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ENERGY CO OF MINAS GERAIS  
Form 20-F  
June 30, 2003

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F

// REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)  
OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR  
/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002  
OR  
// TRANSITION REPORT PURSUANT TO SECTION 13  
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-15224

COMPANHIA ENERGETICA DE MINAS GERAIS--CEMIG  
(Exact Name of Registrant as Specified in Its Charter)

ENERGY COMPANY OF MINAS GERAIS THE FEDERATIVE REPUBLIC OF BRAZIL  
(Translation of Registrant's Name into English) (Jurisdiction of Incorporation or Organization)

AVENIDA BARBACENA, 1200  
30190-131 BELO HORIZONTE, MINAS GERAIS, BRAZIL  
(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 Each Exchange on which Registered
AMERICAN DEPOSITARY SHARES (EVIDENCED BY AMERICAN DEPOSITARY RECEIPTS), EACH REPRESENTING 1,000 PREFERRED SHARES	NEW YORK STOCK EXCHANGE
PREFERRED SHARES, R\$0.01 PAR VALUE*	NEW YORK STOCK EXCHANGE*

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

Securities registered or to be registered pursuant to Section 12(g) of the Act: NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: NONE

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

70,874,167,923 Common Shares
91,210,522,699 Preferred Shares

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

Yes /X/ No / /

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 / / Item 18 /X/

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### PRESENTATION OF FINANCIAL INFORMATION

Companhia Energetica de Minas Gerais-CEMIG is a SOCIEDADE DE ECONOMIA MISTA (a state-controlled mixed capital company) organized and existing with limited liability under the laws of the Federative Republic of Brazil, or Brazil. References in this annual report to "CEMIG," "we" or the "Company" are to Companhia Energetica de Minas Gerais-CEMIG and its consolidated subsidiaries, except when the reference is specifically to Companhia Energetica de Minas Gerais-CEMIG (parent company only) or the context otherwise requires. References to the "REAL," "REAIS" or "R\$" are to Brazilian REAIS (plural) and the Brazilian REAL (singular), the official currency of Brazil, and references to "U.S. dollars," "dollars" or "US\$" are to United States dollars.

We maintain our books and records in REAIS. We prepare our financial statements in accordance with accounting practices adopted in Brazil, including the principles that are established primarily through Law No. 6,404 of December 15, 1976, Law No. 9,457 of May 5, 1997 and Law No. 10,303 of October 31, 2001, which we refer to collectively as the Brazilian Corporate Law. For purposes of this annual report, we have presented, and in future reports to be filed with the United States Securities and Exchange Commission, or the Commission, we intend to present, our consolidated financial statements and other financial information in REAIS in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. For purposes of this annual report we prepared balance sheets as of December 31, 2002 and 2001 and the related statements of operations and comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2002, 2001 and 2000, in REAIS all in accordance with U.S. GAAP. Deloitte Touche Tohmatsu has audited our consolidated financial statements at December 31, 2002 and 2001 and for each of

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the three years in the period ended December 31, 2002.

From and after January 1, 1998, Brazil ceased to be considered a highly inflationary economy under U.S. GAAP and we have not restated financial information to reflect the effects of inflation as from that date. Therefore, for subsequent periods and dates, our financial statements and other financial data are presented in nominal REAIS and do not reflect effects of inflation. See note 2(b) to our consolidated financial statements.

This annual report contains translations of certain REAL amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such U.S. dollar amounts have been translated from REAIS at an exchange rate of R\$3.5400 to US\$1.00, the noon buying rate in New York City for cable transfers in REAIS as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, as of December 31, 2002. However, the REAL has recently experienced high volatility. See "Item 3. Key Information--Exchange Rates" for additional information regarding exchange rates. We cannot guarantee that U.S. dollars can be converted into REAIS, or that REAIS can be converted into U.S. dollars, at the above rate or at any other rate.

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### MARKET POSITION AND OTHER INFORMATION

The information contained in this annual report regarding our market position is, unless otherwise indicated, presented for the twelve-month period ended December 31, 2002 and is based on, or derived from, reports issued by the AGENCIA NACIONAL DE ENERGIA ELETRICA (National Electric Energy Agency of Brazil), or ANEEL.

Certain terms are defined the first time they are used in this annual report. The "Index of Defined Terms" that begins on page 126 lists those terms and where they are defined. As used herein, all references to "GW" and "GWh" are to gigawatts and gigawatt hours, respectively, references to "MW" and "MWh" are to megawatts and megawatt-hours, respectively, and references to "kW" and "kWh" are to kilowatts and kilowatt-hours, respectively.

References in this annual report to the "common shares" and "preferred shares" are to our common shares and preferred shares, respectively. References to "American Depositary Shares" or "ADSs" are to American Depositary Shares, each representing 1,000 preferred shares. The ADSs are evidenced by American Depositary Receipts, or ADRs, issued pursuant to a Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder.

### FORWARD-LOOKING INFORMATION

This annual report includes forward-looking statements, principally in "Item 3. Key Information," including "Risk Factors," "Item 4. Information on the Company," "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 including, among other things:

- general economic, political and business conditions, principally in Latin America, Brazil and the state of Minas Gerais, Brazil, or Minas Gerais;

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- inflation and changes in currency exchange rates;
- changes in volumes and patterns of customer electricity usage;
- competitive conditions in Brazil's electricity generation, transmission and distribution markets;
- our expectations and estimates concerning future financial performance, financing plans and the effects of competition;
- our level of debt;
- the likelihood that we will receive payment in connection with accounts receivable;
- trends in the electricity generation, transmission and distribution industry in Brazil and Minas Gerais;
- changes in rainfall and the water levels in the reservoirs used to run our hydroelectric power generation facilities;

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- our capital expenditure plans;
- our ability to serve our customers on a satisfactory basis;
- existing and future governmental regulation as to electricity rates, electricity usage, competition in our concession area and other matters;
- existing and future policies of the federal government of Brazil, which we refer to as the Federal Government;
- existing and future policies of the government of Minas Gerais, which we refer to as the State Government, including policies affecting its investment in us and the plans of the State Government for future expansion of electricity generation, transmission and distribution in Minas Gerais; and
- other risk factors as set forth under "Item 3. Key Information--Risk Factors."

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

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

The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect" and similar words are intended to identify forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or

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otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

Neither our independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the forward-looking financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and they assume no responsibility for, and disclaim any association with, such forward-looking financial information.

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### PART I

#### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

#### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

#### ITEM 3. KEY INFORMATION

##### SELECTED CONSOLIDATED FINANCIAL DATA

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

The selected consolidated balance sheet data as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002 have been derived from our audited consolidated financial statements and the notes thereto included elsewhere in this annual report. The selected income statement data as of December 31, 2000, 1999 and 1998 and for the years then ended has been derived from our audited consolidated financial statements and notes thereto, which are not included in this annual report.

U.S. dollar amounts in the table below are presented for your convenience. Unless otherwise indicated, these U.S. dollar amounts have been translated from REAIS at R\$3.5400 per US\$1.00, the noon buying rate as of December 31, 2002. However, the REAL has recently experienced high volatility and has appreciated against the U.S. dollar. We cannot guarantee that U.S. dollars can be converted into REAIS, or that REAIS can be converted into U.S. dollars, at the above rate or at any other rate. On June 18, 2003, the noon buying rate for REAIS was R\$2.9070 per U.S.\$1.00. See "--Exchange Rates."

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AS OF AND FOR THE YEAR ENDED D

2002	2002	2001	200
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(US\$) (1) (2) (In millions of R\$ except per share/A

INCOME STATEMENT DATA:

Net Operating revenues			
Electricity sales to final customers ....	1,542	5,458	4,587
Regulatory extraordinary rate adjustment(3) .....	79	281	789
Electricity sales to the interconnected power system .....	45	161	517
Use of basic transmission network .....	52	185	154
Other operating revenues .....	73	260	150
Tax on revenues .....	(416)	(1,473)	(1,191)
Total net operating revenues .....	1,376	4,872	5,006
Operating costs and expenses			
Electricity purchased for resale .....	(377)	(1,333)	(1,914)
Natural gas purchased for resale .....	(43)	(152)	(84)
Use of basic transmission network .....	(84)	(298)	(251)
Depreciation and amortization .....	(188)	(666)	(641)
Personnel .....	(150)	(532)	(531)
Regulatory charges .....	(155)	(548)	(420)
Third-party services .....	(75)	(265)	(216)
Employee post-retirement benefits .....	(58)	(207)	(293)
Materials and supplies .....	(22)	(78)	(70)
Other .....	(67)	(238)	(274)
Provision for loss on deferred regulatory assets .....	(8)	(28)	(150)
Provision for loss on account receivable from State Government .....	-	-	(754)
Total operating costs and expenses .....	(1,227)	(4,345)	(5,598)
Operating income (loss) .....	149	527	(592)
Financial expenses, net .....	(148)	(525)	(48)
Income (loss) before income taxes and minority interests .....	1	2	(640)
Income taxes (expense) benefit .....	(7)	(26)	(78)
Minority Interests .....	3	12	(1)
Net income (loss) .....	(3)	(12)	(719)
Other comprehensive income (loss) .....	68	242	203
Comprehensive income (loss) .....	65	230	(516)
Basic and diluted earnings (loss):			
Per thousand common shares .....	(0.02)	(0.07)	(4.52)
Per thousand preferred shares .....	(0.02)	(0.07)	(4.52)
Per ADS .....	(0.02)	(0.07)	(4.52)

BALANCE SHEET DATA:

Assets			
Current assets .....	483	1,711	1,752
Property, plant and equipment, net (in service) .....	2,633	9,322	9,325
Construction in progress .....	219	777	516
Deferred regulatory assets - long-term ..	472	1,670	1,245
Account receivable from State Government	213	755	451
Other assets .....	263	931	773
Total assets .....	4,284	15,166	14,062
Liabilities			

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Current portion of long-term financing ..	267	946	451
Other current liabilities .....	541	1,916	1,561
Long-term financing .....	732	2,593	2,029
Employee post-retirement benefits .....	359	1,272	1,627
Shareholders' equity .....	2,102	7,442	7,543
Capital stock .....	403	1,428	1,396

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	AS OF AND FOR THE YEAR ENDED D			
	2002	2002	2001	200
	(US\$) (1) (2)	(In millions of R\$ except per share/A		
OTHER DATA:				
Outstanding shares (thousands)				
Common .....	-	70,874,168	69,495,478	69,49
Preferred .....	-	91,210,523	89,436,237	89,43
Dividends per thousand shares				
Common .....	0.58	2.04	0.65	
Preferred .....	0.58	2.04	0.65	
Dividends per ADS				
Preferred .....	0.58	2.04	0.65	
Dividends per thousand shares(4)				
Common .....	-	0.58	0.28	
Preferred .....	-	0.58	0.28	
Dividends per ADS(4)				
Preferred .....	-	0.58	0.28	

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- (1) For purposes of this table, US\$1.00 is equal to R\$3.5400, the noon buying rate as of December 31, 2002. See "--Exchange Rates."
  - (2) In millions, except per share/ADS data.
  - (3) See note 4 to our consolidated financial statements.
  - (4) This information is presented in U.S. dollars at the noon buying rate in effect at the time of the declaration of the dividend.

