

FIRST COMMONWEALTH FINANCIAL CORP /PA/  
Form DEF 14A  
March 19, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**  
**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to 167;240.14a-12

**First Commonwealth Financial Corporation**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**FIRST COMMONWEALTH FINANCIAL CORPORATION**

601 Philadelphia Street

Indiana, Pennsylvania 15701

**Notice of 2015 Annual Meeting of Shareholders**

To Our Shareholders:

The 2015 Annual Meeting of Shareholders of First Commonwealth Financial Corporation will be held at First Commonwealth Place, 654 Philadelphia Street, Indiana, Pennsylvania 15701 on Tuesday, April 28, 2015, beginning at 3:00 p.m., Eastern Time, to consider and vote on the following matters:

1. Electing to our Board of Directors the twelve (12) nominees who are named in the enclosed proxy statement to serve until the next annual meeting and until their successors are elected and qualified;
2. Ratifying the Audit Committee's selection of KPMG LLP as our independent registered public accounting firm for 2015;
3. Approving a non-binding advisory vote on the compensation of our named executive officers;
4. Approval of an amended and restated Incentive Compensation Plan; and
5. Such other business as may properly come before the meeting.

The record date for the meeting was March 6, 2015. We sent shareholders of record as of the close of business on the record date a Notice of Internet Availability of Proxy Materials on or about March 19, 2015. Instructions on how to receive a printed copy of our proxy materials are included in the notice.

**Whether or not you plan to attend the meeting in person, please sign, date and return the enclosed proxy card as promptly as possible so that your shares will be represented at the meeting.**

March 19, 2015

By Order of the Board of Directors,

Matthew C. Tomb

Secretary

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**PROXY STATEMENT FOR THE  
FIRST COMMONWEALTH FINANCIAL CORPORATION  
2015 ANNUAL MEETING OF SHAREHOLDERS**

We are sending this proxy statement and the accompanying proxy card to you as a shareholder of First Commonwealth Financial Corporation, in connection with the solicitation of proxies for the Annual Meeting of Shareholders (the Annual Meeting) to be held at First Commonwealth Place, 654 Philadelphia Street, Indiana, Pennsylvania 15701, on Tuesday, April 28, 2015, at 3:00 p.m., local time.

First Commonwealth's Board of Directors is soliciting proxies for use at the Annual Meeting, or at any postponement or adjournment thereof. Only shareholders of record as of the close of business on March 6, 2015, which we refer to as the record date, will be entitled to vote at the Annual Meeting.

In this proxy statement, the Company, First Commonwealth, we, our or us all refer to First Commonwealth Financial Corporation and its subsidiaries. We also refer to the Board of Directors of First Commonwealth Financial Corporation as the Board.

**PROXY SUMMARY**

Here we present an overview of information that you will find throughout this proxy statement. As this is only a summary, we encourage you to read the entire proxy statement for more information about these topics prior to voting.

**ANNUAL MEETING**

Time and Date:	3:00 p.m., EST, Tuesday, April 28, 2015
Place:	First Commonwealth Place 654 Philadelphia Street Indiana, Pennsylvania 15701
Record Date:	Close of business on March 6, 2015
How to Vote:	By Internet, Telephone or Mail. Refer to the Notice of Availability of Proxy Materials and the proxy card for instructions.

**SHAREHOLDER VOTING MATTERS**

<b>Proposal</b>	<b>Board's Voting Recommendation</b>	<b>Page Reference</b>
1. Election of Directors	FOR all nominees	14 to 17



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2. Ratification of Independent Accounting Firm	FOR	18 to 20
3. Advisory Vote on Executive Compensation	FOR	20 to 49
4. Approval of Amended and Restated Incentive Compensation Plan	FOR	50 to 65

**Table of Contents****OUR DIRECTOR NOMINEES**

You are being asked to vote on the election of the twelve (12) directors listed below. Detailed information about each director's background, skills and expertise can be found under Proposal 1 Election of Directors.

**Committee Memberships****Name****Current Position**

James G. Barone

Retired Executive Vice President of	67	2013	YES		1	1
-------------------------------------	----	------	-----	--	---	---

S&amp;T Bancorp, Inc.

Julie A. Caponi

53	2007	YES	Chair	1		
----	------	-----	-------	---	--	--

Assistant Treasurer of Alcoa Inc.

Ray T. Charley

63	1998	YES		1	1	
----	------	-----	--	---	---	--

Chief Executive Officer of Thomi Co.

