2011, Amazônia Energia signed share purchase agreements with six companies that held, in aggregate, an interest of 9.77% in Norte Energia, as follows: (i) Construtora Queiroz Galvão S.A.: 2.51%; (ii) Construtora OAS Ltda.: 2.51%; (iii) Contern Construções e Comércio Ltda.: 1.25%; (iv) Cetenco Engenharia S.A.: 1.25%; (v) Galvão Engenharia S.A.: 1.25%; and (vi) J. Malucelli Construtora de Obras S.A.: 1%.

The acquisition price corresponds to the amount of the injections of capital made by the vendors, adjusted by the IPCA index up to October 26, 2011, in the amount of R$ 118.69 million.

The transaction involving the participation of Amazônia Energia as a stockholder of Norte Energia was approved by the Extraordinary General Meeting of Norte Energia and by our and Light s Boards of Directors. The Brazilian electricity regulator, Aneel, has been informed about the transaction, and it has been submitted to the antitrust authority CADE (Conselho Administrativo de Defesa Econômica), in accordance with Law

8884/94.

The transaction adds 818 MW of generation capacity to our total holdings, increasing our market share in Brazilian electricity generation from 7% to 8%; and adds 280 MW to the total generation capacity of Light.

Advantages of this transaction include the following: (i) the principal contracts for building works and equipment have been signed; (iii) the principal risks associated with the project have been considerably mitigated; (ii) future injections of capital will be diluted over nine years, and will use the cash flow generated by the project itself during the last three of those years; (iv) the environmental costs have been defined; and (v) all of the sales transactions for the electricity have already been established.

This acquisition will not have any effect on the policy for payment of dividends to our stockholders.

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Increase of stockholding in Gasmig

On December 27, 2011, our Board of Directors authorized the acquisition of 10,781,736 nominal common shares and 7,132,773 nominal preferred shares, representing 4.38% of the total capital of Companhia de Gás de Minas Gerais Gasmig, which belonged to the State of Minas Gerais, for R$ 67.2 million, corresponding to a price per share of approximately R$3.75, to be adjusted to the value given by an independent valuation opinion, which will be prepared by a specialized institution, to be chosen and contracted by us.

Capital Expenditures

Capital expenditures for the years ended December 31, 2011, 2010 and 2009 in millions of *reais*, were as follows:

	Year ended December 31,		
	2011	**2010**	**2009**
Distribution network	1,857	2,050	877
Power Generation	972	359	783
Transmission network	1,030	1,581	1,746
Others	121	132	293
Total capital expenditures	3,980	4,122	3,699

We currently project capital expenditures in 2012 related to property, plant and equipment and concession assets of approximately R$2.16 billion, 40% higher the projected for 2011 (R$ 1.54 billion), mainly due to investments in the residential segment and the expansion of our distribution infrastructure.

These amounts do not include investment in acquisitions and in other projects not remunerated by the concession-granting authority which are not recognized in the calculations of tariffs made by the regulator, Aneel.

We expect to fund our capital expenditures in 2012 mainly from our cash flow from operations and, to a lesser extent, through financing. We expect to finance our expansion and projects by commercial bank loans and by issuing debentures in the local market.

Business Overview

General

We run a business related to generation, transmission, distribution and sale of electricity, gas distribution, telecommunications and the provision of energy solutions.

CEMIG s electric energy Market comprises the transactions of purchase and sale of electricity made by its subsidiaries: (i) Cemig, comprising energy generated directly through the assets managed by Cemig, Cemig Generation and Transmission, Hydropower Cachoeirão, Hydropower Pipoca, Baguari Energy, Praias de Parajuru Wind Farm, Praia do Morgado Wind Farm, Volta do Rio Wind Farm and the Smaller Subsidiaries, which includes other subsidiaries and its affiliates (Horizontes Energia, Termoeletrica Ipatinga, Sa Carvalho, Termoeletrica Barreiro, Cemig PCH, Rosal Energia and Cemig Capim Branco Energia), and (ii) Light, comprising firms Light Serviços de Eletricidade, Light Energia and Lightger.

Cemig

Total resources used in the year 2011 amounted to 81,523 GWh, an amount that is 4.9% higher than the resources used in the previous year. The amount of energy produced in 2011 was 34,095 GWh, which represented an increase of 2.4% over 2010 and the amount of energy purchased totaled 47,428 GWh, which represented an increase of 6.7% over 2010. This referes to the energy purchased form Itaipu (8,475 GWh) and energy purchased by CCEE and other companies (38,953 GWh).

The energy traded in 2011 was 47,846 GWh, an amount 4.5% higher than the one traded in 2010, and 94.8% of that value, (45,346 GWh) was traded to final consumers, captive and free.

The total losses of energy in the core network and distribution networks, totaled 5,712GWh, which corresponds to 7.0% of total resources and 0.1% lower than the losses of 2010 (5,716 GWh).

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The table below shows the breakdown of resources and power requirements by Cemig traded in the last three years.

CEMIG S ELECTRIC ENERGY BALANCE (6)

	Year ended December 31,		
(GWh)	**2011**	**2010**	**2009**
RESOURCES	81,523	77,752	70,548
Electricity generated by CEMIG (1)	31,276	30,361	32,830
Electricity generated by auto-producers	997	980	1,167
Electricity generated by Ipatinga	308	300	210
Electricity generated by Barreiro	60	65	62
Electricity generated by Sá Carvalho	356	380	428
Electricity generated by Horizontes	53	80	79
Electricity generated by Cemig PCH	51	58	3
Electricity generated by Rosal Energia	251	310	309
Electricity generated by Amador Aguiar	580	614	641
Electricity generated by Cachoeirão (5)	163	134	148
Electricity bought from Itaipu	8,475	8,590	8,889
Electricity bought from CCEE and other companies (2)(3)	38,953	35,880	25,782
REQUIREMENTS	81,523	77,752	70,548
Electricity delivered to final consumers (4)	45,346	43,272	39,204
Electricity delivered to auto-producers	991	993	996
Electricity delivered by Ipatinga	308	300	211
Electricity delivered by Barreiro	100	99	84
Electricity delivered by Sá Carvalho	498	496	500
Electricity delivered by Horizontes	83	85	79
Electricity delivered by Cemig PCH	115	121	123
Electricity delivered by Rosal Energia	262	263	263
Electricity delivered by Cachoeirão (5)	143	143	140
Electricity delivered to the CCEE and other companies(2)(3)	27,965	26,264	23,339
Losses	5,712	5,716	5,609

(1) Discounting the losses attributed to generation (611 GWh in 2011) and the internal consumption of the generating plants.
(2) This amount refers to contracts, purchases and sales of electricity under the CCEE, including the Energy Reallocation Mechanism (*Mecanismo de Realocação de Energia*).
(3) Includes bilateral contracts with other agents of the CCEE.
(4) Includes electricity delivered to consumers outside the concession area.
(5) Includes 100% of electricity produced by Cachoeirão Hydro Power Plant. CEMIG has a 49% interest in the consortium, and is responsible for the sale of 100% of the physical guarantee of this Small Hydro Plant.
(6) It does not include Light, which manages its own electric energy balance.

Light

Total energy consumption in the concession area of Light Serviços de Eletricidade S.A. (Light SESA), which is controlled by our subsidiary Light S.A., (including captive customers and transport of free customers) came to 22,932 GWh in 2011, a 2.5% increase over 2010. The

commercial and residential segments, which increased by 4.3% and 2.1%, respectively, were the best performers. If consumption of the free clients CSN, CSA and Valesul is taken into account, total consumption came to 24,658 GWh³ in 2011, versus 24,588 GWh in 2010.

In 2011, the amount of energy produced was 4,518 MWh a volume 5.3% below the 4,769 MWh generated in 2010. All of Light s energy is produced by hydropower plants, with a total capacity of 866 MW.

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Energy sold on the captive market (ACR) totaled 1,082.0 GWh in the last quarter of 2011, 1.8% lower than the last quarter of 2010 due to the seasonality of contracts effective in 2011. Energy sold on the free market (ACL) in 2011 amounted to 173.0 GWh, 7.2% less than in 2010, primarily due to the lower volume of contracts, which is pressured by lower short-term energy sales. The 211.7% increase in spot market sales in the last quarter of 2011 was largely due to the upturn in hydro generation in the interconnected system, as a result of a higher volume of rainfall when compared to that of the last quarter of 2010.

Light SESA sold a total of 5,508.6 GWh in 2011, 2.5% less than in 2010, due to the 24.6% decline in spot sales, as a result of CCEE booking procedures, which failed to deduct the energy consumed by pumps in the first half of 2010, totaling 83 average-MW.

In accordance with ANEEL s calculation methodology, commercial, or non-technical, losses in the year ended December 2011 totaled 5,256 GWh, representing 40.5% of billed energy in the low-voltage market, 0.2 and 1.3 percentage points down from September 2011 and December 2010, respectively. For more information, see Energy Losses section, below.

Light SESA s total energy losses amounted to 7,591 GWh, or 21.70% of the grid load, in 2011, 0.17 p.p. and 0.41 p.p. up on September 2011 and December 2010, respectively, due to the migration of major clients to the core network, with a negative impact on the grid load.

LIGHT S ELECTRIC ENERGY BALANCE

	Year ended December 31,		
	2011	**2010**	**2009**
Energy Balance (GWh)			
Grid Load	34,983	35,201	33,319
Energy transported to utilities	2,901	3,047	2,756
Energy transported to free customers*	4,664	5,206	4,120
Own Load	27,418	26,948	26,443
Captive market consumption	19,877	19,459	19,084
Low Voltage Market	12,985	12,630	12,106
Medium Voltage Market	6,891	6,829	6,978
Losses + Non Billed Energy	7,542	7,489	7,359

* Including CSN and CSA

Generation

According to Aneel, at December 31, 2011, we were the third largest electric power generation group in Brazil as measured by total installed capacity. At December 31, 2011, we generated electricity at 63 hydroelectric plants, three thermoelectric plants and three wind farms and had a total installed generation capacity of 6,967 MW of which hydroelectric plants accounted for 6,734 MW, thermoelectric plants accounted for 184 MW and wind farms accounted for 49 MW. Eight of our hydroelectric plants accounted for approximately 77%of our installed electric

generation capacity in 2011. During the year ended December 31, 2011, we recorded expenses totaling R$234 million relating to transmission charge payments made to the ONS and to transmission concession holders. See The Brazilian Power Industry and Item 5. Operating and Financial Review and Prospects.

Transmission

We are engaged in the electric power transmission business, which consists of transporting electric power from the facilities where it is generated to the distribution networks for delivery to final users. We transport energy produced at our own generation facilities and that we purchase from Itaipu, and other sources, as well as the energy for the interconnected power system and other concessionaires. Our transmission network is comprised of power transmission lines with a voltage capacity equal to or greater than 230 kV and is part of the Brazilian Grid regulated by the ONS. See The Brazilian Power Industry. As of December 31, 2011, our transmission network consisted of approximately 55 miles of upper 525 kV lines, 3,155 miles of 500 kV lines, 177 miles of 440kV lines, 1,223 miles of 345 kV lines and 1,197 miles of 230 kV lines, which were distributed, mainly, among the following companies:

- Cemig Generation and Transmission: 1,352 miles of 500 kV lines, 1,222 miles of 345 kV lines and 476 miles of 230 kV lines located in Minas Gerais.

- TAESA: Our proportional share of TAESA transmissions lines includes 1,222 miles of 500 kV lines, 177 miles of 440 kV lines and 308 miles of 230 kV lines in 16 different Brazilian States.

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- TBE: Our proportional share of TBE transmissions lines includes 55 miles of upper 525 kV lines, 581 miles of 500 kV lines, one mile of 345 kV lines and 383 miles of 230 kV lines.

- Transchile operates a total of 62 miles of 220 KV lines (the Charrúa Nueva Temuco line) in the country of Chile.

Distribution

Through Cemig Distribution, we have four distribution concession agreements in the State of Minas Gerais that grant us rights to supply electricity to consumers in that area, including consumers that may be eligible, under the legislation, to become free consumers (consumers with demand equal to or greater than 3 MW, or consumers with demand equal to or greater than 500 kW from alternative energy sources, such as wind, biomass or small hydroelectric plants). The concession area of Cemig Distribution covers approximately 219,103 square miles, or 96.7% of the territory of the state. As of December 31, 2011, we owned and operated 302,654 miles of distribution lines, through which we supplied 24,262 GWh to approximately 7.3 million end-consumers.