EXCHANGE RATES

There are two legal exchange markets in Brazil--the commercial rate exchange market, or commercial market, and the floating rate exchange market, or floating market. Although the Federal Government has unified the operational limits applicable to both markets, each market continues to have its own regulations. The commercial market is reserved primarily for foreign trade transactions and transactions that generally require prior registration with and approval from Brazilian monetary authorities, such as the purchase and sale of registered investments by foreign persons and related remittances of funds abroad. Purchases and sales of foreign currencies in the commercial market may be carried out only through a financial institution in Brazil authorized to buy and sell currency in that market. The floating market rate is the prevailing selling rate for Brazilian currency into U.S. dollars, as reported by the BANCO CENTRAL DO BRASIL (the Central Bank of Brazil), or the Central Bank, and applies to transactions that are not covered by the commercial market. Prior to the introduction of the real in 1994, the commercial market rate and the floating market rate differed significantly at times, but the two rates have not differed significantly since. However, there can be no assurance that there will not be



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significant differences between the two rates in the future. Although the commercial market rate and the floating market rate are freely negotiated, they may be influenced by an intervention of the Central Bank.

In the past, the Central Bank maintained a band within which the exchange rate between the REAL and the U.S. dollar fluctuated. Since January 15, 1999, the REAL has been permitted to float freely. During 1999 the REAL experienced high volatility and suffered a sharp decline against the U.S. dollar. During 2000 and 2001 the REAL continued to decline against the U.S. dollar. In 2002, factors including the effect of Argentina's debt default in December 2001 and concerns regarding the recent presidential elections in Brazil caused the REAL to lose a significant percentage of its value as measured against the U.S. dollar. However, the REAL has recently experienced high volatility and has appreciated against the U.S. dollar. Under the current free-floating convertibility exchange system, the REAL may undergo devaluation, or it may appreciate against the U.S. dollar and other currencies.

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The table below sets forth, for the periods indicated, the low, high, average and period-end noon buying rates for REAIS, expressed in REAIS per U.S.\$1.00.

MONTH	REAIS PER US\$1.00			
	LOW	HIGH	AVERAGE	PERIOD-END
December 2002.....	3.4390	3.7950	3.6268	3.5400
January 2003.....	3.2650	3.6590	3.4375	3.5130
February 2003.....	3.5350	3.6640	3.5955	3.5650
March 2003.....	3.3320	3.5700	3.4567	3.3320
April 2003.....	2.8870	3.3290	3.1090	2.8870
May 2003.....	2.8750	3.0340	2.9517	2.9790
June 2003 (through June 18, 2003).....	2.8550	2.9770	2.8952	2.9070

YEAR ENDED DECEMBER 31,	REAIS PER US\$1.00			
	LOW	HIGH	AVERAGE	PERIOD-END
1998.....	1.1160	1.2090	1.1605	1.2085
1999.....	1.2074	2.2000	1.8207	1.8090
2000.....	1.7230	1.9840	1.8301	1.9510
2001.....	1.9380	2.7880	2.3527	2.3120
2002.....	2.2730	3.9450	2.9235	3.5400

Source: Federal Reserve Bank of New York

Exchange rate fluctuations may affect the U.S. dollar amounts received by the holders of ADSs. We will make any distributions with respect to our preferred shares in REAIS and the depositary will convert these distributions into U.S. dollars for payment to the holders of ADSs. Exchange rate fluctuations may also affect the U.S. dollar equivalent of the REAL price of the preferred shares on the Brazilian stock exchange where they are traded. Exchange rate fluctuations may also affect our results of operations. See "--Risk

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Factors--Risks Relating to Brazil--Exchange rate instability may adversely affect our financial condition and results of operations."

### RISK FACTORS

#### RISKS RELATING TO CEMIG

##### WE ARE CONTROLLED BY THE STATE GOVERNMENT

We are controlled by the State Government, which owns 51% of our outstanding common shares. Although the State Government controls us, it has not adopted any laws directly affecting our operations. However, the State Government has the right to vote the majority of our voting common shares, which currently includes the power to:

- elect the majority of our directors; and
- determine the outcome of any action requiring shareholder approval, including transactions with related parties, corporate reorganizations and the timing and amount of any dividends or interest on capital.

Our operations have had and will continue to have an important impact on the development of business, industry and social conditions in Minas Gerais. The State Government has from time to time in the past directed, and may in the future direct, us to engage in certain activities and make certain expenditures designated primarily to promote the social, political or economic goals of the State Government and not necessarily with a view to our profitability. In the event that the State Government

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pursues policies, objectives or strategic directions for us with which you disagree, you and other shareholders will not have the voting power to block these actions and policies.

In addition, while certain constitutional safeguards exist with respect to relations between the State Government and the Federal Government, there can be no assurance that the Federal Government will not take administrative, legislative or other actions that have an adverse impact on the State Government, and in turn on our results of operations.

##### EFFECTIVE CONTROL OF CEMIG IS SUBJECT TO JUDICIAL CHALLENGE

In connection with the purchase in 1997 of approximately 33% of our common shares by Southern Electric Brasil Participacoes Ltda., or Southern, a joint venture, the State Government entered into a shareholders' agreement with Southern, granting Southern control over certain significant corporate decisions. In 1999, the State Government filed a lawsuit seeking to nullify the shareholders' agreement on constitutional grounds. In August 2001, after several rulings and appeals, the Minas Gerais State Court of Appeals ruled that the shareholders' agreement is null and void. However, this ruling has been appealed to a superior court and therefore, effective control of CEMIG remains subject to judicial challenge. As a result, Southern could retroactively challenge the legitimacy of certain decisions taken by our Board of Directors while these legal proceedings are pending. See "Item 8. Financial Information--Legal Proceedings--Shareholders' Agreement" and "Item 10. Additional Information--Material Contracts--Shareholders' Agreement, dated June 18, 1997, between the State Government and Southern."

##### DIFFICULTIES RELATING TO THE RESTRUCTURING OF OUR OPERATIONS COULD ADVERSELY AFFECT OUR BUSINESS

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Historically, we have been a vertically integrated electric power company, combining generation, transmission and distribution operations in one operating entity. However, the concession agreements we signed in 1997 with the Federal Government's DEPARTAMENTO NACIONAL DE AGUAS E ENERGIA ELETRICA (National Department of Water and Electrical Energy), or DNAEE, the predecessor to ANEEL, the agency that regulates the Brazilian energy sector, require us, as well as other vertically integrated electric power companies in Brazil, to separate our generation, transmission and distribution operations into distinct operating units. Pursuant to these concession agreements, we would organize these units into three separate subsidiaries, each wholly owned by CEMIG, and each of which would conduct our previously integrated generation, transmission and distribution operations. See "Item 4. Information on the Company--Organizational Structure and Unbundling." Under the new structure, each operating subsidiary would be required to operate independently and in compliance with rate, service, network and other regulations applicable to its particular business unit. Because we are a state-controlled company, specific state legislation, in addition to shareholder approval, is required in order for us to create these new subsidiaries.

We are unable to predict the effect of this reorganization on our business. Although we believe that the separation of our electric energy business into three separate subsidiaries would allow us to enhance operating strategies and efficiencies, at this time we are not able to estimate the impact of the restructuring on our financial condition and results of operations. In particular, compliance by each subsidiary with market-specific rate, tax and other regulations and the effects of competition in each subsidiary's respective market segment may adversely impact our results of operations in ways that we cannot foresee. For example, we believe that revenue taxes payable by generation and distribution units may, on a consolidated basis, result in higher revenue taxes than we pay currently as an integrated power company.

In 2001, ANEEL imposed a fine of R\$4 million upon us because we did not comply with the restructuring requirements on a timely basis. However, because the restructuring requires approval by our shareholders and specific legislation by the State Government, we believe that we should not be responsible for any non-compliance with the restructuring requirements and, for this reason, we formally

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requested that ANEEL extend for 12 months the unbundling deadline. On September 20, 2001, ANEEL granted us an extension until September 21, 2002 to complete the unbundling process and on October 31, 2001, ANEEL annulled the previously issued fine. We did not meet the September 21, 2002 deadline for completion of the unbundling process and as a result, on November 11, 2002, ANEEL imposed a fine of R\$5.5 million upon us. However, for the reasons set forth above, we believe we should not be responsible for any non-compliance with the restructuring requirements and, for this reason, on November 28, 2002, we appealed ANEEL's fine. For the same reason, we have not recorded any reserve for this fine. Nevertheless, we may be forced to pay this fine as well as additional fines or penalties imposed by ANEEL, which may have an adverse effect on our results of operations.

Notwithstanding the information in the preceding paragraphs, due to public statements by the Federal Government and reports by the media, we expect that the Federal Government will modify the regulatory framework of the energy sector in the near term and, as a result, the restructuring of vertically integrated electric power companies may no longer be required. If the restructuring requirements are eliminated, we would request that ANEEL amend our concession agreements to remove the restructuring clauses and we would terminate our

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restructuring plans. However, no assurance can be given that the Federal Government will so modify the regulatory framework of the energy sector or that we will no longer be required to restructure our operations.