Gary R. Claus

62	2011	YES	1		1	
----	------	-----	---	--	---	--

Retired Partner of PWC

David S. Dahlmann

65	1998	YES			Chair	1
----	------	-----	--	--	-------	---

Financial Corporation

Johnston A. Glass

65	1986	YES			1	Chair
----	------	-----	--	--	---	-------

First Commonwealth Bank

Jon L. Gorney

64	2013	YES			1	
----	------	-----	--	--	---	--

National City Corporation

David W. Greenfield

64	2010	YES		1	1	
----	------	-----	--	---	---	--

Retired General Counsel of

Kennametal, Inc.  
 Luke A. Latimer

Executive Vice President of	38	2011	YES	1	1
-----------------------------	----	------	-----	---	---

R&L Development, Inc.  
 T. Michael Price

President and CEO of First	52	2012	NO		
----------------------------	----	------	----	--	--

Commonwealth Financial Corporation  
 Laurie Stern Singer

Consultant; Former President of	63	1998	YES	1	Chair
---------------------------------	----	------	-----	---	-------

Allegheny Valley Development Co.  
 Robert J. Ventura

Executive Managing Director of	64	2004	YES	1	Chair
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Ventura Group LLC

\* The Credit Committee is a Committee of the Board of Directors of our subsidiary bank.

**Table of Contents****CORPORATE GOVERNANCE FACTS**

We recognize that corporate governance is the foundation of sustainable growth. Our governance policies and structures, summarized in the table below, are designed to promote thoughtful consideration of business actions and appropriate risk taking, with the goal of producing strong business results for our shareholders.

**Board and Governance Information**

Size of Board	13*
Number of Independent Directors	12
Average Age of Directors	61
Board Meetings held in 2014	14
Annual Election of Directors	Yes
Mandatory Retirement Age	75
Separate Chair and CEO	Yes
Independent Directors Meet Without Management Present	Yes
Annual Board and Committee Evaluations	Yes
Board Orientation and Continuing Education Program	Yes
Board Risk Committee	Yes

Codes of Conduct for Directors, Officers and Employees

Yes

Stock Ownership Guidelines for Directors and Executive Officers

Yes

Anti-Hedging and Pledging Policies

Yes

Recoupment ( Clawback ) Policy

Yes

\* The size of the Board will be reduced to 12 directors upon the election of directors at the annual meeting.

**Table of Contents****STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The following table sets forth certain information concerning the persons known by us to be the beneficial owners of more than 5% of the outstanding shares of our common stock.

<b>Name and Address</b>	<b>Number of Shares</b>	
	<b>Beneficially Owned</b>	<b>Percentage of Class</b>
BlackRock, Inc. 55 East 52nd Street New York, NY 10022	8,173,853 <sup>(1)</sup>	8.9%
Dimensional Fund Advisors LP Palisades West, Building One 6300 Bee Cave Road Austin, Texas 78746	7,438,956 <sup>(2)</sup>	8.11%
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	6,800,603 <sup>(3)</sup>	7.41%

(1) Based on the information provided pursuant to a statement on Schedule 13G filed with the SEC on January 22, 2015 by BlackRock, Inc. reporting the holdings of BlackRock, Inc. and its subsidiaries as of December 31, 2014. According to the Schedule 13G, BlackRock, Inc. or its subsidiaries held sole voting power with respect to 7,930,720 shares and sole dispositive power over all of the reported shares.

(2) Based on information provided pursuant to a statement on Schedule 13G filed with the SEC on February 5, 2015 by Dimensional Fund Advisors LP reporting holdings, as of December 31, 2014, of certain funds to which Dimensional Fund Advisors LP furnishes investment advice. Dimensional Fund Advisors LP disclaims beneficial ownership of the reported shares. According to the Schedule 13G, Dimensional Fund Advisors LP held sole voting power over 7,100,668 shares and sole dispositive power over all of the reported shares.

(3) Based on information provided pursuant to a statement on Schedule 13G filed with the SEC on February 10, 2015 by The Vanguard Group, Inc. reporting the holdings of The Vanguard Group, Inc. and its subsidiaries as

of December 31, 2014. According to the Schedule 13G, The Vanguard Group, Inc. held sole voting power over 135,305 shares, sole dispositive power over 6,675,698 shares and shared dispositive power over 124,905 shares.

**Table of Contents****STOCK OWNERSHIP OF DIRECTORS AND MANAGEMENT**

The following table sets forth certain information as of the March 6, 2015 record date with respect to beneficial ownership of our common stock by: (i) each director and nominee; (ii) each Named Executive Officer ( NEO ) listed in the table entitled Summary Compensation Table under the section of this proxy statement entitled Executive Compensation, and (iii) all directors and executive officers as a group. As of the record date, there were 90,487,377 shares of common stock outstanding. Unless otherwise indicated, all persons named as beneficial owners of the Company's common stock have sole voting power and sole investment power with respect to the shares indicated as beneficially owned.