Through Light Serviços de Eletricidade S.A. (Light SESA), which is controlled by our subsidiary Light S.A., we participate in the distribution service concession contract in the State of Rio de Janeiro, which gives us the right to supply electricity in an area of 4,237 square miles. In 2011, Light SESA reached about 4.1 million consumers. Total energy consumption in Light SESA s concession area (captive customers and transport of free customers3) came to 22,932 GWh in 2011, a 2.5% increase over 2010. The commercial and residential segments, of Rio de Janeiro, with respective growth of 4.3% and 2.1%, were the best performers, fueling the market as a whole.

In 2011, a total of 20,348 GWh was carried and delivered by the electricity distribution system to the free consumers. The total amount of electricity supplied was 44,611 GWh, of which 55.0% was supplied to industrial consumers, 19.2% to residential consumers, 12.2% to commercial consumers, 5.9% to rural consumers and 7.7% to other consumers. Cemig Distribution is the largest electricity distribution concession holder in Brazil, in terms of number of consumers, according to Brazilian Association of Electricity Distributors (Associação Brasileira de Distribuidores de Energia Elétrica), or ABRADEE.

Other Businesses

While our main business consists of the generation, transmission and distribution of electricity, we also engage in the following businesses: (i) distributing natural gas in Minas Gerais through our subsidiary, Gasmig, (ii) telecommunications through our consolidated subsidiary Cemig Telecomunicações S.A.; (iii) national and international energy solutions consulting business through our subsidiary Efficientia S.A.,; and (iv) implementation and management of systems for electricity sector companies through our subsidiary Axxiom Soluções Tecnológicas S.A.; (v) exploitation of natural gas through six consortia, listed as follows: (a) Consórcio de Exploração SF-T-104, (b) Consórcio de Exploração SF-T-114, (c) Consórcio de Exploração SF-T-120, (d) Consórcio de Exploração SF-T-127, (e) Consórcio de Exploração REC-T-163, and (f) Consórcio de Exploração POT-T-603, formed with several partners; and (vi) sale and trading of electricity, structuring and intermediating purchases and sale transactions, buying and selling electricity in the Free Market through our wholly-owned subsidiaries Cemig Trading S.A. and Empresa de Serviços de Comercialização de Energia Elétrica S.A..

Revenue Sources

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

	Year ended December 31,		
	2011	**2010**	**2009**
Electricity sales to final consumers	14,959	13,219	13,233
Electricity sales to the interconnected power system	1,882	1,602	1,775
Use of basic transmission and distribution networks	3,447	2,856	2,105
Construction revenues	1,533	1,341	130
Services rendered	105	179	129
Telecommunication and other	885	745	523
Tax on revenues	(6,997)	(6,095)	(5,737)
Total	15,814	13,847	12,158

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Power Generation and Trading

Overview

The following table sets forth certain operating information concerning our electric power generation plants as of December 31, 2011:

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	24.5	January 2015	100%
Emborcação	1,192	497.0	1982	17.1	July 2025	100%
Nova Ponte	510	276.0	1994	7.3	July 2025	100%
Jaguara	424	336.0	1971	6.1	August 2013	100%
Miranda	408	202.0	1998	5.9	December 2016	100%
Três Marias	396	239.0	1962	5.7	July 2015	100%
Volta Grande	380	229.0	1974	5.5	February 2017	100%
Irapé	360	206.3	2006	5.2	February 2035	100%
Aimorés	161.7	84.3	2005	2.3	December 2035	49%
Salto Grande	102	75.0	1956	1.5	July 2015	100%
Funil	88.2	43.6	2002	1.3	December 2035	49%
Sá Carvalho	78	58.0	2000(2)	1.1	December 2024	100%
Queimado	86.6	47.8	2004	1.2	January 2033	82.5%
Rosal Energia	55	30.0	2004(2)	0.8	May 2032	100%
Itutinga	52	28.0	1955	0.7	July 2015	100%
Baguari	47.6	27.3	2009	0.7	August2041	34%
Amador Aguiar I	50.5	32.6	2006	0.7	August2036	21.05%
Amador Aguiar II	44.2	27.6	2007	0.6	August2036	21.05%
Camargos	46	21.0	1960	0.7	July 2015	100%
Porto Estrela	37.3	18.6	2001	0.5	July 2032	33.3%
Igarapava	30.5	25.1(3)	1999	0.4	December 2028	14.5%
Pai Joaquim	23	12.5	2004	0.3	April 2032	100%
Cachoeirão	13.2	8.0	2008	0.2	July 2030	49%
Piau	18	13.5	1955(2)	0.3	July 2015	100%
Gafanhoto	14	6.7	1946	0.2	July 2015	100%
Pipoca	9.8	5.8	2010	0.1	September 2031	49%
Smaller Hydroelectric Plants (4)	115.2	61.6		1.7		
Thermoelectric Plants						
Igarapé	131	71.3	1978	1.9	August 2024	100%
Ipatinga	40	40.0	2000(2)	0.6	December 2014	100%
Barreiro	12.9	11.4	2004	0.2	April 2023	100%
Wind Farm						
Praias de Parajuru	14.1	4.1	2009	0.2	September 2032	49%
Praia do Morgado	14.1	6.5	2010	0.2	December 2031	49%
Volta do Rio	20.6	9.0	2010	0.3	December 2031	49%
Light Hydroelectric Plants						
Fonte Nova	34.4	27.1	1940	0.6	July 2029	32.47%

Ilha dos Pombos	48.8	30.0	1924	0.9	July 2029	32.47%
Nilo Peçanha	99	87.3	1940	1.8	July 2029	32.47%
Pereira Passos	26.1	13.3	1962	0.5	July 2029	32.47%
Santa Branca	14.6	8.3	1999	0.3	July 2029	32.47%
Renova Small Hydro Plants (5)						
Cachoeira da Lixa	1.2	0.7	2008	0.0	December 2033	8.38%
Colino 1	0.9	0.6	2008	0.0	December 2033	8.38%
Colino 2	1.3	0.9	2008	0.0	December 2033	8.38%
Total	6,966.8	4,244.7		100		

(1) Assured Energy is the plant s long-term average output, as established by the Ministry of Mines and Energy (MME) in accordance with studies conducted by the EPE. Calculation of Assured Energy considers such factors as reservoir capacity and connection to other power plants. Contracts with final consumers and other concessionaires do not provide for amounts in excess of a plant s Assured Energy. MME Resolution 303/2004 changed the term Assured Energy to Physical Guarantee.

(2) Indicates our date of acquisition.

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(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, Vale S.A., Companhia Siderúrigica Nacional, Votorantim Metais Zinco S.A and Anglogold Ashanti Córrego do Sítio Mineração S.A . is included.

(4) Corresponds to 29 Small Hydroelectric Power Plants: Anil, Bom Jesus do Galho, Cajuru, Dona Rita, Jacutinga, Joasal, Lages, Luiz Dias, Machado Mineiro, Marmelos, Martins, Paciência, Pandeiros, Parauna, Peti, Pissarrão, Poço Fundo, Poquim, Rio de Pedras, Salto Voltão, Salto de Morais, Salto do Passo Velho, Salto do Paraopeba, Santa Luzia, Santa Marta, São Bernardo, Sumidouro, Tronqueiras and Xicão.

(5) Corresponds to 25.81% of Light s participation in Renova Energia S.A

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

	Circuit Length of Generation Lines in Miles (from power plants to generation substations) As of December 31,		
Voltage of Connection Lines	**2011**	**2010**	**2009**
500 kV	7	7	7
345 to 230 kV	108(3)	108(1)	81
161 to 138 kV	112	112	112
69 to 13.8 kV	187(4)	187(2)	163
Total	514	514	363

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

(1) The circuit length of our 230 kV connection lines increased in 2009 because the Baguari facility began its operations.
(2) The circuit length of our 69 kV connection lines increased in 2009 because the Wind Farm Praias do Parajuru began its operations.
(3) The circuit length of our 230 kV connection lines increased in 2010 because Praia do Morgado and Volta do Rio Wind Farms began their operations.
(4) The circuit length of our 69 kV connection lines increased in 2010 because Praia do Morgado and Volta do Rio Wind Farms and Pipoca Small Hydroeletric Plant began their operations.
(5) This amount does not include the Light acquisition.
(6) Step-down transformation capacity refers to the ability of a transformer to receive energy at a certain voltage and release it at a reduced voltage for further distribution.

Generation Assets

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

Cemig Generation and Transmission S.A. As of December 31, 2011, we have electricity generation capabilities in 46 hydroelectric plants, one thermoelectric plant and three wind farms, which totals a generation capacity of 6,368 MW, value of which hydroelectric plants accounted for 6,188 MW, thermoelectric plants accounted for 131 MW and wind farms accounted for 49 MW.

In addition to our own plants, Cemig Generation and Transmission participates in the following consortia:

- *Igarapava Hydroelectric Power Plant* We have a 14.5% interest in this enterprise and our partners are Vale S.A. (38.2%), Votorantim Metais Zinco S.A. (23.9%), Companhia Siderúrgica Nacional S.A. (17.9%) and Anglogold Ashanti Córrego do Sítio Mineração S.A. (5.5%).

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- *Queimado Hydroelectric Power Plant* Our partner in this project is CEB Participações S.A. (CEBPar), a subsidiary of Companhia Energética de Brasília, or CEB, a state-controlled electricity company. As per the second Amendment to Concession Contract 006/1997, executed on July 17, 2009, CEB has a 17.5% interest and we have the remaining 82.5%.

- *Aimorés Hydroelectric Power Plant* We have a 49% interest in this enterprise and our partner, Vale S.A., has the remaining 51% interest.

- *Funil Hydroelectric Power Plant* We have a 49% interest in this enterprise and our partner, Vale S.A., has the remaining 51% interest.

- *Porto Estrela Hydroelectric Plant* We have a 33.3% interest in this enterprise and our partners are Vale S.A. (33.3%) and Companhia de Tecidos Norte de Minas Coteminas (33.3%).

Light S.A. At December 31, 2011, we generated electricity at five hydroelectric plants with a total installed generation capacity of 866 MW.

Renova Energia S.A. At December 31, 2011, we generated electricity at three small hydro plants with a total installed generation capacity of 3.542 MW. *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. 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.. The plant currently has an installed capacity of 78 MW.

Rosal Energia S.A. In December 2004 we bought the Rosal hydroelectric plant, which has installed capacity of 55 MW, from Caiuá Serviços de Eletricidade S.A., or Caiuá, for a payment of R$134 million. The Rosal plant, the sole asset of Rosal Energia, is located on the Itabapoana River, which runs along the border between the States of Espírito Santo (Municipality of Guaçuí) and Rio de Janeiro (Municipality of Bom Jesus de Itabapoana).

Cemig Capim Branco Energia S.A. We incorporated Cemig Capim Branco Energia S.A. (21.1%) to develop the Capim Branco Generating Complex in partnership with Vale S.A. (48.4%), a mining company, Comercial e Agrícola Paineiras (17.9%), an agricultural company, and Votorantim Metais Zinco S.A. (12.6%), or VMZ, a metallurgical company. 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.

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 Small Hydro Plant (SHP), with an installed capacity of 1.72 MW; the Salto do Paraopeba SHP, with an installed capacity of 2.37 MW; the Salto Voltão SHP, with an installed capacity of 8.2 MW; and the Salto do Passo Velho SHP, 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 SHP expires on July 7, 2025; the concessions relating to the other plants expire on October 4, 2030. The Salto do Paraopeba SHP is currently out of service for refurbishment. We expect that this power plant will resume its operations in 2014.

Usina Termelétrica Barreiro S.A. We formed Usina Termelétrica Barreiro S.A. to participate, in partnership with V&M do Brasil S.A., or Vallourec & Mannesmann, a metallurgic company, in the construction and operation of the 12.9 MW Barreiro Thermoelectric Power Plant, located on Vallourec & Mannesmann s premises in the Barreiro neighborhood of the city of Belo Horizonte in Minas Gerais. *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 SHP, as an IPP. This plant, located on the Araguari River, has an installed capacity of 23 MW.

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Hidrelétrica Cachoeirão S.A. We formed a special-purpose company named Hidrelétrica Cachoeirão S.A., to build and operate the Cachoeirão SHP. This plant, with an installed capacity of 27 MW, is located on the Manhuaçu River, in the eastern part of Minas Gerais. Cemig Generation and Transmission has a 49% ownership interest in Hidrelétrica Cachoeirão S.A. and Santa Maria Energética has a 51% ownership interest.