### DELAYS IN THE EXPANSION OF OUR FACILITIES MAY SIGNIFICANTLY INCREASE OUR COSTS

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

- we may experience problems in the construction phase of an expansion project;
- we may face regulatory or legal challenges that delay the initial operation date of an expansion project;
- our new or modified facilities may not operate at designated capacity or may cost more to operate than we expect; and
- we may not be able to obtain adequate working capital to finance our expansion projects.

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

### WE MAY BE ADVERSELY AFFECTED BY THE IMPOSITION AND ENFORCEMENT OF MORE STRINGENT ENVIRONMENTAL REGULATIONS THAT WOULD REQUIRE US TO SPEND ADDITIONAL FUNDS

We are subject to stringent environmental regulations. Changes in environmental regulations, or changes in the policy of enforcement of existing environmental regulations, could adversely affect us. See "Item 4. Information on the Company--Environmental Matters" and "The Brazilian Electricity Sector--Legal and Regulatory Matters--Environmental Regulations" in Annex A.

Our operations are supervised by governmental agencies that are responsible for the implementation of environmental laws and policies. These agencies could take action for our failure to comply with their regulations. These actions could include the imposition of fines and revocation of licenses and concessions. Although changes in Brazilian laws and regulations apply only prospectively

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under Brazilian law, it is possible that the relevant governmental agencies will impose additional regulations or will seek a more stringent interpretation of existing regulations that would require us to spend additional funds on environmental matters.

### BRAZILIAN LAW MIGHT PERMIT CLAIMS AGAINST OUR SHAREHOLDERS FOR DAMAGES WE CAUSE TO THE ENVIRONMENT

Brazilian Federal Law No. 9,605 of February 12, 1998 provides that the corporate structure of a company may be disregarded if that structure impedes recovery of damages for environmental liabilities. Accordingly, we cannot assure you that, in the case of a claim for environmental damages under this law,

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liabilities would not be imposed against our shareholders. Although we are not aware of any successful assertion of claims against shareholders under this law, we cannot give assurance that this will not happen.

### WE ARE CURRENTLY OPERATING WITHOUT INSURANCE POLICIES

Our insurance policies that covered damages to our power plants caused by fire and risks such as equipment failures expired on December 31, 2001, and since that time we have not obtained additional coverage. We are in the process of soliciting bids from insurance carriers for new insurance policies to cover these risks. We also do not have general third party liability insurance covering accidents and have not solicited bids relating to this type of insurance. However, we may contract for this type of insurance in the future. In addition, we have not solicited bids for, nor do we carry, insurance coverage for major catastrophes affecting our facilities such as earthquakes and floods, for business interruption risk or for operating system failures.

Although we have not experienced significant losses arising from our lack of insurance, should losses or other liabilities relating to these risks occur prior to our entry into relevant insurance policies covering these risks, we may incur significant costs. In addition, even after we were to obtain insurance policies for fire and operational risks, we may incur significant unexpected costs relating to liabilities that are not covered by these policies, including consequential damages suffered by our customers as a result of interruptions in power distribution or liabilities that exceed the limits of our insurance coverage. These events could have a material adverse effect on our financial condition and results of operations. See "Item 10. Additional Information--Insurance."

### WE MAY NOT BE ABLE TO COLLECT A SIGNIFICANT RECEIVABLE FROM THE STATE GOVERNMENT

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

After all of our eligible payables and debt to the Federal Government had been offset against our CRC Account balance, we entered into an agreement with the State Government in May 1995 to transfer the obligation to pay the balance of our CRC Account from the Federal Government to the State Government in return for a promissory note from the State Government payable in monthly installments plus interest. The assignment agreement relating to this transfer, referred to as the CRC Account Agreement, requires the State Government to make monthly payments to us over twenty years with an initial three-year grace period for interest and principal payments. Interest on the amount payable under the CRC Account Agreement accrues at a rate of 6% per year plus inflation adjustments. Interest commenced accruing on May 2, 1995, and deferred interest during the initial three-year grace period was capitalized.

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The State Government did not make any payments to us under the CRC Account Agreement in 2001 or 2002 and has not made any payments to date in 2003. In order to address the settlement of these outstanding amounts, we have undertaken

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extensive negotiations with the State Government. To date, these negotiations have resulted in the execution of two amendments to the CRC Account Agreement. These amendments divided the outstanding amounts due into two parts.

One amendment restructures past due amounts with original due dates from April 1, 1999 to December 1, 1999 and from March 1, 2000 to December 1, 2002. We can offset the amounts due under this amendment, which totaled R\$755 million as of December 31, 2002, against payments of dividends and interest on capital that we are required to make to the State Government as our shareholder. As of December 31, 2002, the State Government was entitled to receive approximately R\$50 million of dividends. Of this amount, we have allocated R\$22.5 million to the construction of our Irape power project. See "Item 4. Information on the Company--Generation and Purchase of Electric Power--Expansion of Generation Capacity." We have allocated the remaining R\$27.5 million to offset overdue amounts under this amendment. Because we have not received payment of the amounts due under this amendment, we do not intend to pay these dividends to the State Government.

The other amendment covers installments under the CRC Account Agreement originally due January 1, 2003 through May 1, 2015, representing approximately R\$989 million, adjusted to present value, as of December 31, 2002. Since this amendment did not include any guarantees that would assure the realization of the amounts due thereunder, we recorded a full provision for loss for this asset as of December 31, 2001. See note 3 to our consolidated financial statements. Each of the amendments to the CRC Account Agreement is described more fully under "Item 10. Additional Information--Material Contracts."

We are continuing to negotiate with the State Government and the Federal Government in respect of the receivables due under the CRC Account Agreement; however, given the State Government's history of missing payments under this obligation, no assurance can be given that any of the installment payments under this amendment will be paid when due or at all. Furthermore, no assurance can be given that additional loss provisions in the respect of this receivable will not be recorded in future periods.

### RELATIVELY FEW CUSTOMERS ACCOUNT FOR A DISPROPORTIONATELY LARGE SHARE OF OUR REVENUES

The majority of the energy we sell is purchased by large industrial customers. Our industrial customers are engaged in the steel, non-ferrous metal, ferroalloy, mining, cement and automotive sectors. For the year ended December 31, 2002, our ten largest industrial customers accounted for approximately 10% of our revenues and approximately 19.6% of the total quantity of electricity sold by us. Our industrial customers, in the aggregate, accounted in the year ended December 31, 2002 for approximately 61.5% of our total volume of electrical power sales and approximately 40.6% of our revenues. For more detailed information on our customers, see "Item 4. Information on the Company--Customers and Billing--Customer Base."

While we have long-term contracts with substantially all of our major customers, any disruption in existing customer relationships could have a material adverse effect on our results of operations. For example, it is possible that a number of our large industrial clients may become self-power producers, or SPPs, in order to obtain the right to generate electricity for their own use. In April 2002, our largest industrial client in 2001 became an SPP and has gradually reduced the amount of energy it purchases from us since then. See Item 4. "Information on the Company--Customers and Billing." In addition, when these customers' contracts with us expire, the regulatory system being implemented in the Brazilian electricity sector will allow these customers to contract with other electric utilities, traders or directly with generators provided that such customers can be classified as free customers (those customers that have a demand of 3 MW or more of electricity at voltage levels of

69 kV or more).

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The granting of certain concessions to our large industrial clients and the ability of our large industrial clients to contract with other entities could adversely affect our results of operations. See "The Brazilian Electricity Sector--Legal and Regulatory Matters--Competition" in Annex A. In addition, a slowdown in the manufacturing sector could reduce the energy demands of some of our major industrial customers, which could have a material adverse effect on our results of operations.

OUR REVENUE MAY SUFFER AS A RESULT OF THE INTRODUCTION OF REGULATIONS THAT ENCOURAGE COMPETITION IN THE ENERGY MARKET

In order to permit the gradual introduction of competition into the energy market and to protect market participants from exposure to volatile wholesale spot market prices, in 1998 ANEEL implemented a transition period during which time purchases and sales of energy have been made through regulated contracts, known as initial contracts, with the prices and volumes of such contracts approved by ANEEL. This transition period expires in 2005.

From 2003 to 2005, the volume of electricity allowed to be purchased and sold pursuant to initial contracts will be reduced by 25% per year. The "deregulated" energy will be bought and sold through contracts with terms of six months or more awarded through public auctions, through bilateral contracts with terms of less than six months, and through the MERCADO ATACADISTA DE ENERGIA ELETRICA (Wholesale Energy Spot Market), or MAE. During this period, the total amount of energy bought or sold by a concessionaire through such bilateral contracts and the MAE may not exceed 5% of the electric energy market of such concessionaire in any given month. Accordingly, 95% of the energy we provide to final customers must come from our own generation plants or be purchased under contracts with a term of at least six months that were awarded through public auction. If we purchase energy in excess of this 5% limit from bilateral contracts and the MAE, such energy will be priced at a higher statutory rate.

In addition, our current practice includes delivering electricity produced by our generation plants to our distribution area according to terms equivalent to those contained in initial contracts. We believe that this practice does not violate ANEEL restrictions. However, ANEEL has informed us that because we are considered to be a vertically-integrated utility, we cannot use initial contract terms to deliver electricity that we produce to our distribution business. We are in the process of discussing this further with ANEEL and we do not expect to incur any loss as a result of those discussions. However, ANEEL could force us to stop delivering electricity from our generation plants to our distribution areas. See "The Brazilian Electricity Sector--Legal and Regulatory Matters--Competition" in Annex A.

We cannot assure you that we will be able to produce enough energy and/or enter into enough electricity purchase agreements awarded by public auction to satisfy the 95% requirement mentioned above. In addition, we cannot assure you that the costs associated with any power purchase agreements that we must enter into will be passed on to our customers. As a result, our revenue, net income, financial position and results of operations may suffer.

WE ARE UNCERTAIN AS TO THE RENEWAL OF OUR CONCESSIONS

We carry out our 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 must be awarded through a bidding process. In 1995, in an effort to implement

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these constitutional provisions, the Federal Government adopted certain laws and regulations, known collectively as the Concessions Law, governing such bidding procedures in the electricity sector. In accordance with the Concessions Law, upon application by the concessionaire, existing concessions may be renewed by the Federal Government for additional periods of up to 20 years without being subject to the bidding process, provided that the concessionaire has met minimum performance standards and that the proposal is otherwise acceptable to the Federal Government.