Name of Beneficial Owner	Shares	
	Beneficially Owned	Percentage Owned (2)
James G. Barone	19,918	*
Julie A. Caponi	32,165	*
Ray T. Charley	283,065 (1)	*
Gary R. Claus	22,232	*
David S. Dahlmann	52,862	*
I. Robert Emmerich	47,465	*
Johnston A. Glass	78,373	*
Jon L. Gorney	10,613	*
Jane Grebenc	51,231	*
David W. Greenfield	21,688	*
Luke A. Latimer	321,767 (2)	*
Norman J. Montgomery	47,839	*
James W. Newill	353,384 (3)	*
T. Michael Price	217,228	*
James R. Reske	30,114	*
Robert E. Rout	69,665 (4)	*
Laurie S. Singer	44,002 (5)	*
Robert J. Ventura	36,877	*
All directors and executive officers as a group (21 persons)	1,808,621	2.00%

\* Less than 1%

(1) Includes 18,000 shares held in a family trust of which Mr. Charley is a trustee and 213,861 shares held in a family trust of which Mr. Charley is a trustee.



- (2) Includes 205,000 shares held by Berkshire Securities Corporation for which Mr. Latimer is deemed to share voting and investment power in his capacity as a Director of Berkshire Securities Corporation.
- (3) Includes 32,144 shares held by family trusts over which Mr. Newill is sole trustee and has sole voting and investment power.
- (4) Mr. Rout retired as Chief Financial Officer in May 2014. The table reflects the most current information available to the Company regarding shares owned by Mr. Rout.
- (5) Does not include 4,100 shares held in a trust for Ms. Singer's spouse as to which Ms. Singer disclaims beneficial ownership.

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**CORPORATE GOVERNANCE**

The Board of Directors is responsible for overseeing the management of the Company's business and affairs. The Board measures the effectiveness of its oversight using a balanced scorecard which is comprised of three themes:

**Leadership and Accountability** – the Board's responsibility for appointing and retaining strong and qualified leaders and holding those leaders accountable for corporate performance;

**Strategic Direction and Execution** – the Board's responsibility to approve the Company's strategy and oversee its execution by management; and

**Risk Oversight** – the Board's responsibility to establish the Company's risk appetite and ensure that the Company's strategies and risk management practices are aligned with the risk appetite.

Sound corporate governance provides the foundation which enables the Board to effectively carry out these responsibilities. This section discusses First Commonwealth's corporate governance policies and practices, as well as the composition of the Board and its standing committees.

**Corporate Governance Policies**

The Board of Directors has adopted Corporate Governance Guidelines which codify our corporate governance policies and reflect our commitment to following corporate governance best practices. Below is a summary of the significant guidelines that we follow.

*Separation of Chairman and CEO.* We believe that the roles of Chairman of the Board and Chief Executive Officer should be held by separate persons and that the Chairman of the Board should be an independent director. This separation establishes an appropriate division of the Board's oversight role from the management responsibilities of the officers and employees of the Company. Consistent with this principle, our current Chairman, David S. Dahlmann, is a non-executive independent director.

*Director Independence.* We believe that all directors other than the Chief Executive Officer should be independent from management. All of our directors other than the Chief Executive Officer currently satisfy the independence requirements of the New York Stock Exchange ( NYSE ), as described below under Independence of Directors.

*Executive Sessions.* Our Board and committees regularly meet in executive session without management present, and our non-management directors meet regularly without the Chief Executive Officer. This enables directors to provide candid feedback, raise concerns and discuss sensitive or confidential matters. Our Chairman, David S. Dahlmann, has also been designated as our Lead Director to preside at meetings of the non-management directors.

*Stock Ownership.* We believe that directors should hold a meaningful investment in the Company's stock to ensure that their interests are aligned with our shareholders. Our guidelines require that all directors own shares having a value of at least \$120,000 (five times



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the annual cash retainer) or 25,000 shares, whichever is less. This guideline must be met within five years of a director's initial election to the Board. Directors receive 50% of their annual retainer in shares of Company stock; however, directors who own at least 50,000 shares may elect to receive their entire retainer in cash.

*Director Orientation and Education.* All new directors and committee members receive orientation to learn about the Company and its strategic plans, significant financial, regulatory, accounting and risk management matters and policies and compliance programs. Our current directors regularly participate in continuing education to maintain the skills necessary to perform their duties and responsibilities and to keep abreast of industry trends, legal and regulatory developments and corporate governance practices.