Baguari Energia S.A. We operate the Baguari Hydroelectric Power Plant through the Baguari UHE Consortium, in which Baguari Energia has a 49% interest. The power plant has an installed capacity of 140 MW and is located on the Doce River, in the State of Minas Gerais. The energy generated is commercialized in the ACR. Initially, Cemig Generation and Transmission had a 34% interest in this consortium and Furnas Centrais Elétricas S.A. had a 15% interest. On February 2, 2010, Aneel transferred to Baguari Energia the Cemig Generation and Transmission and Furnas Centrais Elétricas S.A joint concession in the Baguari Hydroelectric Power Plant.

Hidrelétrica Pipoca S.A. Cemig Generation and Transmission has also negotiated a stake in the construction and operation of the Pipoca SHP, in partnership with Omega Energia Renovável S.A., formed by the investment companies Tarpon Investimentos and Warburg Pincus , to implement and operate the project. Through Cemig Generation and Transmission, we have a 49% interest in Hidrelétrica Pipoca S.A. The plant, with an installed capacity of 20 MW, is located on the Manhuaçu River, in the eastern part of the State of Minas Gerais.

Wind Farms

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

Our first wind farm, Morro do Camelinho, began operating in 1994. It is located in Gouveia, a town in northern Minas Gerais. This project is the first wind farm in Brazil to be connected to the national electricity transmission grid. With a total generation capacity of 1 MW, Morro do Camelinho was built through a technical and scientific cooperation agreement with the government of Germany. Taking into account the experimental nature of the facility, and the fact that the equipment used is now obsolescent, Cemig applied to Aneel for permission to de-activate the plant, which was agreed, by Dispatch Nº 1653, of September 2, 2010. On August 15, 2009, Cemig Generation and Transmission s purchased from Energimp S.A. a 49% interest in three wind farms located in the State of Ceará, for the amount of R$223 million. The three wind farms, named UHE Praia do Morgado, UHE Praias de Parajuru and UHE Volta do Rio, have a total installed capacity of 99.6 MW.

Central Eólica Praias de Parajuru S.A. is located in the city of Beberibe, in the State of Ceará. The commercial operation started in August 2009. All of its generation, totaling 73,525 MWh in 2011, has been sold to Eletrobras, under the Proinfa Program for a period of 20 years.

Central Eólica Praia do Morgado S.A is located in the city of Acaraú, in the State of Ceará. The commercial operation started in May 2010. All its generation, totaling 115,636 MWh in 2011, has been sold to Eletrobrás, under the Proinfa Program for a period of 20 years.

Central Eólica Volta do Rio S.A is located in the city of Acaraú, in the State of Ceará. The commercial operation started in September 2010. All its electricity, totaling 161,238 MWh in 2011, has been sold to Eletrobrás, under the Proinfa Program for a period of 20 years.

The chart below sets forth the geographic distribution of majority of our generation plants, including subsidiaries and affiliates:

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Expansion of Generation Capacity

We are currently involved in the construction of seven hydroelectric power plants Dores de Guanhães, Senhora do Porto, Fortuna II, Jacaré, Paracambi, Santo Antônio and Belo Monte that will increase the installed generation capacity of our hydroelectric facilities by 1,280 MW over the next 7 years. The following is a brief description of these projects, the completion of which are subject to various contingencies, certain of which are beyond our control.

SPE Guanhães Energia S.A. Cemig Generation and Transmission has negotiated an ownership interest in the construction and operation of the Small Hydro Plants, or PCHs, of Dores de Guanhães, Senhora do Porto, Fortuna II and Jacaré. Our partner in this project is Investminas Participações S. A., a wholly owned subsidiary of GlobalBank Participações e Investimentos S.A, which formed, with us, the company SPE Guanhães Energia S.A, or Guanhães Energia. The purpose of Guanhães Energia is to build and operate these four PCHs, namely: Dores de Guanhães, with 14 MW installed capacity; Senhora do Porto, with 12 MW capacity; Jacaré, with 9 MW; and Fortuna II, with 9 MW. Dores de Guanhães, Senhora do Porto and Jacaré will be built on the Guanhães River, located in the municipality of Dores de Guanhães, State of Minas Gerais, and Fortuna II will be built on the Corrente Grande River, located in the municipalities of Guanhães and Virginópolis, State of Minas

Gerais. Cemig Generation and Transmission has a 49% ownership interest in Guanhães Energia, while Investminas Participações has the remaining 51%. Construction is expected to begin in first half of 2012, and commercial operation is expected to begin in the second half of 2013. The concessions relating to these plants expire in December 2031 with respect to Fortuna II, November 2032 with respect to Dores de Guanhães and October 2032 with respect to Senhora do Porto and Jacaré. As of December 31, 2011, we had invested R$9.61 million in this project.

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Paracambi Small Hydroelectric Power Plant Cemig Generation and Transmission has also negotiated a stake in the construction and operation of the Paracambi Small Hydroelectric Power Plant, in partnership with Light S.A. to implement and operate the project. Cemig Generation and Transmission has a 49% interest in this project. The plant, with an installed capacity of 25 MW, is located on the Lajes River, in the eastern part of the State of Rio de Janeiro. Construction began in November 2009 and commercial generation is expected to begin in February 2012. The concession relating to this plant expires on February, 2031. As of December 31, 2011, we had invested R$41.74 million in this project.

Madeira Energia S.A. MESA is a special-purpose company created to implement, build, operate and maintain the Santo Antônio hydroelectric plant, in the basin of the Madeira River, in the northern region of Brazil. This facility will have a generating capacity of 3,150 MW. MESA is expected to begin operations in February 2012. Cemig Generation and Transmission has a 10% interest in MESA, and based on our ownership interest, we expect to invest R1,561 million in the development of the project.

Norte Energia S.A. - NESA is a special-purpose company created to implement, build, operate and maintain the Belo Monte Hydroelectric Plant, in the Xingu River, in the northern region of Brazil. The plant, which is currently the world s biggest plant in construction with 11.233MW installed capacity, will be operating by February 2015. In order to participate of this project, Cemig Generation and Transmission, in partnership with Light S.A., created the special-purpose company Amazônia Energia Participações S.A. (Amazônia Energia) with the purpose of acquiring 9,77% interest in this project. The participation of Cemig Generation and Transmission in Amazônia Energia is 74,5% and the remaining participation of 25,5% is held by Light. We expect to invest R$600 million in the development of the project.

Consortium UHE Itaocara In 2008, Cemig Generation and Transmission took part in a consortia (49% of interest) with Itaocara Energia Ltda, a special-purpose owned by Light S.A., created to implement, build, operate and maintain the Itaocara Hydroelectric Power Plant,. The plant, with a gerating capacity of 151 MW, is located on the Paraíba do Sul River, between the municipalities of Itaocara and Aperibé, in Rio de Janeiro state. Construction is expected to begin in 2013.

Renova Energia S.A. Light Energia S.A. holds 34.44% common shares and 25.81% of its total capital, is subsidiary of Light S.A., who is subsidiary of Cemig. Renova is a company generating electricity from renewable sources focused on wind farms and small hydroelectric plants (PCHs). Sold a total of 668MW of installed electricity generation capacity in the reserve energy auctions of 2009 and 2010 and the A 3 auction of 2011. Portfolio atual de 2.051 MW de projetos eólicos e 1.472 MW de PCHs e inventários em diversas fases de desenvolvimento. Primeira e única empresa dedicada a geração de energia alternativa listada na Bovespa. O aporte da Light foi de R$ 360 milhões, que serão utilizados para a implantação dos parques eólicos do portfólio da Renova.

Co-generation Joint Ventures with Consumers

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

Power Trading

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

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

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

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Transmission

Overview

Our transmission business mainly consists of the transfer of electricity from generation power plants to consumer agents directly connected in the basic transmission grid, final consumers and distribution companies. The 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, 2011, our transmission businesses recorded revenues totaling R$ 1,473 million. In turn, our usage of the basic transmission grid by connected generation power plants and distribution system and electricity purchases from Itaipu and others suppliers requires us to pay scheduled rates to National System Operator (Operador Nacional do Sistema), or ONS, and owners of different parts of the basic transmission grid. See -The Brazilian Power Industry and Item 5. Operating and Financial Review and Prospects.

Cemig Generation and Transmission transported 5,267 GWh in 2011 serving 14 high voltage industrial free consumers located in the State of Minas Gerais. Ten of these consumers are also Cemig s energy consumers and accounted for approximately 58.1% of the transported volume.

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	**2011**	**2010**	**2009**
>525 kV	55	38	38
500 kV	3,155	2,663	2,292
440 kV	177	177	101
345 kV	1,223	1,347	1,287
230 kV	1,197	909	665
Total	5,807	5,134	4,383

	Step-Down Transformation Capacity(1) of Transmission Substations As of December 31,		
	2011	**2010**	**2009**
Number of step-down substations	70**(2)**	68**(2)**	68**(2)**
MVA	18,438	18,079	16,844

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

(2) Does not consider the shared substations.

Transmission Assets

Montes Claros-Irapé (Transleste) In September 2003, a consortium formed by Companhia Técnica de Engenharia Elétrica ALUSA, or ALUSA (holding a 41% interest), Furnas (holding a 24% interest), Orteng Equipamentos e Sistemas Ltda., or Orteng (holding a 10% interest), and CEMIG (holding a 25% interest) 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. This 345 kV transmission line connects a substation located in Montes Claros, a city in northern Minas Gerais, and the substation of the Irapé Hydroelectric Power Plant, with a length of approximately 86 miles. Transmission line operations began in December 2005 and the concession expires in February 2034.

Itutinga-Juiz de Fora (Transudeste) In September 2004, a consortium formed by ALUSA, Furnas, Orteng and CEMIG, with interests of 41%, 25%, 10%, and 24% respectively, won the concession auctioned by Aneel to the Itutinga-Juiz de Fora transmission line. As required in the bidding process, the partners formed the Companhia Transudeste de Transmissão, which is responsible for building and operating this transmission line. This 345 kV transmission line, with a length of approximately 89 miles, connects the substation of the Itutinga Hydroelectric Power Plant and a substation located in Juiz de Fora, a city in southeastern Minas Gerais. Commercial operations began in February 2007 and the concession expires in March 2035.

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Irapé-Araçuaí (Transirapé) In November 2004, a consortium formed by ALUSA, Furnas, Orteng and CEMIG with interests of 41%, 24.5%, 10% and 24.5% respectively, won the concession auctioned by Aneel to the Irapé-Araçuaí transmission line. As required in the bidding process, the partners formed the Companhia Transirapé de Transmissão, which is responsible for building and operating this transmission line. This 230 kV transmission line, with a length of approximately 38 miles, connects the substation of the Irapé Hydroelectric Power Plant and a substation in Araçuaí, a city located in northeastern Minas Gerais. Commercial operations began in May 2007 and the concession expires in March 2035.*Furnas-Pimenta (Centroeste)* In September 2004, a consortium formed by Furnas and CEMIG, with interests of 49%, and 51%, respectively, won the concession auctioned by Aneel to the Furnas-Pimenta transmission line. As required in the bidding process, the partners formed the Companhia de Transmissão Centroeste, which is responsible for building and operating the transmission line. This 345 kV transmission line, with a length of approximately 47 miles, connects the substation of the Furnas Hydroelectric Power Plant and a substation located in Pimenta, a city in the west-central region of Minas Gerais. Its commercial operation began in March 2010 and the concession expires in March 2035.

Charrúa Nueva Temuco (Transchile) In April 2005 a consortium formed by ALUSA and CEMIG, with interests of 51% and 49%, respectively, won the concession auctioned by Centro de Despacho Económico de Carga del Sistema Interconectado Central, or CDEC SIC, of Chile to build, operate and maintain the Charrúa Nueva Temuco 220 kV transmission line for 20 years. This was an important event in CEMIG s history, as it was our first asset outside of Brazil. We and ALUSA formed Transchile Charrúa Transmisión S.A., an SPC incorporated in Chile and responsible for building and operating the transmission line. With a length of approximately 127 miles, the transmission line connects the substations of Charrúa and Nueva Temuco in central Chile. We began the project in June 2005 and construction began in April 2007. On July 18, 2007, Transchile Charrúa Transmisión S.A. entered into a project finance agreement with the Inter-American Development Bank in the amount of US$51.0 million related to the transmission line and substations. Commercial operation began in January 2010.