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In light of the degree of discretion granted to the Federal Government by the Concessions Law with respect to renewal of existing concessions, and given the lack of long-standing precedents with respect to the Federal Government's exercise of such discretion and interpretation and application of the Concessions Law, we cannot give you any assurance that additional concessions will not be lost or that concessions will not have to be renewed on terms that may be less favorable than those currently in effect. See "Item 4. Information on the Company--Competition--Concessions" and "The Brazilian Electricity Sector--Legal and Regulatory Matters--Concessions" in Annex A. In addition, it is possible that our large industrial clients that become SPPs may obtain certain concessions for the generation of electric power in a given area, which could adversely affect our results of operations.

### OUR CONCESSIONS MAY BE REVOKED, CANCELLED OR EXPROPRIATED

We carry out our generation, transmission and distribution activities pursuant to concession agreements entered into with the Federal Government. ANEEL may impose any of the following penalties on us in the event that we fail to comply with any provision of our concession agreements:

- fines of up to 2% of our annual gross revenues, depending on the severity of the noncompliance;
- temporary suspension from participating in public bidding processes to obtain new concessions, permissions or authorizations from ANEEL, as well as from contracting with governmental agencies;
- administrative intervention; and
- revocation of our existing concessions.

In addition, a concession agreement may be terminated by ENCAMPACAO (government expropriation) for public interest purposes. In such a case, all assets, rights and privileges transferred to the concessionaire by the Federal Government under the terms of the concession agreement would revert to the Federal Government and the concessionaire would be indemnified to a degree for its investments in such assets.

The Federal Government revoked one concession we formerly held with respect to a generation facility because we had not begun construction of the facility on a timely basis as specified in the concession agreement. In addition, in February 2002, a concession that we were initially awarded in November 2001 with respect to the construction and operation of the Traira II hydroelectric power plant was cancelled by ANEEL because ANEEL claimed that we had not complied with certain conditions to receive the award.

We cannot give you any assurance that our concessions will not be revoked, cancelled, or expropriated. The revocation, cancellation or expropriation of any of our concessions could have an adverse effect on our financial condition, results of operations and business prospects.



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WE ARE UNABLE TO PREDICT THE IMPACT OF A RAPIDLY CHANGING REGULATORY ENVIRONMENT ON OUR BUSINESS AND RESULTS OF OPERATIONS

In recent years, the Federal Government has undertaken policies that have had a far-reaching impact on the Brazilian energy sector and, in particular, the electric power industry and electric power markets. In a sector that was once dominated by Brazilian federal and state-controlled energy companies that maintained proprietary pricing power in what were, essentially, closed markets, ANEEL has adopted policies and regulations designed to encourage privatization of companies in the sector, open market

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pricing, separate vertically integrated generation, transmission and distribution companies, promote competition in the wholesale energy market and facilitate competition in regional and local distribution markets where concessionaires previously had operated on an exclusive basis in their concession markets.

However, we believe that the current Federal Government administration, which was elected in October 2002, may take actions that alter or reverse the trend toward privatization in favor of an increased governmental role in the planning, regulation and operation of the Brazilian electricity sector. Specifically, the Federal Government indicated that it intends to amend certain aspects of the regulatory framework of the energy sector to strengthen the Federal Government's role with respect to implementation of regulatory initiatives and oversight of the sector. Although no official announcement has been made, we expect that an announcement regarding these changes may be made in the second half of 2003. These changes and other regulatory changes might have an adverse effect on our financial condition, future results of operations, cash flows and business prospects.

The Federal Government-mandated electricity rationing program in Brazil from June 1, 2001 to February 28, 2002 resulted in a reduction in our revenues. In late 2001 we entered into an agreement with the Federal Government whereby a special rate adjustment was allowed in order to reimburse us for revenue losses, certain uncontrollable costs referred to as Parcel A costs and the costs of certain transactions on the MAE incurred as a result of the rationing period. In 2001 and 2002 we recorded deferred regulatory assets expected to be recovered up to a maximum of 82 months from January 2002 as a result of this rate increase. This recordation was based on certain assumptions. While we believe these assumptions are conservative, there can be no assurance that these assumptions will ultimately prove to be correct or that we will be able to recover the amount recorded. If we are not able to recover the amount recorded during the 82 month period, we may be required to take an impairment charge in respect of our deferred regulatory assets, which charge would have an adverse effect on our results of operations, cash flows and financial position. See note 4 to our consolidated financial statements.

WE MAY NOT BE ABLE TO COMPLETE OUR PROPOSED CAPITAL EXPENDITURE PROGRAM

We plan to spend approximately R\$3.6 billion during the period from 2003 through 2007 on the construction of new power installations and the refurbishment and maintenance of existing power plants and transmission and distribution systems. Our ability to carry out this capital expenditure program is dependent upon a variety 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 contingencies. In addition, our plans to expand our generation and transmission capacity are subject to the competitive bidding process governed by the Concessions Law. We cannot give you any

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assurance that we will have the financial resources to complete this program.

### DIFFICULTY IN FINANCING OUR CAPITAL REQUIREMENTS COULD LEAD TO SHAREHOLDING DILUTION

We fund our liquidity and capital requirements primarily with cash provided by operations and, to a lesser extent, with proceeds of debt financings. We plan to continue to finance our liquidity and capital requirements in this way in the near future. However, should we experience a reduction in cash provided by operations and/or incur significant additional debt, it may be more difficult to repay such debt and we may be more likely to raise capital through the issuance of additional shares. While we have no current intention to issue additional shares, any future issuance of additional shares could result in dilution to then-existing shareholders.

### WE MAY INCUR LOSSES IN CONNECTION WITH PENDING LITIGATION AND ARBITRATION

We are currently a party to several legal proceedings relating to civil, administrative, environmental, tax and other claims filed against us. These claims involve a wide range of issues and seek substantial amounts of money. Several individual disputes account for a significant part of the total

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amount of claims against us. Our consolidated financial statements include reserves relating to litigation and arbitration totaling R\$245 million as of December 31, 2002 (excluding labor-related matters) for probable and reasonably estimable losses and expenses we may incur in connection with pending litigation. In the event that our legal reserves prove to be insufficient, the payment of litigation claims in an amount in excess of the reserved amounts could have a material adverse effect on us.

### LABOR-RELATED LEGAL CLAIMS, STRIKES AND/OR WORK STOPPAGES COULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS

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

We are currently defending a number of labor-related claims brought by our employees that generally relate to overtime and hazardous occupation compensation. As of December 31, 2002, these employees were seeking, in the aggregate, approximately R\$87.1 million in compensation, and at that date we had accrued a liability of approximately R\$69.7 million with respect to these claims. We are also defending, with FUNDACAO FORLUMINAS DE SEGURIDADE SOCIAL--FORLUZ (the Forluminas Social Security Foundation), or Forluz, the entity responsible for managing our employee pension fund, a claim brought by Sindieletro, the organization representing our employees' labor unions. Sindieletro asserts that we failed to make certain allegedly obligatory cost-of-living increases in contributions to our employee pension funds. As of December 31, 2002, the plaintiff in this action was seeking R\$593.7 million. We have not accrued any liability related to this claim because we believe that we have a meritorious defense. For a more detailed discussion of these and other labor-related proceedings, see "Item 8. Financial Information--Legal Proceedings--Labor and Pension Fund Obligations."

We have not experienced any material labor unrest during the last three years. Nevertheless, our operations might be interrupted by a strike in the future. We do not carry insurance for losses incurred as a result of business interruptions caused by labor action. In the event of a strike, we might face an

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immediate loss of revenue.

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

YOU MAY NOT BE ABLE TO ENFORCE JUDGMENTS AGAINST OUR DIRECTORS OR OFFICERS

All of our directors and officers named in this annual report reside in Brazil. Substantially all of our assets, as well as the assets of these persons, are located in Brazil. As a result, it may not be possible for you 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."

OUR INVESTMENT IN THE TELECOMMUNICATIONS SECTOR MAY NOT HAVE RETURN WE EXPECT

Infovias began operations in January 2001 and its subsidiary WAY TV Belo Horizonte S.A. began operations in 2002. We consider these businesses to be a strategic use of our existing infrastructure. The telecommunications business will require additional investments to be considered complete and competitive. We perform periodic evaluations of Infovias and WAY TV, in order to determine their ability to run their businesses on a stand-alone and profitable basis, as well as to determine the need for an

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impairment reserve for this investment. While currently available projections did not reveal the need for such an impairment reserve, there can be no assurance that our investment will be profitable or that an impairment reserve may not be needed in the future.

RISKS RELATING TO BRAZIL

BRAZILIAN POLITICAL AND ECONOMIC CONDITIONS MAY HAVE AN ADVERSE IMPACT ON OUR BUSINESS AND THE MARKET PRICE OF THE PREFERRED SHARES AND ADSs

The Brazilian economy has been characterized by volatile economic cycles and by frequent and occasionally drastic intervention by the Federal Government. The Federal Government has often changed monetary, taxation, credit, rate and other policies to influence the course of Brazil's economy. For example, the Federal Government has the authority, when a serious imbalance in Brazil's balance of payments occurs, to impose restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil, and on the conversion of Brazilian currency into foreign currencies.

Rapid changes in Brazilian political and economic conditions have in the past and may in the future require continued emphasis on assessing the risks associated with our activities and adjusting our business and operating strategy accordingly. Future developments in the Brazilian economy, or in the policies of the Federal Government and the State Government, over which we have no control, may adversely affect our financial condition or results of operations and impact the market price of the preferred shares and ADSs.

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Brazil's President, Luiz Inacio Lula da Silva, was elected in October 2002 and took office on January 1, 2003. We cannot predict the policies that this new administration may adopt or the effect that those policies may have on Brazilian economic conditions, investor confidence in Brazilian companies, our results of operations and/or the price of the preferred shares and ADSs. The new administration may adopt policies that contribute to the creation of an environment that is perceived to be less favorable to Brazilian business and industrial interests than the environment under former President Fernando Henrique Cardoso.