TAESA On December 31, 2011, CEMIG had direct investments (jointly controlled) in TAESA, that owns the following assets:

Company	Miles	Capacity (kV)	Operation	Concession Contract	Concession Expiration Date
TSN- Transmissora Sudeste Nordeste S.A.	664 4	500kV 230kV	April/03	097/2000	12/20/2030
Munirah-Transmissora de Energia S.A.	66	500kV	November/05	006/2004	02/18/2034
Gtesa- Goiânia Transmissora de Energia	32	230kV	July/03	001/2002	01/21/2032
Patesa-Paraíso Açu Transmissora de Energia S.A.	84	230kV	March/04	087/2002	12/11/2032
Novatrans Energia S.A.	794	500kV	April/04	095/2000	12/20/2030
ETAU-Empresa de Transmissão Alto Uruguai S.A.	117	230kV	May/05	082/2002	12/18/2032
ETEO- Empresa de Transmissão de Energia do Oeste S.A.	312	440kV	October/01	040/2000	05/12/2030
Brasnorte Transmissora de Energia S.A.	237	230kV	August/09	003/2008	03/17/2018
NTE - Nordeste Transmissora de Energia S.A.	116 122	500 Kv 230 kV	February/02	002/2002	01/21/2032

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ATE Transmissora de Energia S.A.	230	525 kV	February/04	003/2004	02/18/2034
ATE II Transmissora de Energia S.A.	585	500 kV	March/05	011/2005	03/15/2035
ATE III Transmissora de Energia S.A.	214 68	500 kV 230 kV	March/06	001/2006	03/27/2036
STE Sul Transmissora de Energia S.A	242	230 kV	December/02	081/2002	12/19/2032

On December 31, 2011, CEMIG had direct investments (jointly controlled) in EATE, ECTE, ENTE, ERTE, ETEP and EBTE, and indirect investments in STC, Lumitrans, and ESDE as shown in the table below.

Company	Connection	Length (Miles)	Capacity (kV)	Operation	Concession contract (2)	Concession Expiration Date
EATE (1)	Tucuruí (Pará) to Presidente Dutra (Maranhão)	576	500	March/2003	June 12, 2001	June 12, 2031
ECTE (1)	Campos Novos (Santa Catarina) to Blumenau (Santa Catarina)	157	525	March/2002	November 1, 2000	November 1, 2030
ENTE (1)	Tucuruí (Pará) to Açailândia (Maranhão)	285	500	February/2005	December 11, 2002	December 11, 2032
ERTE (1)	Vila do Conde (Pará) to Santa Maria (Pará)	96	230	September/2004	December 11, 2002	December 11 2032
ETEP (1)	Tucuruí (Parã) to Vila do Conde (Pará)	201	500	August/2002	June 12, 2001	June 12, 2031
Lumitrans (1)	Machadinho Campos Novos	24.8	525	October/2007	February 18, 2004	February 18, 2034
STC (1)	Barra Grande Lajes- Rio do Sul	114.3	230	November/2007	April 27, 2006	April 27, 2036
EBTE	Brasnorte-Juba,Brasnorte-Parecis Brasnorte- Juína,Nova Mutum-Sorriso, Sorriso- Sinop	486	230	June/2011	October 16, 2008	October 16, 2038
ESDE	LT Barbacena 2- Santos Dumont LT Santos Dumont- Juiz de Fora I	1.8	345	Expected to start operating in July/2012	November 19, 2009	November 19, 2039

(1) The operation and maintenance of transmission lines of EATE, ENTE and ERTE are carried out by Eletronorte-Centrais Elétricas do Norte do Brasil S.A. or Eletronorte and of ECTE by Celesc and Eletrosul and of STC by Celesc and Lumitrans by Eletrosul.

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

The chart below sets the geographic distribution of CEMIG s transmission assets:

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Expansion of Transmission Capacity

Empresa de Transmissão Serrana S.A. A special-purpose company created in January, 2012 by ECTE, a jontly controlled company owned by CEMIG (19,09% interest), Alupar Investimento S.A. (42,51% interest), Centrais Elétricas de Santa Catarina S.A. (30,89% interest) and MDU Resources Luxembourg II LLC, S.à.r.l.. (7,51% interest) , to build and operate the substations Abdon Batista, with rated voltages of 525/230 kV and a projected transformation capacity of 1568 MVA, and Gaspar 2 , with rated voltages of 230/138 kV and a projected transformation capacity of 300 MVA, both in the state of Santa Catarina. ECTE won the concession auctioned by ANEEL (Auction 006/2011). The substation aims to connect the power plants Garibaldi and São Roque to the Brazilian National Grid System (Sistema Integrado Nacional, or SIN), and expand the supply of electricity in the region of the Itajaí Valley. The works are scheduled to be completed in 24 months from the signature of the concession agreement.

Distribution and Purchase of Electric Power

Overview

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

From January 1, 2002 through December 31, 2011, we invested approximately R$1,671 million in the construction and acquisition of property, plant and equipment used to expand our distribution system.

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

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	Circuit Length of Distribution Lines in Miles - High Voltage (from distribution substations to final consumers) As of December 31,		
Voltage of Distribution Lines	**2011**	**2010**	**2009**
161 kV	34.2	34.2	34.2
138 kV	7,073.3	7,012.8	6,897.2
69 kV	3,009.9	2,980.7	2,817.9
34.5 kV + Others	593.4	593.4	593.4
Total	10,710.8	10,621.1	10,342.7

	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	**2011**	**2010**	**2009**
Overhead urban distribution lines	56,931.3	56,406.7	55,608.2
Underground urban distribution lines	426.9	426.9	426.9
Overhead rural distribution lines	234,785.0	225,227.8	219,557,5
Total	292,143.2	282,061.4	275,592.6

	Step-Down Transformation Capacity(1) of Distribution Substations As of December 31,		
	2011	**2010**	**2009**
Number of substations	366	364	360
MVA	8,623.5	8,427.0	8,250.0

(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.

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 1.07 million new urban consumers and 50,000 rural consumers. In order to accommodate this growth, we expect that we will need to add 142,800 medium-voltage poles, 1,818 miles of transmission lines and 62 step-down substations, adding 1,749 MVA to our distribution network, increasing the network s installed capacity by 3,598 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 Light for All (Luz para Todos) program sponsored by the Federal Government and the State Government of Minas Gerais. We plan to use the program to meet our goal of providing electricity to 100% of the rural consumers in the State of Minas Gerais. The first phase of the Light for All program supplied electricity to 190,000 additional rural residences in the State of Minas Gerais and required a total investment of approximately R$1.7 billion, of which CEMIG invested R$1.05 billion. This first phase included the Light in the Knowledge (Luz no Saber) sub-program, which used solar energy to provide electricity to schools, community centers and rural homes in remote locations not yet connected to the distribution network. In 2009, the Federal Government, the State Government and the CEMIG concessionaire launched the second and third phases of the program. A total investment of R$1.19 billion was realized in these phases of the program, of which CEMIG was responsible for approximately R$ 408 million. The end of the Light for All

Program occured in December 31, 2011, as officially postponed on October 5, 2010. As expected, after conclusion of the second and third phases, in December, 2011, the Light for All Program added about 285,913 new consumers, benefiting a population of approximately 1.5 million inhabitants. The program serviced 1001 clients, between 2005 and 2007, with a network expanding 264km. The program resulted in the installation of 2,302 poles and 691 transformers MV / LV, totaling an investment of R$8.9 million. The Light for All Program was financed as follows: 15% by Light SESA, 52% byf Eletrobrás (through loan - RGR) and 33% by loan through Rio de Janeiro state government.

Cresce Minas The Grow Minas (Cresce Minas) project was launched in 2007 to revitalize and expand the distribution system of the State of Minas Gerais, improving the reliability of the system and increasing the quality of service to consumers. The project is expected to benefit approximately 340 municipalities (41% of the total) of Minas Gerais, encompassing a total population of

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approximately 4.1 million, including approximately 1.1 million consumers. In 2011, CEMIG invested R$10 million in capital expenditures exclusively to strengthen the medium-voltage distribution system, out of a total of R$280 million projected. CEMIG also invested R$63 million in 2011 to strengthen the sub-transmission system. In 2012, we expect to invest an aggregate of R$70 million in our sub-transmission and transmission systems.

Purchase of Electric Power

During the year ended December 31, 2011, we purchased 8,474.71 GWh of electricity from Itaipu, which represented approximately 27.80% of the electricity we sold to final users, and 612.79 GWh (2.01%) of electricity from Proinfa. In addition to the electricity purchased from Itaipu and Proinfa, we have two other basic types of supply arrangements: (i) purchases through public auctions, which accounted for approximately 64.23% of the electricity purchased for resale during the year ended December 31, 2011, and (ii) long-term agreements existing prior to the New Industry Model Law, which represented approximately 5.94% of the electricity purchased in 2011.

Itaipu Itaipu is one of the largest operating hydroelectric plants in the world, with an installed capacity of 14,000 MW. Centrais Elétricas Brasileiras S.A., or Eletrobrás, a holding company controlled by the Federal Government, owns a 50% interest in Itaipu, while the remaining 50% is owned by the government of Paraguay. Brazil, pursuant to its 1973 treaty with Paraguay, has the option to purchase all of the electricity generated by Itaipu that is not consumed by Paraguay. Brazil generally purchases more than 95% of the electricity generated by Itaipu.

We are one of the power distribution companies operating in the south, southeast and west-central regions of Brazil that are jointly required to purchase all of Brazil s portion of the electricity generated by Itaipu, in accordance with the Law 5.899/1973. The Federal Government allocates Brazil s portion of Itaipu s power among these electric companies in amounts proportionate to their respective historical market share of total electricity sales. Aneel enacted Resolution 1094/2010 requiring Cemig Distribution and Light Serviçoes de Eletricidade S.A. to purchase 13.31% and 8.46%, respectively ,of the total amount of electricity purchased by Brazil from Itaipu during 2011, at rates fixed to defray Itaipu s operating expenses and payments of principal and interest on Itaipu s dollar-denominated borrowings and the cost in *reais* of transmitting such power to the interconnected power system. These rates have been above the national average for bulk supply of power and are calculated in U.S. dollars. Therefore, fluctuations in the U.S. dollar/real exchange rate affect the cost, in real terms, of electricity we are required to purchase from Itaipu. Historically, we have been able to recover the cost of such electricity by charging supply rates to consumers. According to our concession agreement, increases in the supply rates may be transferred to the final consumer upon approval by Aneel. Like Cemig Distribuição SA, Light Serviços de Eletricidade SA, is located in the Southeast / Midwest Interconnected National System, and therefore shares the same obligation to purchase energy from Itaipu.

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

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

Average Tariff(R$/MWh))	Electricity Contracted (MW average per year)	Term of the Contract
57.51	530.17	2005 to 2012
67.33	919.14	2006 to 2013
83.13	105.47	2008 to 2015
79.99	18.15	2012 to 2014
106.95	4.47	2008 to 2037
132.27	35.31	2008 to 2022
114.28	3.16	2009 to 2038
126.77	60.41	2009 to 2038
129.26	40.36	2009 to 2023
132.39	31.02	2009 to 2023
115.05	91.77	2010 to 2039
134.99	20.12	2010 to 2039
121.81	88.98	2010 to 2024
138.85	61.23	2010 to 2024
134.67	431.17	2010 to 2024
120.86	24.71	2011 to 2040
137.44	23.24	2011 to 2025
128.42	63.89	2011 to 2025
129.14	56.57	2012 to 2041
128.37	126.34	2012 to 2026
78.87	122.83	2012 to 2041
77.97	457.75	2015 to 2044
102.00	52.76	2014 to 2044
80.10	336.40	2014 to 2033
99.48	46.80	2015 to 2044
67.31	136.73	2015 to 2044

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Cemig Generation and Transmission was involved in the A-1 Auction sponsored by Aneel in 2011 trading 2.236 GWh at the price of R$80.00/MWh.

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

Bilateral Agreements Cemig Distribution entered into bilateral agreements with various suppliers prior to the enactment of the New Industry Model Law in 2004. Such agreements are valid under their original terms but cannot be renewed. During the year ended December 31, 2011, Cemig Distribution purchased 1,809 GWh pursuant to these agreements, which represented 5.94% of the total electricity purchased by Cemig Distribution during 2011.

Other Businesses

Natural Gas Distribution

Gasmig was established in Minas Gerais, Brazil, in 1986 for the purpose of developing and implementing the distribution of natural gas in Minas Gerais. CEMIG holds approximately 55% of Gasmig while Petrobras, through its subsidiary Gaspetro Petrobras Gas S.A., holds 40%. The remaining shares are owned by the State of Minas Gerais 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 2011, Gasmig supplied approximately 2.6 million cubic meters of natural gas per day to 309 consumers: 195 industrial and commercial consumers, 90 retail distribution stations for natural gas vehicles, 2 thermal power plants 18 smaller-consumers (non-residential) and 4 distributors of compressed natural gas, or CNG. In 2011, Gasmig distributed approximately 5.3% of all natural gas distributed in Brazil.

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

The transaction was implemented on December 15, 2004 when Petrobras, through its subsidiaries Gaspetro and TSS, concluded its acquisition of a 40% equity interest in Gasmig. On July 26, 2006, TSS was merged into Gasmig. As a condition to such investment, Petrobras and CEMIG entered into a Shareholders Agreement in which CEMIG agreed with Petrobras and its subsidiaries to share in the management of Gasmig. On December 15, 2004, Gasmig executed an additional supply contract with Petrobras which guarantees a gradual increase in supply of up to 5.1 million m³/day of natural gas, within a period of 20 years, in addition to the 3.5 million m³/day that was previously contracted for. This additional supply agreement is for the supply of natural gas to the regions of the Vale do Aço (Steel Valley) in Minas Gerais and in the south of Minas Gerais, and also for the expansion of service to the regions of the Greater Belo Horizonte area, the Zona da Mata (in the southeast of Minas Gerais) and the Campos das Vertentes (historic region), in the industrial, commercial, automotive and residential markets. The additional

supply agreement has a term of 20 years, and we began

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commercial supply pursuant to the agreement in May 2010. Under this agreement the price is established based on the international oil price in the New York market.

We expect that the association with Petrobras will expand Gasmig s distribution capacity, as our ability to offer natural gas to our consumers is expected to increase significantly with the implementation of Petrobras s investments in pipelines. We expect that Gasmig s capital expenditures for 2012 and 2013 will be mostly used for the expansion of our distribution network and growth of CNG and in the residential segment. Gasmig has already completed the necessary expansion to serve the regions of the Vale do Aço (Steel Valley) and the southern region of the State of Minas Gerais.

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

Many energy-intensive industries such as cement, steel, ferroalloys and metallurgy have significant operations in Minas Gerais. We estimate that the total demand for natural gas in Minas Gerais will amount to nearly 4.5 million cubic meters of gas per day by 2013. 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 grid to reach consumers in other areas of Minas Gerais, mainly in heavily industrialized areas. In 2006, Gasmig began supplying natural gas to three industrial companies and two distribution stations of Vehicular Natural Gas, or VNG, in the region of the Vale do Aço (Steel Valley) in Minas Gerais, thus concluding the first phase of service to that region of the State of Minas Gerais. The average volume of natural gas distributed in the first phase was approximately 200,000 cubic meters/day. The second phase, which began in 2009, was concluded in 2010, adding 155 miles to Gasmig s networks. In the end of this phase, we are expected to add approximately 1.0 million m³ per day to Gasmig s market in 2011.

In 2011, Gasmig invested approximately R$8.9 million in the expansion of its gas pipeline network to serve more consumers in the State of Minas Gerais. The funds to finance the expansion came primarily from its own cash flow and reinvestment of the dividends payable to CEMIG. The capacity of the natural gas pipeline which brings natural gas from the Campos oil basin (State of Rio de Janeiro, Brazil) was increased in 2010 through an expansion carried out by Petrobras.

Exploration and Production of Crude Oil and Natural Gas

On December 18, 2008, CEMIG and its partners, Companhia de Desenvolvimento Econômico de Minas Gerais - Codemig, (Codemig), Imetame Energia S.A. (Imetame , formerly called Comp Exploração e Produção de Petróleo e Gás S.A.), Sipet Agropastoril Ltda.(Sipet) and Orteng Equipamentos e Sistemas Ltda. (Orteng), participated in the Brazil Round 10 Auction carried out by the National Agency of Oil, Natural Gas and Biofuels (Agência Nacional do Petróleo, Gás Natural e Biocombustíveis), or ANP, and was granted the execution of concession agreements for four exploratory blocks in the São Francisco Basin, one block in the Potiguar Basin, and one block in the Recôncavo Basin. On June 30, 2009, the consortia formed by CEMIG, Codemig, Imetame, Sipet, and Orteng signed the concession agreements regarding three blocks. The participation of both CEMIG and Codemig is 24.5% each. The total participation of Imetame, Sipet, and Orteng is 51%, but the individual participation of these three companies varies, depending on the block. On July 7, 2010, CEMIG, Codemig and Imetame formed three consortia to be responsible for the concession agreements regarding three other blocks. The three consortia have the same composition: CEMIG 24.5%, Codemig 24.5%, and Imetame 51%. These consortia signed the concession agreements regarding these three blocks on October 7, 2011.

CEMIG s projected investment is not expected to exceed R$30 million in the exploration phase.

Telecommunications, Internet and Cable Television

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

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

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

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

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

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

Consulting and Other Services

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.

Through our wholy-owned subsidiary, Efficientia S.A.,we have completed 34 energy efficiency projects in he last ten years. These projects have saved the equivalent to 110,037 MWh of energy per year, representing a reduction of 30,930 tCO2eq/year. In 2011, Efficientia signed contracts for modernization of illumination systems using LED technology, modernization of compressed air generation systems, and installation of inverters for control of motor speed in pumping and ventilation systems. It also completed an important 5MW cogeneration project at the steel company Siderúrgica Plantar, which started in 2009. Over the course of 2011, R$ 25 million was invested in putting energy efficiency projects in place under the management of Efficientia, which has an annual budget of R$ 40 million to invest in energy efficiency projects in the next four years.

Sale and Trading of eletricity

We provide services related to the sale and trading of electricity in the Brazilian electricity sector, such as evaluation of scenarios, representation of consumers in the CCEE, structuring and intermediating of electricity purchase and sale transactions, and consultancy and advisory services,

besides services related to the purchase and sale of electricity in the Free Market through our wholly-owned subsidiaries conmpanies Cemig Trading S.A. and Empresa de Serviços de Comercialização de Energia Elétrica S.A.

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 .

According to Cemig s Electric Energy Balance table, Cemig s Distribution total energy losses in 2011 were 5,712 GWh and decreased 0.1% from 2010 (5,716 GWh). The Electric Energy Trading Chamber (Câmara de Comercialização de Energia Elétrica), or CCEE, attributed to Cemig Distribution 444 GWh as losses in the national basic grid in 2011. The remaining energy losses, 5,268 GWh, include both technical and non-technical losses in the local distribution system

Light Serviços de Eletricidade total energy losses in 2011 were 7,591 GWh, compared to 7,489 GWh in 2010, representing 21.7% of the total energy of 34,983 GWh that passed through the local distribution system, including both technical and non-technical losses. Besides these losses in 2011, 486 GWh were related to losses in the national basic grid attributed to Light Serviços de Eletricidade by the Electric Energy Trading Chamber (Câmara de Comercialização de Energia Elétrica), or CCEE.

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Technical losses accounted for approximately 81.5% of Cemig Distribution s and 59.5% of Light s energy losses in the local distribution system in 2011. 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 system in order to maintain quality and reliability standards, and consequently, reduce technical losses. In addition, we operate our transmission and distribution system 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 18.5% of Cemig Distribution s and 40.5% of Light s energy losses in 2011 in the distribution system 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. 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 2011, 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 14.32 and 7.01, respectively, compared to 12.99 and 6.56 in 2010. At the end of 2011, the DEC and FEC of Light were 16.73 and 7.76, respectively, compared to 11.33 and 5.76 in 2010.

Consumers and Billing

Consumer Base

The Cemig Group trades energy in the market in which it operates through the following companies: (i) Cemig, the companies comprising Cemig, Cemig Generation and Transmission, Hidroeletric Cachoeirão, Hidroelectric Pipoca, Cemig Baguari Energia, Centrais Eólicas Praias de Parajuru, Praia do Morgado and Volta do Rio, according to the shareholding of Cemig Generation and Transmission, and businesses Subsidiaries and Affiliates (Horizontes Energia, Termelétrica Ipatinga, Sá Carvalho, Termelétrica Barreiro, Cemig PCH, Rosal Energia, Cemig Capim Branco Energia), and (ii) Light, the companies comprising Light, Light Electric Services, Energy and Light Lightger, according to the shareholding of Cemig.

This market is comprised of the energy sales to captive consumers in the concession areas in Minas Gerais and Rio de Janeiro and out of these states, the trading of electricity to other power agents in ACR - Regulated Contracting Environment, and to the free consumers in the ACL - Free Contracting Environment, the sales in PROINFA - Incentive Program for Alternative Sources of Electric Energy and CCEE - Chamber of Electric Energy Trading.

The electricity sold in the year 2011, totaled 70,178 GWh, an increase of 5.9% over the year 2010. The sale of energy to final consumers in 2011 totaled 50,404 GWh, an increase of 7.0% over 2010, due to expansion of domestic and productive activities of the free industrial customers.

In 2011, the power supplied to captive consumers was 29,386 GWh, an increase of 7.4% over 2010, and the electricity sold on the open market totaled 21,018 GWh, an increase of 6.3% over 2010.

In the Regulated Contracting Environment - ACR, 10,067 GWh were supplied to distributors, portion corresponding to 14.3% of total revenues in 2011, an increase of 1.1% over 2010.

In Free Contracting Environment - ACL 4,390 GWh were supplied to trading companies, independent producers and electric power generators, corresponding to 6.3% share of total resources in 2011, an increase of 3.3% over 2010.

Sales in PROINFA in 2011 totaled 121 GWh, an increase of 42.5% over 2010.

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The sales of the CEMIG s Group are detailed in the table below broken down by the energy sold to each market in which the group operates for the years 2010 and 2011.

	2011		2010		Change, %
Sales in GWh	**GWh**	**%**	**GWh**	**%**	**2010 2011**
Cemig Consolidated (1)	70,178	100.0	66,256	100.0	5.9
Sales to final consumers	50,461	71.9	47,181	71.2	7.0
Residential	10,742	15.3	9,944	15.0	8.0
Industrial	26,029	37.1	24,826	37.5	4.8
Captive consumers	5,170	7.4	5,141	7.8	0.6
Free consumers	20,859	29.7	19,685	29.7	6.0
Commercial	6,985	10.0	6,227	9.4	12.2
Captive consumers	6,826	9.7	6,141	9.3	11.2
Free consumers	159	0.2	87	0.1	84.0
Rural	2,646	3.8	2,466	3.7	7.3
Other categories	4,059	5.8	3,717	5.6	9.2
Wholesale sales	14,458	20.6	14,205	21.4	1.8
Regulated market - CCEAR	10,067	14.3	9,955	15.0	1.1
Free and bilateral contracts	4,390	6.3	4,250	6.4	3.3
Sales under the Proinfa program	121	0.2	85	0.1	42.1
Sales on the CCEE	5,138	7.3	4,785	7.2	7.4

(1) Sales of Cemig Group: Cemig D; Cemig GT consolidated; Affiliates, Subsidiaries and Light in proportion to Cemig equity interest.

The number of customers billed for CEMIG s group peaked at 11.4 million in December 2011, an increase of 3.0% compared to December 2010.

In 2011, through the expansion of our transmission and distribution system, Cemig Generation and Transmission incorporated 29 free customers and Cemig Distribution billed 271,806 new End Consumers, representing an increase of 3.8% compared to 2010, and Light added 54,704 new End Consumers, representing an increase of 1.4% compared to 2010.

	December 2011		December 2010		Change, %
Number of clients	**Clients**	**%**	**Clients**	**%**	**2010 2011**
Cemig Consolidated (1)	11,464,675	100.0	11,135,126	100.0	3.0
Retail supply	11,464,579	100.0	11,135,040	100.0	3.0
Residential	9,677,453	84.4	9,534,790	85.6	1.5
Industrial	88,221	0.8	87,453	0.8	0.9
Captive consumers	87,994	0.8	87,242	0.8	0.9
Free consumers	227	0.0	211	0.0	7.6
Commercial	947,774	8.3	884,534	7.9	7.1
Captive consumers	947,738	8.3	884,511	7.9	7.1
Free consumers	36	0.0	23	0.0	56.5
Rural	665,018	5.8	543,961	4.9	22.3
Other categories	86,113	0.8	84,302	0.8	2.1
Wholesale sales	96	0.0	86	0.0	11.6
Regulated market - CCEAR contracts	71	0.0	68	0.0	4.4
Free and bilateral contracts	25	0.0	18	0.0	38.9

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(1) Sales of Cemig Group: Cemig D; Cemig GT consolidated; Affiliates, Subsidiaries and Light in proportion to Cemig equity interest.