State Government elections were also held in October 2002 and a new State Government administration was elected. The new State Government administration may also make changes or adopt policies that could undermine investor confidence and have an adverse effect on our business and/or the price of the preferred shares and ADSs.

Accordingly, our business, financial condition and results of operations may be adversely affected by a variety of political and economic factors, including those relating to:

- electricity rates;
  - price controls or rationing of electricity consumption;
  - electricity purchase subsidies for final customers;
  - the adoption of measures to increase competition in exclusive concession areas;
  - exchange controls;
  - currency fluctuations;
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- inflation;
  - price instability;
  - interest rates;
  - increases in our tax burden pursuant to changes in tax policy;
  - policies adopted by the new presidential and state administrations; and
  - other political, diplomatic, social and economic developments in or affecting Brazil.

INFLATION, AND CERTAIN GOVERNMENTAL MEASURES TO CURB INFLATION, MAY CONTRIBUTE SIGNIFICANTLY TO ECONOMIC UNCERTAINTY IN BRAZIL AND MAY HEIGHTEN VOLATILITY IN THE BRAZILIAN SECURITIES MARKET

Historically, Brazil has experienced extremely high rates of inflation. Inflation itself, as well as certain governmental measures to curb inflation, have had in the past significant negative effects on the Brazilian economy and have contributed to heightened volatility in the Brazilian securities market. Except for energy purchases from Itaipu Binacional, or Itaipu, which are denominated in U.S. dollars, and financial expenses relating to loans in foreign currencies, our cash operating expenses are substantially all in REAIS and tend to increase with Brazilian inflation because the cost of wages and other

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operating expenses generally increase according to consumer prices. High inflation generally leads to higher domestic interest rates, and, as a result, our costs of REAL-denominated debt are higher during periods of inflation. In addition, to the extent that the rate of inflation exceeds the increases in rates that we are allowed to charge our customers, our operating margins will be adversely affected. On the other hand, if the rate of inflation in Brazil is lower than the rate of appreciation of the U.S. dollar and other foreign currencies against the REAL, our cost in real terms of paying interest on our foreign currency denominated debt will be higher.

Since the introduction of the REAL in July 1994, Brazil's inflation rate has been substantially lower than in previous periods. Inflation, as measured by the IGP-DI, was 5.25% for the period from January 1, 2003 to May 31, 2003, 26.41% in 2002, 10.4% in 2001, 9.81% in 2000, 19.98% in 1999 and 1.70% in 1998. If Brazil experiences substantial inflation, our operating expenses and borrowing costs may increase, our profit margins may be reduced and, if investor confidence lags, the price of the preferred shares and ADSs may fall. If economic difficulties are provoked by or occur at the same time as inflation, then our revenues may also be negatively affected.

### EXCHANGE RATE INSTABILITY MAY ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Because substantially all of our revenues are denominated in REAIS and we have foreign currency-denominated debt and other liabilities, our results of operations may be adversely affected by devaluation of the REAL against such foreign currencies, including the U.S. dollar. Devaluation of the REAL may produce exchange losses on our debt denominated in foreign currencies. In addition, devaluation may result in additional expense relating to required U.S. dollar-denominated purchases of electricity from Itaipu, one of the largest operating hydroelectric plants in the world jointly developed by the governments of Brazil and Paraguay. See "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

In the past, the Central Bank maintained a band within which the exchange rate between the REAL and the U.S. dollar fluctuated. Since January 15, 1999, the REAL has been permitted to float freely. It is not possible to predict whether the Central Bank will continue to let the REAL float freely. Also, it is not possible to predict what impact the Federal Government's exchange rate policies may have on us. We

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cannot assure you that the Federal Government will not impose the band system or some other exchange rate control system in the future.

The REAL depreciated by approximately 52.27% relative to the U.S. dollar in 2002 due to factors including the effect of Argentina's debt default in December 2001 and concerns regarding the recent presidential elections in Brazil. On January 2, 2002, the noon buying rate for REAIS was R\$2.3100 per U.S.\$1.00. On December 31, 2002, the noon buying rate for REAIS was R\$3.5400 per U.S.\$1.00. However, the REAL has recently experienced high volatility and has appreciated against the U.S. dollar. On June 18, 2003, the noon buying rate for REAIS was R\$2.9070 per U.S.\$1.00. Under the current free-floating currency exchange rate system, there can be no assurance that the REAL will not depreciate or appreciate against the U.S. dollar and other currencies.

Devaluations of the REAL create additional inflationary pressures in Brazil that may negatively affect us. These devaluations may curtail our access to foreign financial markets and may require government intervention, including recessionary government policies. Certain governmental measures to curb

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inflation may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities market. Devaluations also reduce the U.S. dollar value of distributions and dividends on the ADSs and the market price of the preferred shares and ADSs.

### INTEREST RATE INSTABILITY MAY ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

At December 31, 2002, we had approximately R\$3,539 million in loans and financing outstanding, of which approximately R\$2,119 million bore interest at floating rates. See "Item 5. Operating and Financial Review and Prospects--Liquidity and Capital Resources." Interest rates in Brazil historically have been higher than in many other countries. In recent years, interest rates have been used by the Federal Government as a fiscal policy tool to avoid increased inflation and to control demand for foreign currency. Recent economic events in Brazil have resulted in additional Federal Government intervention. Although the Central Bank reduced Brazil's benchmark interest rate to 18.75% on February 20, 2002, to 18.50% on March 20, 2002 and to 18% on July 17, 2002, the Central Bank raised the interest rate to 21% on October 14, 2002, to 22% on November 20, 2002, to 25% on December 18, 2002, to 25.5% on January 22, 2003 and to 26.5% on February 19, 2003. On June 19, 2003, the Central Bank lowered the interest rate to 26.0%.

If interest rates continue to rise significantly, we may be subject to materially higher interest payments on our outstanding floating-rate indebtedness, which may have an adverse impact on our results of operations. See "Item 11. Quantitative and Qualitative Disclosures about Market Risk--Interest Rate Risk."

### DEVELOPMENTS IN OTHER EMERGING MARKETS MAY ADVERSELY AFFECT THE MARKET PRICE OF THE PREFERRED SHARES AND ADSs

The market price of the preferred shares and ADSs may be adversely affected by declines in the international financial markets and world economic conditions. The Brazilian securities market is, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions may differ from country to country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including Brazil. Since the fourth quarter of 1997, the international financial markets have experienced significant volatility and a large number of market indices, including those in Brazil, have declined significantly as a result of the Asian economic crisis and the 1998 Russian debt moratorium and devaluation of the Russian currency.

Currently, the poor economic situation in Argentina, Brazil's major trading partner (which accounted for 4% of Brazil's exports in 2002) represents a significant external risk to the Brazilian

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economy. In particular, we are concerned about Argentina's insolvency, the devaluation of the Argentina peso and its default on its public debt. While we do not have any direct business relationship with Argentina or Argentine companies, to the extent that the Argentine government is unsuccessful in preventing further economic decline, this crisis may produce harmful consequences in the Brazilian economy, potentially reducing demand for electrical energy and affecting our results of operations.

Other instances of economic and political instability in Latin America such as Venezuela's recent political instability and civil unrest, which has had a

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material adverse effect on the Venezuelan economy, may have an adverse affect on the Brazilian economy and on the market price of the preferred shares and the ADSs.

There is a risk that a continuation or worsening of these conditions in Argentina, Venezuela or other emerging markets, or similar future developments in emerging markets, could adversely affect our financial condition and our ability to raise capital when needed and could also undermine investor confidence in securities issued by companies in Latin America, such as the preferred shares and the ADSs, causing their market price to suffer.

CHANGES IN THE RATE-SETTING STRUCTURE APPLICABLE TO BRAZILIAN ELECTRIC UTILITIES, AS WELL AS OTHER ACTIONS BY THE FEDERAL GOVERNMENT, COULD CAUSE OUR NET INCOME TO DECREASE

The rate-setting structure applicable to electric utilities in Brazil has undergone several changes in recent years. Prior to 1993, electric utilities in Brazil were guaranteed a rate of return on investments in assets used to provide electric service and the rates charged to customers were uniform throughout the country. Profits from more profitable utilities were reallocated to less profitable utilities so that the rate of return for all companies would equal the national average. This rate-setting structure was modified in 1993 to require each concessionaire to submit rate proposals to ANEEL covering periods of three years, taking into account various factors such as operating and other costs, depreciation and regulatory charges and taxes. In 1994, the Federal Government, in connection with an economic stabilization plan, made further changes to the rate-setting process. Since July 1995, rates have been set on an annual basis by ANEEL, which makes its determinations on the basis of several factors, including cost of electricity purchased and other charges. Each distribution company's concession agreement also provides for an annual readjustment of rates based on certain charges and costs. See "The Brazilian Electricity Sector--Legal and Regulatory Matters--Rates" in Annex A for a more detailed description of the rate-setting process in Brazil.

There can be no assurance that we will be able to obtain needed rate increases in the future, nor that any rate increases that we actually receive will be sufficient for us to operate at a profit. Furthermore, if the Federal Government makes further changes to Brazil's rate-setting structure that make it more difficult for us to obtain needed rate increases, our results of operations may be adversely affected. In April 2003, the Federal Government, fearing that rate increases may contribute to overall inflation in Brazil, decided to delay until 2004 a rate increase to which we were entitled under ANEEL resolutions. See note 4 to our consolidated financial statements. This rate increase was to have taken effect in April 2003 and was intended to reimburse us for certain uncontrollable costs that are referred to as Parcel A costs. In addition, a portion of the MAE transaction proceeds to which we are entitled under the ACORDO GERAL DO SETOR ELETRICO, or General Agreement of the Electricity Sector, have been retained by other utilities pending the outcome of a lawsuit we have filed against ANEEL and the MAE. See "Item 8. Financial Information---Legal Proceedings--Rate Increases and Regulatory Matters" and "The Brazilian Electricity Sector--Brazilian Electricity System Overview--Federal Government Actions to Reimburse Electric Utilities" in Annex A.