In 2011, Cemig s ten largest consumers were provided with high voltages and consumed 7,154 GWh, or 15.8% of the total of electricity that we supplied during the year.

The following table sets forth the names and related industries of Cemig s ten largest industrial consumers in 2011:

Ten Largest Cemig s Industrial Consumers (listed in order of the amount of electricity (GWh) billed in 2011)	**Industry**
White Martins Gases Industriais Ltda	Chemical
Usiminas - Usinas Siderúrgicas de Minas Gerais - Cubatão	Steel
Usiminas - Usinas Siderúrgicas de Minas Gerais - Ipatinga Gerais	Steel
Rima Industrial S.A.	Ferroalloys
Companhia Ferroligas Minas Gerais	Ferroalloys
Ligas de Alumínio S.A. - LIASA	Ferroalloys
Kinross Brasil Mineração S.A.	Mining
ArcelorMittal Brasil S.A.	Steel
Samarco Mineração S.A.	Mining
Gerdau Aços Longos S.A.	Steel

The following table shows our industrial energy sales volumes by type of industrial consumer as of December 31, 2011

Industrial Consumers	**Energy Sales Volume in GWh**	**Consumption as a Percentage of Total Industrial Energy Volume**
Steel industry	6,205	24.3%
Ferroalloy industry	5,255	20.5%
Chemical industry	2,742	10.7%
Mining industry	2,615	10.2%
Food processing industry	1,547	6.0%
Material de Transporte	969	3.8%
Cement industry	829	3.2%
Others	5,867	21.3%
Total	26,029	100.0%

Billing

Our monthly billing and payment procedures for electricity supply vary by levels of voltage. Our large consumers with direct connections to our transmission network are generally billed within five weekdays after their meter reading and receive their bills by e-mail. Payment is required within five weekdays after delivery of the bill.

Other consumers receiving medium voltage electricity (approximately 12,000 consumers supplied at a voltage level equal to or greater than 2.3 kV or connected by underground distribution lines) are billed within one or two days of their meter reading and payment is required within five weekdays after delivery of the bill. This group of consumers will start receiving their bills by e-mail until December 2012.

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We are automating our meter reading system for customers who use medium voltage, with completion of this automation scheduled to be completed by June 2012. Currently, approximately 5,000 consumer units in the medium voltage category are already being measured automatically.

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

Seasonality

CEMIG s sales of electricity are affected by seasonality. Usually, an increase in consumption by industrial and commercial consumers occurs in the fourth fiscal quarter due to increases in their activities. The seasonality of rural consumption is usually associated with rainfall periods. During the dry season, between the months of May and November, more electricity is used to irrigate crops. Certain figures representing the Company´s fiscal quarterly consolidated consumption by final consumers from 2009 through 2011, in GWh, are set forth below:

Year	First Quarter(*)	Second Quarter(*)	Third Quarter(*)	Fourth Quarter(*)
2009	10,959	10,916	11,040	11,521
2010	10,740	11,704	12,173	12,510
2011	12,415	12,456	12,828	12,705

(*) The consumption related to Light is not included within this table.

Competition

Contracts with Free Consumers

We had 253 contracts with Free Consumers as of December 31, 2011. Of these contracts, 50 are with companies located outside the distribution company s concession area and represent 3,555 GWh of energy per year. These contracts with Free Consumers, including Special Consumers, have terms of three to eighteen years and represented a total volume of approximately 19,922 GWh, in 2011.

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 strategy, together with a sales strategy that seeks to minimize exposure to short-term prices and contracts with a large minimum demand on a take or pay basis, translates into lower risk and greater predictability of the Company s results.

At the end of 2011 we were the largest seller of energy to Free Consumers in the Free Market, with approximately 23% of the sales in this segment of the CCEE.

Concessions

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

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

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Raw Materials

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

Environmental Matters

Overview

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

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

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.

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.

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

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

The validity of the operational environmental licenses is controlled by a specific system and is verified yearly.

Corrective Environmental Operation Licensing

Resolution No. 1, of January 23, 1986, 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, according to the Resolution No. 6, of September 16, 1987, requires presentation to the competent environmental body of an environmental report containing the characteristics of the project, the environmental impacts of the construction and operation, and also the mitigating and compensatory measures adopted or that are in the process of being adopted by the organization carrying out the project.

Federal Law No. 9,605, of February 12, 1998, sets penalties for facilities that operate without environmental licenses. In 1998, the Federal Government issued Provisional Measure 1,710 (currently Provisional Measure 2,163/41), which allows project operators to enter into agreements with the relevant environmental regulators for the purpose of coming into compliance with Federal Law No. 9,605/98. Accordingly, we have been negotiating with the Environmental and Natural Renewable Resources Brazilian Institute

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(*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*) (IBAMA) and the Environmental Foundation (*Fundação Estadual do Meio Ambiente*) (FEAM) of the State of Minas Gerais to obtain the corrective environmental operation licensing for all our plants that began operating prior to February 1986. Generation facilities located within the State of Minas Gerais fall within the jurisdiction of FEAM for purposes of corrective licensing. We have agreed with FEAM to bring our facilities located in Minas Gerais into compliance on a gradual basis. We do not currently anticipate any costs and commitments in connection with any recommendations that may be made by IBAMA and FEAM.

Currently, the facilities of Cemig Generation and Transmission that started operations before the Brazilian environmental legislation was enacted, and which have not obtained corrective licensing, have filed applications before the appropriate environmental bodies, prepared the required studies and submitted them for analysis.

Of the 46 plants built prior to the Brazilian environmental legislation, 11 already have operating licenses, and 35 have their licenses under the analysis phase in either the Federal or State level, depending on their location. All the relevant studies have been prepared and presented to the appropriate regulatory body. Some of the renewal, and corrective processes of our environmental licenses conducted at the environmental agency of the State of Minas Gerais depend on the decisions regarding Legal Forest Reserves and Permanent Protection Areas. See Legal Forest Reserves.

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

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

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

However, both Federal Law No. 4,771/65 and State Law No. 14,309/02 do not establish the concept of a rural property or holding. The regulatory concept found in the Brazilian legislation for rural properties is in the Land Statute instituted by Federal Law No. 4,504, of November 30, 1964, in which Article 4, I, defines a rural property as a rustic real estate property, of continuous area, whatever its location, allocated for extractive agricultural, livestock raising or agro-industrial commercial operation.

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

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

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

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

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

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

3. The environmental impacts caused to biodiversity by the implementation of the electricity sector s undertakings have already been compensated. Examples of the environmental compensation specified in Brazilian legislation, already applying to the sector, are: (I) the Environmental Compensation specified by Federal Law No. 9,985, of July 18, 2000 (the SNUC Law); (II) the Forest Compensation for suppression of vegetation or intervention in an area of permanent preservation, specified in §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 could characterize a double charge imposed on concession holders. CEMIG referred his understanding to SEDE, presenting arguments against the Legal Reserves provision obligation.

SEMAD, in a letter to the AGE dated as of May 14, 2010, requested reconsideration of AGE s legal opinion dated October 30, 2008. The AGE has not yet replied to SEMAD s letter. Currently, discussions on the applicability of the law, as well as the development and adoption of a New Federal Forest Code are taking place within the Brazilian National Congress. Changes in Brazilian legislation or a new opinion of the AGE requiring a Legal Forest Reserve would result in additional costs to the Company, which cannot be estimated at this moment.

The New Federal Forest Code is in the final stage of discussions and approval in the Brazilian Congress. With the approval of this code, the responsibilities and need for allocation of Legal Forest Reserves will be clarified, making it possible for our processes of environmental regularization to be concluded.

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

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

The State Decree No. 45629, of July 6, 2011, establishes procedures for setting and implementing environmental compensation and determined that the compensation shall be due to environmental projects considered significant environmental impact.

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Projects in the implementation stage or the operation of unlicensed plants are subject to corrective environmental compensation when they receive the corrective license, if there is a significant environmental impact after July 19, 2000.

The projects that have completed the licensing process, and have not had their environmental compensation defined are subject to environmental compensation at the time their license is reviewed or when the licensing authority determines, taking into account the significant environmental impacts occurring after July 19, 2000.

Companies that have obtained their license or installation prior to the publication of the Federal Law No. 9985, 2000, and have not had their environmental compensation defined are subject to environmental compensation at the time their license was considered, taking into account the significant environmental impacts occurring on or after July 19, 2000.

State Decree No. 45.175/2009 was amended by Decree No. 45.629/2011, which established the following:

The reference value of projects that cause significant environmental impact will be defined as follows:

I - for projects implemented prior to the publication of Federal Law No. 9985 of 2000 will be considered the net book value, excluding revaluations., If the net book value is not available, will be considered the value of investment presented by the legal representative of such project, and

II - compensation for environmental projects implemented after the publication of Federal Law No. 9985 of 2000 will be considered the benchmark value established in item IV of article. 1 of Decree No. 45175, 2009, calculated at the time of implementation of the project and updated based on an inflation adjustment rate.

Fish Management

The dams at each of our hydroelectric generation facilities can endanger fish that inhabit the adjoining reservoirs. To reduce the impact of these facilities, CEMIG carries out numerous procedures to mitigate accidents involving fish in its hydroelectric power plants. 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, one incident occurred in 2007, at the Três Marias Hydroelectric Power Plant, resulting in the death of approximately 17 tons of fish as estimated by the Enviromental Police (8.2 tons by our estimate). The volume of dead fish was not estimated or measured As a result, the State Forests Institute imposed two fines on us, totaling approximately R$5.5 million, which currently corresponds to R$7.7 million. We paid 50% of the fine and the rest is being negotiated with the environmental authority for application in research projects. On April 8, 2010, CEMIG and the Public Attorneys Office of Minas Gerais State signed a Conduct Adjustment Commitment (TAC), corresponding to the amount

of R$6.8 million, providing for compensatory measures for environmental improvement in the area of influence of the Três Marias power plant, in Três Marias, Minas Gerais.

Within this context, one of the main objectives of the company, as of 2007, was the establishment of preventive and mitigation measures against fish mortality caused by the operation of hydroelectric power plants. Our management believed that the correct assessment of risks and the subsequent adoption of efficient control measures would mean a decrease in economic and environmental losses, as well as image-related losses, which the company had been suffering in previous years. Therefore we implemented an environmental program, named Peixe Vivo (Live Fish) 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. Besides fish in the exit canals of several of our plants are being monitored by specialist biologists, with the objective of becoming familiar with the dynamics of fish populations over time, the periods of their greatest activity during the day, and the locations of their greatest density. With this information, more effective techniques may be developed to control the impact of the operation of the plants on fish. CEMIG has spent R$6.4 million for the development of research projects linked to the Peixe Vivo program from 2007 until 2011, and more than R$6.0 million were invest on physical barriers to prevent fish from entering the draft tube and modernization of the main hatchery station at the Volta Grande Environmental Station.

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

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 accidents that could cause potential significant personal, property and environmental damage in case of ignition or a leak. However, all our gas networks are explicitly, and intensively, marked and signaled. Gasmig has several inspectors monitoring its network daily, to prevent illegal or non-notified excavations in urban roads, invasions or constructions, erosions or any other problem that might cause risk to the pipeline. Gasmig, through its Dig Safely (*Escave com Segurança*) program, has been building partnerships with the community, mainly with public authorities and holders of concessions, to disclose their registrations to companies that perform excavation on urban roads, to ensure that before digging close to the natural gas network, they call Gasmig s 24-hour helpline, and request guidance and support for safe execution of their work.

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

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

The Carbon Market

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

CEMIG group takes part in CDM projects at various stages of development, including six Small Hidroeletric Plants with a capacity of 81MW and a hydroeletric plant with a capacity of 140MW and several wind plants which totaled 669MW. So far no carbon credits have been commercialized, since these projects have not yet reached the stage of issuance of Reduced Emission Certificates (*Certificados de Emissão Reduzuida*), or CERs.

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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 grids.

Load Dispatch Center

CEMIG s System Operation Center (*Centro de Operação do Sistema*), or COS, located at our head office in Belo Horizonte, is the nerve center of our operations. It coordinates the operations of our entire electricity and energy system, in real time, providing operational integration of the generation and transmission of our energy. It also provides the link with other generation, transmission and distribution companies. The supervision and control executed by the COS now extends to more than 47 extra high and high voltage substations, approximately 29 major generating power plants and 4 Small Hidroeletric 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 9001:2008 certification.

Distribution Operation Center

Our distribution network is managed by a Distribution Operation Center (*Centro de Operações de Distribuição*), or COD, located in Belo Horizonte. The COD monitors and coordinates our distribution network operations in real time. The COD is responsible for the supervision and control of 366 distribution substations, 291,943 miles of medium voltage distribution lines, 10,711 miles of sub-transmission lines and 7.07 million consumers in our concession area, comprising 774 municipalities of Minas Gerais.

We provided an average of 12,500 services a day in 2011. The COD is certified according to ISO Quality Standard 9001: 2000. There are various systems in use to automate and support the COD s processes including: trouble call, field crew management, distribution substation supervision and control, restoration of power, emergency switching, network disconnection, and inspection. Technologies including a geographic information system and satellite data communication help to reduce consumer service restoration time and provide better consumer service. These are devices, installed along our distribution network, that sense and interrupt fault currents, and automatically restore service after momentary outages, improving operational performance and reducing restoration time and costs.

Geospatial Information & Technology

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

We believe we have one of the largest telecommunication networks among Brazilian electric power companies. It includes high performance microwave links with more than 250 communication stations, an optical system with 1,588 miles of optical fibers and a mobile communication system with 811 radios including 644 trunking and VHF radios and 167 UHF and VHF portable radios. A total of 420 mobile radios have data interface to mobile terminals installed in vehicles for dispatch systems (operation and maintenance), which also have 1200 mobile terminals connected through satellites.Corporate Data Network

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

IT Governance Program

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

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

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

Customer Relationship Channels

We have one call center, in Belo Horizonte. Our customers can call a toll-free number to obtain information about their accounts and order services from our call center. The call center is integrated with the Distribution Operation Center - COD systems and the Customer Relationship Management - CRM system of the SAP platform, allowing consumers to provide updated information on emergency and commercial services. The call center has modern facilities and includes an efficient electronic service through the Interactive Voice Response - IVR, and a staff of over 1,300 professionals, being able to receive about 75,000 calls on a typical day and up to 250,000 calls on an unusual day. As an indication of the quality of service, our call center has the ISO 9001 Quality Certification since 1999. We also have a representative of stores and service centers in all 774 municipalities in the concession area, to meet the customer in person when necessary. Others important customer relationship channel is the customer service provided by the Government, through the agents available for each city of the concession area and the Cemig Plus - a dedicated contact center to clients served in medium voltage. Consumers can also contact us by e-mail, fax, SMS, Social Networks like Twitter and Facebook or through our website - the Virtual Agency, with over 23 online services available to customers.

Commercial Management System

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

Maintenance and Repair Systems

The 10,511 miles of high voltage distribution lines in Cemig Distribution s network, operating at 34.5 kV to 161 kV, are supported by approximately 53,837 structures, mainly made of metal. Cemig Generation and Transmission s network has 3,050 miles of high voltage transmission lines, supported by approximately 11,526 structures. The majority of the service interruptions to our distribution and transmission lines are due to lightning, fire, vandalism, wind, and corrosion. The entire high voltage transmission line systems of both Cemig Distribution and Cemig Generation and Transmission are inspected once a year, using a helicopter equipped with a Gimbal , which is a gyro-stabilized system consisting of conventional and infra-red cameras, allowing for simultaneous visual and thermographic (infra-red) inspections. Land-based inspections are also carried out at intervals of between one and three years, depending on the line characteristics, such as time in operation, number of outages, type of structure, and the line s importance to the electricity system as a whole.

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

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

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

Information Security Management

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

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

Management Tools

During 2011, after the technical updating of our SAP Integrated Management System, or ERP, which includes the processes related to finances, procurement, sales, materials, services and human resources, Cemig continued to improve and adapt its systems to the changes and requirements of legislation, regulations and market standards. We have made significant progress in relation to capitalization of assets, works and materials, logistics planning and maintenance processes, and complying with the regulations on electronic tax invoices, including other obligations related to electronic payment of taxes.

These advances and solutions implemented in ERP also assist us in obtaining the information that is necessary for planning, control and decision-making, and making that information available to our Board of Directors and Executive Board.

Risk Management

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

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

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

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

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

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

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

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Properties, Plant, Equipment and Intangible Assets

Our principal properties consist of the power generation plants and transmission and distribution facilities described in this Item 4. Our net book value of total property, plant and equipment and intangible assets, including our investment in certain consortia that operate electricity generation projects, including projects under construction, was R$13,923 million at December 31, 2011. Generation facilities represented 59.8% of this net book value, intangible assets represented 37.8% of this net book value (distribution facilities on intangible assets represented 29.9% and other intangible and other miscellaneous property and equipment, including transmission and telecommunication facilities, represented 7.9%. The average annual depreciation rate applied to these facilities was 2.5% for hydroelectric generation facilities, 9.5% for administration facilities, 7.3% for telecommunication facilities and 4.1% for thermoelectric facilities. Apart from our distribution network, no single one of our properties produced more than 10% of our total revenues in 2011. Our facilities are generally adequate for our present needs and suitable for their intended purposes. We have rights of way for our distribution lines, which are our assets and do not revert to the landowner upon expiration of our concessions.

The Brazilian Power Industry

General

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

The New Industry Model

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

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

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

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

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

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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 decision may be reached. Therefore, the New Industry Model Law is currently in force. Regardless of the Supreme Court s final decision, certain portions of the New Industry Model Law relating to restrictions on distributors performing activities unrelated to the distribution of electricity, including sales of energy by distributors to Free Consumers and the elimination of agreements between related parties are expected to remain in full force and effect.

Coexistence of two Electricity Trading Environments

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

The Regulated Market (the ACR or the Pool)

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

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

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. 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.

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.

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

Once a consumer has opted for the free market, it may only return to the regulated system once it has given the distributor of its region five years notice, provided that the distributor may reduce such term at its discretion, except for special consumers, which must provide 180 days notice. This extended notice period seeks to assure that, if necessary, the distributor can purchase additional energy to supply the re-entry of Free Consumers into the regulated market. In addition, distributors may also reduce the amount of

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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.

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.

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

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

- limited pass-through of costs for electricity purchases made in an A-3 auction, if the volume of the acquired electricity exceeds 10% of the demand verified in A-5 auctions;

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

- electricity purchases from existing facilities in the A-1 auction are limited to 0.5% of distribution companies dem**and** frustrated purchases in previous A-1 auctions and involuntary exposition to captive consumer´s demand, plus the

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replacement, defined as the amount of energy needed to replace the power from power purchase contracts that expire in the current year(A-1), according to Aneel Resolution 450/2011. If the acquired electricity in the A-1 auction exceeds the limit, pass-through of costs of the exceeding portion to final consumers is limited to 70.0% of the average value of such acquisition costs of electricity generated by existing generation facilities. The MME will establish the maximum acquisition price for electricity generated by existing projects;

- electricity purchases in market adjustment auctions are limited to 10% of a distribution concessionaire s total demand (except for the years 2008 and 2009, when the limit was 5%) and pass-through of costs is limited to Annual Reference Value; and

- if distributors fail to comply with the obligation to fully contract their demand, the pass-through of the costs from energy acquired in the short-term market will be the equivalent to the lower of the PLD or the Annual Reference Value.

Rationing Under The New Industry Model Law

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

Rates

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

In 2011, ANEEL finalized Public Hearing 040/2010, in which it dealt with the methodology for the third periodic revision. To calculate the rate of return ANEEL uses the methodology of Weighted Average Cost of Capital (WACC), which resulted in a rate of 7.50% after taxes compared to the rate of 11.25% applied in the last cycle.

ANEEL also decided to change the methodology used to calculate the X-Factor from the discounted cash flow methodology to the Total Factor Productivity (TFP) method, which consists in defining potential productivity gains for each company based on the average productivity gains. It is expected that this will result in an increase in the X Factor. These changes in methodology will take effect on 2013.

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

Land Acquisition

The concessions granted to us by the Federal Government do not include a grant of the land upon which the plants are located. Electricity concessionaires in Brazil typically have to negotiate with the individual landowners to obtain needed land. However, in the

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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. About only 2% of the country s electricity production capacity is not connected to the Brazilian Grid, in small isolated systems located mainly in the Amazon region. Brazil s abundant hydrological resources are managed through storage reservoirs. It is estimated that Brazil has a hydroelectric power generation potential close to 243,362 MW, of which only 35.5% has been developed or is under construction, according to Eletrobrás studies consolidated in December 2010.

Brazil has an installed capacity in the interconnected power system of 113.33 GW, approximately 71.2% of which is hydroelectric , according to Brazilian Energy Balance 2011 Year 2010 from Empresa de Pesquisa Energética EPE. 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 61,000 miles of transmission lines with voltages equal to or higher than 230 kV in Brazil.

Approximately 36% of Brazil s installed generating capacity and 56% of Brazil s high voltage transmission lines are operated by Eletrobrás, a company owned by the Federal Government. Eletrobrás has historically been responsible for implementing electric policy, conservation and 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. 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 No. 8,987 on February 13, 1995, or the Concessions Law, and Law No. 9,074 on July 7, 1995, or the Power Concessions Law, that together:

- required that all concessions for the provision of energy-related services be granted through public bidding processes;

- gradually allowed certain electricity consumers with significant demand (generally greater than 3 MW), referred to as Free Consumers, to purchase electricity directly from suppliers holding a concession, permission or authorization;

- provided for the creation of generation entities, or Independent Power Producers, which, by means of a concession, permission or authorization, may generate and sell all or part of their electricity to Free Consumers, distribution concessionaires and trading agents, among others;

- granted Free Consumers and electricity suppliers open access to all distribution and transmission grids; 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 , lately updated on May 28, 2009 by Law No. 11,943, which raised the limit from 30 MW to 50 MW, independently of being a Small Hydroelectric Power Plant or not.

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- The creation of Aneel and of the CNPE, in 1997.

- 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;

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

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

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

Rationing and Extraordinary Rate Increases

Below average rainfall in the years preceding 2001 resulted in low reservoir levels and low hydroelectric capacity in the Southeast, Central West and Northeast regions. A program known as the Electricity Rationing Program, that lasted from June 2001 until February 2002, was designed to solve this problem and establish normal levels for reservoirs. As a result of the end of the rationing measures, the Federal Government 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.

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.

Concessions

The companies or consortia that wish to build or operate facilities for generation, transmission or distribution of electricity in Brazil must apply to the MME or to Aneel, by delegation of MME, as granting authority, for a concession, permission or authorization, as the case may be. Concessions grant rights to generate, transmit or distribute electricity in the relevant concession area for a specified period. This period is usually 35 years for new generation concessions, and 30 years for new transmission or distribution concessions. For the renewal of existing concessions, the period is usually 20 years for distribution, 20-30 years for transmission, depending on the contract, and the period for generation depends on the contracts. An existing concession, granted prior to the publication of Law 10,848 of March 15, 2004 may be renewed once at the granting authority s discretion. Concessions granted after the publication of Law 10,848 can not be extended further.

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

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

- Execution of contracts with related parties in the cases provided by regulation;

- Sale or assignment of the assets or revenues related to the services rendered as well as the imposition of any encumbrances (including any security, bond, guarantee, pledge and mortgage) on them or any other assets related to the concession or the revenues of the electricity services; and

- Changes in controlling interest of the holder of the authorization or concession.

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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.

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.

Electric Energy Trading Chamber CCEE

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.

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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

On November 10, 2009, Aneel issued Resolution No. 378, which established that Aneel, upon identifying an act that may cause unfair competition or may result in relevant market control, must notify the Secretariat of Economic Law (*Secretaria de Direito Econômico*) (SDE) of the Ministry of Justice, pursuant to art. 54 of Law No. 8,884 of June 11, 1994. After the notification, the SDE must inform the antitrust authority Conselho Administrativo de Defesa Econômica (CADE). In November 30, 2011 Law No. 8,884 was revoked and replaced by Law 12,529. This new law extinguished SDE and replaced it for the General Superintendency (Superintendência Geral). If necessary, the General Superintendency will require Aneel to analyze the aforementioned acts. CADE will decide if there should be any punishment regarding those acts, which may vary from pecuniary penalties to the split of the company, pursuant to articles 37 and 45 of the abovementioned law.