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WE CURRENTLY FACE LIMITATIONS ON OUR ABILITY TO OBTAIN FINANCING

As a state-controlled company, we are subject to restrictions under current laws and regulations in Brazil on our ability to enter into certain international financial transactions. For example, we are required to obtain approval from the Brazilian Ministry of Finance and the Central Bank prior to

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transactions such as bond issuances, loans or export financings when such transactions involve making payments through the purchase of foreign currency in Brazil for remittance abroad. We must follow stringent procedures in order to refinance existing debt obtained from financial institutions. In addition, financial institutions in Brazil are subject to risk exposure restrictions with regard to state governments, governmental agencies and state-controlled companies such as us. The restrictions mentioned in this paragraph have not prevented us from obtaining necessary financing although there can be no assurance that our ability to obtain financing will not be hindered by restrictions in the future.

If we are unable to raise sufficient capital through domestic markets or if we fail to obtain the necessary approval to raise sufficient funds internationally, we may be faced with insufficient cash flows to meet our budgeted capital expenditures, causing our financial results to suffer.

We are also subject to financial covenants contained in some of our debt agreements that require us to maintain certain financial ratios. These ratios are computed based on our financial statements prepared in accordance with accounting practices adopted in Brazil. These and other covenants could limit our ability to support our liquidity and capital resource requirements. We are currently not in compliance with some of these covenants. However, we have obtained waivers from our creditors which affirm that such creditors will not exercise their rights to demand either accelerated or immediate payment of the total amounts due. However, these waivers must be renewed on a quarterly basis and are conditioned upon our continued compliance with certain requirements. We cannot assure you that we will be able to renew these waivers and that in such case the relevant creditors will not accelerate payment. See note 17 to our consolidated financial statements and "Item 13. Defaults, Dividend Arrearages and Delinquencies."

THE EFFECTS OF FEDERAL GOVERNMENT MANDATED POWER RATIONING MAY CONTINUE TO CAUSE OUR NET INCOME TO DECREASE

Low amounts of rainfall in 2000 and early 2001, vigorous growth in demand for energy and Brazil's significant dependence on electricity generated from hydrological resources resulted in abnormally low water levels in many reservoirs that are used to power Brazil's major hydroelectric generation facilities. These factors led to Federal Government mandated power rationing, decreases in electric energy consumption, restrictions on our ability to distribute electricity and, ultimately, a reduction in our revenue and net income in 2001 and 2002. Future power rationing, resulting from low rainfall levels or otherwise, could adversely affect our financial performance in future periods.

The Federal Government mandated rationing was discontinued at the end of February 2002 due to a recovery in water levels at reservoirs that power hydroelectric power generation facilities. However, electrical power consumption following the end of rationing has been sluggish and as a result revenues from our distribution business have not recovered at the level we had anticipated. Currently, there is excess electrical capacity in Brazil's interconnected power system. Such excess capacity may continue to adversely affect our revenues in the coming years.

GOVERNMENTAL MORATORIUMS OR DEFAULTS MAY ADVERSELY AFFECT OUR FINANCIAL CONDITION AND THE MARKET PRICE OF THE PREFERRED SHARES AND ADSs

In January 1999, the State Government, our controlling shareholder, affirmatively suspended its debt repayments to the Federal Government for a period of 90 days, and the Federal Government blocked payments to the State Government in response. The State Government has complied with its payment



obligations to the Federal Government since that time through contractual set-off provisions. In 2001, the State Government threatened to declare a moratorium on its debt payments to the Federal Government but did not act on this threat. As of December 31, 2002, the State Government owed approximately R\$30.1 billion to the Federal Government.

The risks of further default by state and municipal governments in Brazil may undermine investor confidence and have a negative effect on the Brazilian economy or the economy of the relevant region and may adversely affect our financial condition. Also, if the Brazilian economy or the economy of Minas Gerais were to be adversely affected by a default or a protracted dispute between the Federal Government and the State Government regarding political or fiscal matters, our operations and the market price of the preferred shares and ADSs may be adversely affected.

In addition, we have a significant receivable from the State Government, which is described under "--Risks Relating to CEMIG--We may not be able to collect a significant receivable from the State Government." If the Federal Government were to suspend its payments to the State Government, our ability to collect this receivable would be adversely affected and our financial condition could suffer.

TERRORIST ATTACKS AND CERTAIN ACTIONS TAKEN BY THE UNITED STATES OR OTHERS  
COULD ADVERSELY AFFECT GLOBAL ECONOMIC CONDITIONS AND OUR BUSINESS

The terrorist attacks on September 11, 2001 depressed economic activity in the United States and globally, including in Brazil. It is not certain how long these economic conditions will continue. Although the extent of the impact remains unclear, it has already resulted in:

- increased short-term volatility in the market price of securities;
- a significant decline in corporate earnings estimates;
- substantial losses in important industries, including the air transport and insurance industries; and
- a significant erosion of consumer confidence.

If additional terrorist attacks occur, the post-war situation in Iraq worsens or other wars are declared by the United States or others, economic conditions in the United States and internationally are likely to deteriorate. Our business, financial condition and results of operations may be materially and adversely affected as a result of any such actions. These events could also cause the market price of the preferred shares and the ADSs to suffer.

THE PENDING TAX REFORM IN BRAZIL MAY INCREASE OUR TAX BURDEN

The Federal Government has proposed a broad tax reform in Brazil, mainly designed to reduce public deficit through an increase in tax collection. It is expected that the final tax reform bill will be submitted to the Brazilian Congress for approval during 2003, although we cannot assure you that this will occur. We may have a higher tax burden if the tax reform bill is approved and implemented.

RISKS RELATING TO THE PREFERRED SHARES AND ADSs

THE PREFERRED SHARES AND ADSs GENERALLY DO NOT HAVE VOTING RIGHTS

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

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very limited circumstances. This means, among other things, that you, as a preferred shareholder, are not entitled to vote on corporate transactions, including mergers or consolidations of us with other companies.

### EXCHANGE CONTROLS AND RESTRICTIONS ON REMITTANCES ABROAD MAY ADVERSELY AFFECT HOLDERS OF ADSs

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

### EXCHANGING ADSs FOR THE UNDERLYING PREFERRED SHARES MAY HAVE UNFAVORABLE CONSEQUENCES

The Brazilian custodian for the preferred shares must obtain an electronic certificate of registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds related thereto. If you decide to exchange your ADSs for the underlying preferred shares, you will be entitled to continue to rely, for five business days from the date of the exchange, on the depository bank's electronic certificate of registration. Thereafter, you may not be able to obtain and remit U.S. dollars abroad upon the disposition of the preferred shares, or distributions relating to the preferred shares, unless you obtain your own certificate of registration under Resolution No. 2,689 of January 26, 2000, of the Brazilian CONSELHO MONETARIO NACIONAL, or National Monetary Council, which entitles foreign investors to buy and sell on the Brazilian stock exchanges. If you do not obtain this certificate, you will be subject to less favorable tax treatment on gains with respect to the preferred 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 COMISSAO DE VALORES MOBILIARIOS (the Brazilian securities regulatory body), or the CVM. In order to complete this process, the investor will usually need to have a consultant or attorney who has expertise in Central Bank and CVM regulations. Any delay in obtaining this certificate could adversely impact your ability to receive dividends or distributions relating to the preferred shares abroad or the return of your capital in a timely manner. If you decide to exchange your preferred shares back into ADSs once you have registered your investment in the preferred shares, you may deposit your preferred shares with the custodian and rely on the depository bank's certificate of registration, subject to certain conditions. See "Item 10. Additional Information--Taxation--Brazilian Tax Considerations."

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

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be imposed in the future.

### THE RELATIVE VOLATILITY AND ILLIQUIDITY OF THE BRAZILIAN SECURITIES MARKET MAY ADVERSELY AFFECT YOU

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

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

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- 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 preferred shares underlying your ADSs at a price and time at which you wish to do so. The BOLSA DE VALORES DE SAO PAULO -- BOVESPA, or Sao Paulo Stock Exchange, the only stock exchange in Brazil upon which shares are traded, had a market capitalization of approximately US\$124.04 billion as of December 31, 2002 and an average monthly trading volume of approximately US\$4.1 billion for 2002. In comparison, the New York Stock Exchange, Inc., or the NYSE, had a market capitalization of US\$9.74 trillion as of December 31, 2002 and an average monthly trading volume of approximately US\$859.26 billion for 2002.

There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 48.6% of the aggregate market capitalization of the Sao Paulo Stock Exchange as of December 31, 2002. The top ten stocks in terms of trading volume accounted for approximately 56.5% of all shares traded on the Sao Paulo Stock Exchange in 2002. See "Item 9. The Offer and Listing--Trading Market."

### YOU MAY RECEIVE REDUCED DIVIDEND PAYMENTS IF OUR NET INCOME DOES NOT REACH CERTAIN LEVELS

Under the Brazilian Corporate Law and our by-laws, we must pay our shareholders a mandatory distribution equal to at least 25% of our adjusted net income for the preceding fiscal year, with holders of preferred shares having priority of payment. In addition, our by-laws require us to pay holders of our preferred shares annual dividends equal to the greater of 10% of the par value of our shares or 3% of the book value of our shares. If our net income is negative or 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 (other than public and governmental holders) in the event that mandatory distributions were not made for a fiscal year. See "Item 8. Financial Information--Dividend Policy and Payments" for a more detailed discussion.

HOLDERS OF THE ADSs HAVE LESS WELL-DEFINED SHAREHOLDERS' RIGHTS THAN  
HOLDERS OF SHARES IN U.S. COMPANIES

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

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

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### SHARES ELIGIBLE FOR FUTURE SALE MAY ADVERSELY AFFECT THE MARKET PRICE OF THE PREFERRED SHARES AND THE 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 the preferred shares and ADSs. As a consequence of the issuance of new shares or sales by existing shareholders, the market price of the preferred shares and, by extension, the ADSs, may decrease significantly.