Incentives for Alternative 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.

In 2002, the Proinfa was established by the Federal Government to create certain incentives for the development of alternative sources of energy, such as wind energy projects, Small Hydroelectric Power Plants and biomass projects.

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

Also the government promoted two alternative energy generation auctions and four backup regulated auctions where the plants that are allowed to sell energy on pursuant to these auctions are either wind energy projects, SHP projects or biomass projects.

Regulatory Charges

Global Reversion Fund and Public Use Fund RGR and UBP

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

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

Fuel Consumption Account CCC

Distribution companies must contribute to the Fuel Consumption Account (*Conta de Consumo de Combustível*), or CCC. The CCC was created to generate financial reserves to cover elevated costs associated to the use of thermoelectric energy plants, especially in the northern region of Brazil given the higher 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

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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.

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 system. These fees are adjusted annually. The CDE was created to support the (1) development of electricity production throughout the country, (2) production of electricity by alternative energy sources and (3) universalization of energy services throughout Brazil. The CDE shall be in effect for 25 years and shall be managed by Eletrobrás.

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

Aneel Inspection Charge

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

Energy Reallocation Mechanism

The Energy Reallocation Mechanism (*Mecanismo de Realocação de Energia*), or MRE, attempts to mitigate the risks involved in the generation of hydroelectric power by mandating that all hydrogenerators share the hydrological risks within the Brazilian Grid. Under Brazilian law, the revenue arising from the energy sales by generators does not depend on the amount of energy they in fact generate, but rather on Guaranteed

Energy or Assured Energy of each plant. The Guaranteed or Assured Energy is indicated in each concession agreement.

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

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

Rates for the Use of the Distribution and Transmission Systems

Aneel oversees rate regulations that govern access to the distribution and transmission systems and establish rates (i) for the use of the local distribution system, 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 and Midwest interconnected system pay specific charges for the transmission of electricity generated at Itaipu. The increase in transmission rates and charges paid by distribution concessionaires are passed on to their respective consumers through Annual Rate Adjustments. All this rates are set by ANEEL. The following is a summary of each rate or charge:

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TUSD

The TUSD is paid by generation companies and customers for the use of the distribution system to which they are connected. It is readjusted annually according to an inflation index and the variation of costs for the transmission of energy and regulatory charges.

TUST

The TUST is paid by generation companies and Free Consumers for the use of the basic transmission grid to which they are connected. It is adjusted annually according to an inflation index and the annual revenue of the transmission companies adjustment. According to criteria established by Aneel, owners of the different parts of the transmission grid were required to transfer the coordination of their facilities to the ONS in return for receiving regulated payments from the transmission system users.

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 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 and bilateral agreements); and
- Transmission s charge (TUST, TUSD, Transport of Electricity from Itaipu, Use of Sites for Connection and ONS).

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

- return on investment;
- taxes;
- regulatory default;
- depreciation costs; and
- operation costs of the distribution system.

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.

The X factor is used to adjust the proportion of the change in the IGP-M index that is used in the annual adjustments and to share the company s 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.

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Item 4A. Unresolved Staff Comments

Not Applicable.

Item 5. Operating and Financial Review and Prospects

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

Statement of Compliance

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

Basis of measurement

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

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

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

Critical Accounting Estimates

The following discussion describes those areas that require the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates we make in these contexts require us to make assumptions about matters that are highly uncertain.

The discussion addresses only those estimates that we consider most important based on the degree of uncertainty and the likelihood of a material impact if we used a different estimate. There are many other areas in which we use estimates about uncertain matters, but the reasonably likely effect of changed or different estimates is not material to our financial presentation.

For more detailed information about our Critical Accounting Policies and Estimates, please refer to Note 2 to our audited consolidated financial statements as of December 31, 2011.

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 as follows: (i) for consumers with material debts, an individual analysis of the balance is made, taking into account the history of default, negotiations in progress and the existence of real guarantees; (ii) for other consumers, the debts that are more than 90 days past due for residential consumers, or more than 180 days past due for commercial consumers, or more than 360 days past due for the other consumer types, are provisioned at 100%. These criteria are the same as those established by ANEEL.

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.

Deferred income tax and social contribution

We account for income taxes in accordance with IFRS. IFRS 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

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sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to establish a valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results.

Depreciation and Amortization

Depreciation and Amortization 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.

Our accounting treatment for amortization of intangible assets depends on the nature of the intangible asset. Intangible assets linked to a service concession agreement, net of residual value, are amortized in accordance with IFRIC 12 on a straight-line basis over the concession period stipulated in the concession contract. Other intangible assets are amortized on a straight-line basis over the estimated useful economic lives of the assets in conformity with the amortization rates established by ANEEL.

To the extent that the actual lives differ from these estimates, there would be an impact on the amount of depreciation and amortization accrued in our consolidated financial statements. A significant decrease in the estimated useful life of a material amount of property, plant and equipment, intangibles, 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.

Employee Post-Retirement Benefits

We sponsor a defined-benefit pension plan and defined-contribution pension plan covering substantially all of our employees.

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 21 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. 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.

Provision 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.

Such provisions 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.

Unbilled electric power supplied

Unbilled retail supply of electric power, from the period between the last billing and the end of each month, is estimated based on the billing from the previous month and is accrued for at the end of the month. While we believe that our accruals are appropriate, significant differences in actual results or significant changes in our assumptions may materially affect our consumers receivables.

Derivative Instruments

Accounting for derivative transactions requires us to employ judgment to compute fair market values, which are used as the basis for recognition of the derivative instruments in our consolidated financial statements. Such measurement may depend on the use of estimates such as long term interest rates, foreign currencies and inflation indices, and becomes increasingly complex when the instrument being valued does not have counterparts with similar characteristics traded in an active market. For more detailed information about Derivative Instruments please refer to Note 28 to our audited consolidated financial statements as of December 31, 2011.

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Recently Issued IFRS Standards

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

- IAS 1 Presentation of Financial Statements Prescribe the Other Comprehensive income. This international accounting standard is effective for fiscal years beginning on or after January 1, 2012.

- IAS 19 Employee Benefits The objective of IAS 19 is to prescribe the accounting and disclosure of employee benefits (that is, all forms of consideration given by an entity in exchange for service rendered by employees). This international accounting standard is effective for fiscal years beginning on or after January 1, 2013.

- IAS 27 Consolidated and Separate Financial Statements (revised in 2011) Superseded by IFRS 10 and IFRS 12, the main objective of IAS 27 is accounting for investments in subsidiaries, jointly controlled entities, and associations when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. This international accounting standard is effective for fiscal years beginning on or after January 1, 2013.

- IAS 28 Investments in Affiliated companies and joint ventures (revised in 2011) Superseded by IFRS 11 and IFRS 12, IAS 28 applies to all investments in which an investor has significant influence but not control or joint control except for investments held by a venture capital organization, mutual fund, and unit trust. This international accounting standard is effective for fiscal years beginning on or after January 1, 2013.

- IAS 32 The purpose of the changes is to clearly explain the compensation requirements of financial instruments, where the main explanations are related to the meaning of a legally executable right to be settled by the net amount and where some settlement systems at the gross amount may be considered equivalent to settlement at the net amount. This amendment comes into force on or as from January 1, 2014.

- IFRS 7 - Financial Instruments: Disclosures . Effective starting on July 1, 2011. This standard requires certain disclosures to be presented by category of instrument based on the IAS 39 measurement categories. The designation is made at the time of initial recognition. The classification depends on both the entity s business model and the cash flow characteristics of the financial instrument. Regarding financial liabilities, the standard does not change most of the established demands in IAS 39.

- IFRS 9 Financial Instruments Effective starting on January 1, 2013 This standard simplifies the model for measurement of financial assets and establishes two main categories of measurement: amortized cost and fair value. Any changes in the fair value of liabilities valued at fair value would not have an effect on the statement of other comprehensive income, because they would be recognized in the statement of other accumulated comprehensive income.

- IFRS 10 Consolidated Financial Statements - Effective starting on January 1, 2013. This standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It also defines the principle of control, and establishes control as the basis for consolidation. It establishes how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee.

- IFRS 11- Joint Arrangements Effective starting on January 1, 2013, but earlier adoption is encouraged. The core principle of IFRS 11 is that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. There are two types of joint arrangements: (i) joint operations, a situation in which an operator has assets and contractual obligations and, as a consequence, it recognizes its share in the assets and liabilities, revenues and expenses and (ii) joint control, a situation in which an operator has the right over the contractual net assets and as a consequence it recognizes the investment using the equity method. The main change is that if the type of joint arrangement is not a joint venture, the entities must use the equity method extinguishing the proportional consolidation which will impact consolidation for all jointly controlled entities in the Group.

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- IFRS 12 Disclosure of interests in other entities Effective starting on January 1, 2013. This standard establishes disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, affiliated companies and unconsolidated structured entities and the effects on its financial position, financial performance and cash flows.

- IFRS 13 Fair Value Measurement - Effective starting on January 1, 2013. This standard defines fair value, set out in a single IFRS framework for measuring fair value and requires disclosures of fair value measurements. The main change is the definition of 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. This standard requires using significant unobservable inputs for fair value measurements. To meet the disclosure objective, the following minimum disclosures are required for each class of assets and liabilities measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition. (Note that these requirements have been summarized and additional disclosure is required where necessary).

Principal Factors Affecting our Financial Condition and Results of Operations

Analysis of Electricity Sales and Cost of Electricity Purchased

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

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

In general, rates on electricity that we purchase are determined by reference to the capacity contracted for as well as the volumes actually used.

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

	Year ended December 31,		
	2011	**2010**	**2009**
Electricity Sales:			
Average rate to final consumers (R$/MWh)			
Industrial rate	167.74	158.53	170.34
Residential rate	507.52	485.98	474.65

Commercial rate	435.99	436.44	442.17
Rural rate	267.56	256.18	257.64
Public services rate and others	326.06	319.92	322.41
Total sales to final consumers (GWh)			
Industrial consumers	26,029	24,826	22,638
Residential consumers	10,742	9,944	9,745
Commercial consumers	6,985	6,227	6,197
Rural consumers	2,646	2,467	2,221
Public services and other consumers	4,001	3,664	3,635
Average rate (R$/MWh)	296.78	280.49	297.80
Total revenues (millions of R$)	14,959	13,219	13,233
Sales to distributors:			
Volume (GWh)	14,458	14,205	13,860
Average rate (R$/MWh)	109.07	101.72	117.89
Total revenues (millions of R$)(1)	1,577	1,445	1,634

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(1) Does not include R$305 million, R$157 million and R$142 million relating to energy transactions on the CCEE and sales under the Proinfa Program during 2011, 2010 and 2009 respectively.

Distribution Rates

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

Each year, in April, Aneel issues a Resolution that establishes the average annual rate adjustment for Cemig Distribuition. In 2009 this rate was 20.81%, in 2010 was 7.58% and in 2011 was 10.47%

On April 3, 2012 Aneel established Cemig Distribution s average annual rate adjustment of 5.24%. The components of this increase were as follows: (i) a 2.90% increase due to the Rate Adjustment Index; (ii) a 2.70% decrease due to intra-annual variation of fixed costs; (iii) a 3.57% increase related to the advancement of subsidies on rates applicable to certain consumers and (iv) a 1.47% increase due to other financial adjustment.

The 2012, 2011, 2010 and 2009 average annual rate adjustments and revision for Cemig Distribution with their respective components are presented in the table below:

	2012	2011	2010	2009
Average annual/periodic rate adjustment	5.24%	10.47%	7.58%	20.81%
Components				
Rate adjustment index	2.90%	8.08%	3.41%	15.01%
Intra-annual variation of fixed costs (CVA)	-2.70%	-1.06%	-1.46%	4.15%
Advancement of subsidies on rates	3.57%	5.03%	6.35%	3.47%
Other financial adjustments	1.47%	-1.58%	-0.72%	-1.82%

Each year, in November, Aneel issues a Resolution that establishes the average annual rate adjustment for Light. In 2009 this rate was 5.65% and in 2010 was 6.88%.

On November 7, 2011 Aneel established Light average annual rate adjustment of 6.57%. The components of this increase were as follows: (i)