### YOU MAY NOT BE ABLE TO EXERCISE PREEMPTIVE RIGHTS WITH RESPECT TO THE PREFERRED SHARES

You may not be able to exercise the preemptive rights relating to the preferred shares underlying your ADSs unless a registration statement under the United States Securities Act of 1933, as amended, or the Securities Act, is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights, and we cannot assure you that we will file any such registration statement. Unless we file a registration statement or an exemption from registration applies, you may receive only the net proceeds from the sale of your preemptive rights by the depository or, if the preemptive rights cannot be sold, they will be allowed to lapse.

### AMENDMENTS TO THE BRAZILIAN CORPORATE LAW MAY NEGATE THE STATE GOVERNMENT'S LIABILITY FOR OUR ADS OBLIGATIONS IN CERTAIN CIRCUMSTANCES

On October 31, 2001, the President of Brazil enacted Law No. 10,303, which amended certain provisions of the Brazilian Corporate Law, including provisions applicable to state-controlled companies like us. Law No. 10,303, which became effective on March 1, 2002, revoked the provision of the Brazilian Corporate Law that provided for contingent liability of controlling shareholders of state-controlled companies for debts. Accordingly, the State of Minas Gerais, as our controlling shareholder, will not be contingently responsible for any of our debts and obligations created after February 28, 2002. Nevertheless, Law No. 10,303 should not relieve controlling shareholders of any liability for obligations incurred prior to the effective date of Law No. 10,303. While we do not believe that Law No. 10,303 will affect the State Government's contingent liability for our obligations relating to the ADSs, there can be no assurance that Brazilian courts will reach the same conclusion.

In addition, pursuant to Law No. 10,303, we are no longer immune from

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FALENCIA (similar to U.S. bankruptcy proceedings). In fact, if we become insolvent, we will be subject, as a debtor, to either CONCORDATA (debt restructuring) or FALENCIA. For more information regarding amendments to the Brazilian Corporate Law, see "Item 10. Additional Information--Amendments to the Brazilian Corporate Law."

### ITEM 4. INFORMATION ON THE COMPANY

#### ORGANIZATION AND HISTORICAL BACKGROUND

We were organized in Minas Gerais on May 22, 1952 as a SOCIEDADE DE ECONOMIA MISTA (a state-controlled mixed capital company) with limited liability and indefinite duration, pursuant to Minas Gerais State Law No. 828 of December 14, 1951 and its implementing regulation, Minas Gerais State Decree 3,710 of February 20, 1952. Our headquarters are located at Avenida Barbacena, 1200, Belo Horizonte, Minas Gerais, Brazil. Our main telephone number is (55-31) 3299-3711.

We are the largest concessionaire of electric power generation, distribution and transmission in Minas Gerais. We operate our generation, transmission and distribution businesses pursuant to concession agreements with the Federal Government. Until 1997, we had individual concessions for each of our generation facilities and for various regions within our distribution area. On July 10, 1997, we entered into new concession agreements with ANEEL that consolidated our various generation concessions into

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one agreement and our several distribution concessions into four distribution concessions covering the northern, southern, eastern and western regions of Minas Gerais. On the same date, we also entered into a new concession agreement with ANEEL with respect to our transmission operations.

At December 31, 2002, we generated electricity at 44 hydroelectric plants, three thermoelectric plants and one wind farm and had a total installed capacity of 5,712 MW. At the same date, we owned and operated 3,019 miles of transmission lines and 215,435 miles of distribution lines. We hold concessions to distribute electricity in 96.7% of the territory of Minas Gerais.

The Brazilian electricity sector is undergoing extensive regulatory restructuring as a result of which our electric generation, transmission and distribution businesses have been and will continue to be subjected to increased competition. For a more detailed description of regulatory changes that we expect to affect our business, see "The Brazilian Electricity Sector--Legal and Regulatory Matters" in Annex A.

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

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

#### BRAZIL'S ENERGY MARKET

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### GENERAL

The Brazilian electricity sector consists primarily of separate generation, transmission, and distribution activities within a few vertically integrated companies traditionally owned by the federal or state governments. During the last four years, many of the state-controlled companies have been privatized in an effort to promote efficiency and competition in the sector. However, we believe that the current Federal Government administration, which was elected in 2002, does not intend to allow the privatization trend to continue in the power sector. See "The Brazilian Electricity Sector--Legal and Regulatory Matters--Privatization" in Annex A.

### REGULATION

The Brazilian electricity industry is regulated by ANEEL. ANEEL's responsibilities include, among others, (i) granting and supervising concessions for electricity generation, transmission and distribution, (ii) establishing regulations for the electricity sector, including the approval of electricity rates, (iii) overseeing and auditing the activities of electric power concessionaires, and (iv) implementing and regulating the use of electricity, in the form of both thermal and hydroelectric power. In order to establish competition and to ensure short-term power supply to the market in Brazil upon deregulation of the power industry, the Federal Government created the MAE, which functions as a clearing house for wholesale electric energy trading transactions.

The electricity industry in Brazil reached a critical point in 2001, as the result of a series of regulatory, meteorological and market-driven problems. The combined effects of growth in demand for electricity, decreased rainfall and Brazil's significant dependence on hydroelectric generating capacity led to shortages of electricity to meet expected demand in certain regions of Brazil. In addition, the MAE had

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a poor performance record due to an inability to resolve commercial disputes. As a result, the Federal Government, effective as of June 2001, implemented the Electricity Rationing Plan. The Electricity Rationing Plan placed significant restrictions on electric power consumption by residential, commercial, industrial and governmental consumers throughout the industrialized Southeast of Brazil, resulting in substantially diminished revenues for a number of electric power concessionaires, including us. The Electricity Rationing Plan was discontinued at the end of February 2002. See "The Brazilian Electricity Sector--Legal and Regulatory Matters--Restrictions and Rationing" in Annex A.

In order to address some of the economic losses experienced by electricity concessionaires in the areas affected by the Electricity Rationing Plan, an industry-wide agreement was reached with ANEEL. This agreement, known as the General Agreement of the Electricity Sector, applies to our generation and distribution businesses. See notes 2(q) and 4 to our consolidated financial statements. The General Agreement of the Electricity Sector seeks to remedy the income losses incurred by both generation and distribution businesses in Brazil as a result of the Electricity Rationing Plan. The General Agreement of the Electricity Sector provides, among other things, that:

- distribution companies are entitled to recover rationing-related losses through an extraordinary consumer rate increase beginning in January 2002 that will be in force for an average period of 72 months;
- thermoelectric power plants dispatched in order to fulfill the

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contractual requirements of the hydroelectric power plants are to be paid at the spot price by the hydroelectric power plant generators (up to a price cap), with final customers paying the difference between the spot price and the allowed price cap through rate increases; and

- distribution companies will use proceeds from the extraordinary rate increase to pay approximately 97% of the amounts originally payable under the initial contracts in order to provide the generation companies with recovery of their contractually allowed revenue amounts.

In addition, the General Agreement of the Electricity Sector provided a resolution to a long-standing regulatory issue related to a portion of the distribution rates known as Parcel A costs. 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. Through the General Agreement of the Electricity Sector, a tracking account was established in order to compensate distribution companies for losses due to variation in Parcel A costs that occurred between regular rate adjustment dates. Parcel A costs include the following: power purchase and transport costs from Itaipu; fuel usage quota costs; charges for the use of the REDE BASICA, or basic transmission network; and certain other regulatory charges. See note 4(b) to our consolidated financial statements. The General Agreement of the Electricity Sector was set forth in Provisional Measure No. 14, dated December 21, 2001, and approved through Law No. 10,438 on April 26, 2002.

For a more detailed discussion of the regulatory environment in which we operate, see "Item 5. Operating and Financial Review and Prospects--Power Rationing and Government Measures to Compensate Electric Utilities" and "The Brazilian Electricity Sector" in Annex A.

### RATES

Electric rates in Brazil are set by ANEEL, which has the authority to readjust and review rates in response to changes in operating costs, cost of capital, market conditions and operating efficiencies realized by distributors over time. Each distribution company's concession agreement also provides for an annual readjustment of rates based on increased costs due to inflation and regulatory charges, the cost of

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electricity purchased for resale, the cost for use of hydroelectric resources and transmission cost. The inflation adjusted cost variation is reduced by a factor called the "X factor." The X factor is the gain obtained by distributors due to market growth over the five year period in which the rates are valid. In the first 5 year period in which the X factor was used, the X factor was zero. In 2003, ANEEL, as part of its rate review, set the new X factor to 1% to be applied until 2008 with up to an additional 1% to be applied depending on our relative position in an annual customer satisfaction survey conducted by ANEEL. In April 2003, ANEEL provided for a 31.53% average increase in the rates that we can charge to our final customers. As discussed above, ANEEL, through the General Agreement of the Electricity Sector, has provided for extraordinary rate increases to compensate distribution companies for losses incurred as a result of the Electricity Rationing Plan.

ANEEL has also issued regulations that govern access to the transmission system and establish transmission rates. The rates to be paid by distribution companies, generators and independent customers for use of the interconnected power system are reviewed annually. The review takes into account the revenues that are permitted of transmission concessionaires pursuant to their concession

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agreements. For more detailed information regarding the rate-setting structure in Brazil, see "The Brazilian Electricity Sector--Legal and Regulatory Matters--Rates" in Annex A.

### CONCESSIONS

Under the Brazilian Constitution, companies seeking to construct or operate a generation, transmission or distribution facility in Brazil are required to apply for an authorization or a concession from ANEEL, which is generally granted through a public bidding process. Concessions grant exclusive rights to generate electricity in a particular plant, and transmit or distribute electricity in a particular area for a specified period of time, generally 35 years for new generation concessions, 30 years for new transmission and distribution concessions, and 20 years for the renewal of existing concessions. For more detailed information regarding concessions, see "The Brazilian Electricity Sector--Legal and Regulatory Matters--Concessions" in Annex A.

### LAND ACQUISITION

The concessions granted to us by the Federal Government do not include a grant of the land upon which the plants are located. Electricity concessionaires in Brazil typically have to negotiate with the individual landowners to obtain needed land. However, in the event that a concessionaire is unable to obtain needed land in this way, such land may be condemned for the concessionaire's use through specific legislation. In cases of governmental condemnation, the concessionaires may have to participate in negotiations relating to the amount of compensation with landowners and the resettlement of communities to other locations. Our resettlement policy has generally resulted in the settlement of condemnation disputes.

### ORGANIZATIONAL STRUCTURE AND UNBUNDLING

Currently, our electricity generation, transmission and distribution operations are vertically integrated into and directly operated by CEMIG. Pursuant to our main concession agreements, however, we are required to restructure our business (after obtaining the necessary legal authorization), resulting in the "unbundling" of our generation, transmission and distribution operations into separate subsidiaries, each wholly owned by CEMIG. Because the State Government is our majority shareholder, state legislation approving the restructuring must be adopted (in addition to the shareholder approval that must be obtained) before the unbundling takes place. On March 2, 2001, a bill was submitted to the Minas Gerais legislature proposing the restructuring, but this legislation has not yet been approved.

This unbundling process would result in a new organizational structure in which each of our generation, transmission and distribution businesses would conduct its operations as a separate, wholly

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owned subsidiary of CEMIG. Each of these newly created companies would be organized under the laws of Brazil. Because each subsidiary would be wholly owned by us, our shareholders' effective voting power with respect to these new subsidiaries would remain, in each case, proportional to the voting power held by such shareholders in CEMIG. In December 2000, ANEEL agreed with the general terms of our plan to restructure our three major activities into one generation company, one transmission company and one distribution company.

Because we did not complete the reorganization process prior to the end of the year 2000 as stipulated in our concession agreement, ANEEL fined us in the amount of R\$4 million. However, we formally requested that ANEEL extend for 12



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months the unbundling deadline and, on September 20, 2001, ANEEL granted us an extension until September 21, 2002 to complete the unbundling process. On October 31, 2001, ANEEL annulled the previously issued fine. We did not meet the September 21, 2002 deadline for completion of the unbundling process and as a result, on November 11, 2002, ANEEL imposed a fine of R\$5.5 million upon us. However, on November 28, 2002, we appealed ANEEL's fine because the restructuring requires specific legislation by the State Government (in addition to the shareholder approval that must be obtained) and, as such, we believe we should not be responsible for any non-compliance with the restructuring requirements or any fines or penalties associated therewith.

Notwithstanding the information in the preceding paragraphs, due to recent public statements by the Federal Government that were reported by the news media, we expect that the Federal Government will modify the regulatory framework of the energy sector in the near term and that, as a result, the restructuring of vertically integrated electric power companies may no longer be required. If the restructuring requirements are eliminated, we would request that ANEEL amend our concession agreements to remove the restructuring clauses and we would terminate our restructuring plans. See "Risk Factors--Risks Relating to CEMIG--Difficulties relating to the restructuring of our operations could adversely affect our business."

### BUSINESS OVERVIEW

#### GENERAL

During 2002, we generated at our own plants approximately 57% of the aggregate amount of energy sold by us to final customers and lost due to technical and non-technical reasons, and we purchased the balance from third parties. We are required, like other Brazilian electric utilities, to purchase electricity from Itaipu in an amount determined by the Federal Government based on our electricity sales. See "--Generation and Purchase of Electric Power--Purchase of Electric Power--Itaipu." In addition, we purchase energy from other concessionaires and the interconnected power system. See "--Generation and Purchase of Electric Power--Purchase of Electric Power--Interconnected Power System." We also purchase energy generated by SPPs and independent power producers, or IPPs, that are located within our concession area. As part of our distribution activity, we deliver the energy that we purchase from the aforementioned sources to our final customers and the interconnected power system. We also deliver energy generated by the SPPs and IPPs at their own facilities.

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

	YEAR ENDED DECEMBER 31		
	2002	2001	2000
Electricity generated by CEMIG.....	21,608	18,957	3
Electricity generated by SPPs.....	1,234	1,003	
Electricity generated by Ipatinga(1).....	348	344	
Electricity generated by Sa Carvalho(2).....	425	325	
Electricity purchased from Itaipu.....	12,735	11,935	1
Electricity purchased from the interconnected			

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power system and other concessionaires.....	13,022	14,420
Electricity delivered to final customers.....	34,862	34,279
Electricity delivered to SPPs.....	1,323	1,323
Electricity delivered to Ipatinga(1).....	348	344
Electricity delivered to Sa Carvalho(2).....	425	325
Electricity delivered to the interconnected power system and other concessionaires.....	7,863	7,120
Losses(3).....	4,551	3,593

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- (1) This refers to Usina Termica Ipatinga S.A. See "--Generation and Purchase of Electric Power--Generation Subsidiaries."
- (2) This refers to Sa Carvalho S.A. See "--Generation and Purchase of Electric Power--Generation Subsidiaries."
- (3) Energy losses are cumulative for the periods ending on the dates specified and occur primarily in the ordinary course of transmission and distribution of electric energy and, to a lesser extent, as a result of illegal connections and for other reasons. See "--Energy Losses."

### GENERATION

At December 31, 2002, we were the sixth largest electric power generation concessionaire in Brazil as measured by total installed capacity. At December 31, 2002, we generated electricity at 44 hydroelectric plants, three thermoelectric plants and one wind farm and had a total installed generation capacity of 5,712 MW, of which hydroelectric plants accounted for 5,540 MW, thermoelectric plants accounted for 171 MW and our wind farm accounted for 1 MW. Seven of our hydroelectric plants accounted for approximately 87% of our installed electric generation capacity in 2002. We supplied approximately 97% of the electricity consumed in Minas Gerais during 2002. During the year ended December 31, 2002, we generated approximately 57% of the aggregate amount of electricity we delivered to final customers and lost due to technical and non-technical reasons. See "--Energy Losses."

### 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 customers. We transport energy produced at our own generation facilities as well as energy that we purchase from Itaipu, the interconnected power system and other concessionaires. Our transmission network is comprised of power transmission lines with a voltage capacity equal to or greater than 230 kV and is part of the national transmission grid regulated by the OPERADOR NACIONAL DO SISTEMA (National System Operator), or ONS. See "The Brazilian Electricity Sector--Legal and Regulatory Matters--Regulatory Agencies" in Annex A. As of December 31, 2002, our transmission network in Minas Gerais consisted of 1,352 miles of 500 kV lines, 1,201 miles of 345 kV lines and 466 miles of 230 kV lines, as well as 30 substations with a total of 89 transformers and an aggregate transformation capacity of 14,563 MVA.

### DISTRIBUTION

We have an exclusive distribution concession in Minas Gerais for customers that demand less than 3 MW of electricity at voltage levels lower than 69 kV. Our concession area covers approximately 219,103 square miles, or 96.7% of the territory of the state. As of December 31, 2002, we owned and operated 215,435 miles of distribution lines, through which we supplied electricity to nearly 5.6 million

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customers. At December 31, 2002, we were the largest electricity distribution concessionaire in Brazil in terms of GWh sold to final customers. Of the electricity we supplied to end users as of December 31, 2002, 61.5% was to industrial customers, 17.9% was to residential customers, 9.2% was to commercial customers and 11.4% was to rural and other customers.

### OTHER BUSINESSES

While our main business consists of the generation, transmission and distribution of electric power, we also engage in the business of distributing natural gas in Minas Gerais through our consolidated, majority-owned subsidiary Gasmig. We also engage in the telecommunications business through our consolidated subsidiary Infovias, a company created for the purpose of providing a fiber-optic and coaxial cable network installed along our transmission and distribution lines through which telecommunication services can be provided. We are also engaged in the international consulting business and count several electric utilities in foreign countries as clients in this area.

### REVENUE SOURCES

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

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Electricity sales to final customers .....	5,458	4,587	4,478
Regulatory extraordinary rate adjustment ....	281	789	--
Electricity sales to the interconnected power system .....	161	517	145
Use of basic transmission network .....	185	154	139
Natural gas sales .....	200	116	80
Services rendered .....	23	24	38
Telecommunication and other .....	37	10	6
	-----	-----	-----
Total .....	6,345	6,197	4,886
	=====	=====	=====

### GENERATION AND PURCHASE OF ELECTRIC POWER

#### GENERATION

At December 31, 2002, we owned and operated, with our subsidiaries, 48 power plants, 44 of which were hydroelectric, three of which were thermoelectric and one of which was a wind farm. At the same date, the installed capacity of our hydroelectric plants, our thermoelectric plants and our wind farm was 5,540 MW, 171 MW and 1 MW, respectively, comprising an aggregate installed capacity of 5,712 MW.

The following table sets forth certain operating information concerning our electric power generation plants as of December 31, 2002:

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FACILITY	INSTALLED CAPACITY (MW)	ASSURED ENERGY (1) (AVERAGE MW)	YEAR COMMENCED OPERATIONS	INSTALLED CAPACITY % OF TOTAL
Major Hydroelectric Plants				
Sao Simao .....	1,710	1,207.00	1978	29.6
Emborcacao .....	1,192	559.00	1982	20.7
Nova Ponte .....	510	301.00	1994	8.8
Jaguara .....	424	329.00	1971	7.4
Miranda .....	408	180.00	1998	7.1
Tres Marias .....	396	243.00	1962	6.9
Volta Grande .....	380	250.00	1974	6.6
Salto Grande .....	102	71.00	1956	1.7
Sa Carvalho .....	78	58.00	2000 (2)	1.4
Itutinga .....	52	27.00	1955	0.9
Camargos .....	46	17.00	1960	0.8
Porto Estrela .....	37 (3)	18.60 (3)	2001	0.7
Igarapava .....	30 (4)	18.31 (4)	1999	0.5
Funil .....	29 (5)	15.00 (5)	2002	1.5
Piau .....	18	8.00	1955 (2)	0.3
Gafanhoto .....	14	6.68	1946	0.2
Smaller Hydroelectric Plants .....	114	61.80	-	2.0
Thermoelectric Plants				
Igarape .....	131	93.00	1978	2.3
Ipatinga .....	40	-	2000	0.7
Formoso .....	0.4	0.22	1992	0.0
Wind Farm .....	1	0.30	1994	0.0
Total .....	<u>5,712</u>	<u>3,463.91</u>	-	<u>100.0</u>

(1) Assured Energy is the plant's long-term average output, as established by ANEEL in accordance with studies conducted by the ONS. Calculation of Assured Energy considers such factors as reservoir capacity and connection to other power plants. Contracts w