*Performance Evaluations.* Our Board and committees regularly evaluate and discuss their performance. In addition, our Board performs a peer evaluation from time to time to provide directors with a confidential forum to assess and provide candid feedback regarding their own performance and the performance of fellow directors. The Board and its committees use the results of these evaluations to identify opportunities to enhance performance and topics for director continuing education.

*Retirement Age.* We have established a mandatory retirement age of 75 for our directors. No candidate may be nominated for election as a director if he or she would be age 75 or older at the time of the election.

*Meeting Frequency and Attendance.* Directors are expected to attend Board meetings and meetings of committees on which they serve and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Last year, our Board met fourteen times. All of our directors attended at least 75% of the total number of meetings of the Board and all committees of which they were members.

*Annual Meeting Attendance.* The annual meeting provides a valuable opportunity for shareholders to meet and interact with our directors. All directors are expected to attend the annual meeting in the absence of an unavoidable conflict. Last year all of our current directors attended the annual meeting.

## **Composition and Diversity of the Board**

We believe that our Board should generally consist of between 10 and 15 directors. This range permits diversity of experience and sharing of Board and committee responsibilities without hindering effective discussion. However, the Board may increase its membership beyond 15 to accommodate an exceptional candidate or operate with fewer than 10 directors if a vacancy arises.

We believe that effective oversight requires that the Board possess a diversity of perspectives, backgrounds and skills. The Governance Committee considers the diversity of the professional experience, education, expertise, viewpoints, background and other demographics when evaluating the current composition of the Board and the need for

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additional directors and when identifying and evaluating director nominees. The Governance Committee is also guided by a set of criteria that has been approved by the Board of Directors. Under these criteria, a director candidate should:

possess a sustained record of high achievement in financial services, business, industry, government, academia, the professions, or civic, charitable or non-profit organizations;

have a reputation for integrity, honesty and adherence to high ethical standards and personal qualities that will help to sustain an atmosphere of mutual respect and collegiality among the members of the Board;

have the strength of character necessary to challenge management's recommendations and actions when appropriate and to confirm the adequacy and completeness of management's responses to such challenges to his or her satisfaction;

understand or demonstrate a commitment to understand First Commonwealth, including our strategic vision, our mix of businesses and our approach to regulatory relations and risk management;

have a commitment and sufficient time to devote to our affairs, including regularly attending and participating in meetings of the Board and at least one standing committee; and

not have, nor appear to have, a conflict of interest that would impair his or her ability to represent the interests of our shareholders and to fulfill the responsibilities of a director.

When assessing each current director for possible nomination and re-election, the Governance Committee considers all of the criteria listed above, as well as the needs of the Board, the independence of the director, the director's meeting attendance and participation, and the value of the director's contributions to the effectiveness of our Board and its committees.

## **Independence of Directors**

The rules of the NYSE require that at least a majority of our Board of Directors be comprised of independent directors. Our Corporate Governance Guidelines require that all directors other than the Chief Executive Officer must meet the independence standards established by the NYSE.

The Board reviews all relationships between the Company and its directors at least once per year and assesses each director's independence annually using the NYSE independence standards. The Board has determined that a director may be independent even if he or she has business relationships with First Commonwealth or one of its affiliates, as long as, in the Board's business judgment:

any transaction involving the director is entered into in the ordinary course of business and on substantially the same terms as those prevailing at the time for comparable transactions with other persons;

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the relationship complies with all applicable laws and regulations; and

the relationship would not interfere with the director's exercise of judgment independent from management of First Commonwealth.

Based upon these criteria, the Board has determined that directors Barone, Caponi, Charley, Claus, Dahlmann, Gorney, Glass, Greenfield, Latimer, Singer and Ventura are independent.

When evaluating the independence of Mr. Latimer, the Board considered the lease transaction between First Commonwealth Bank and SML Limited Partnership described below under the heading Related Party Transactions, and concluded that the transaction did not impact the independence of Mr. Latimer, because the amount paid to SML Limited Partnership during 2014 fell below the quantitative limits established by the NYSE rules and was not otherwise material to Mr. Latimer or First Commonwealth.

## **Oversight of Risk**

The Board of Directors actively oversees the risk management practices employed by First Commonwealth and its management team. The Board receives regular reports from our Chief Risk Officer regarding material risk exposures and the actions taken to monitor and mitigate those risks. In addition, senior management updates the Board at its regular meetings regarding trends and developments for credit, market, liquidity, compliance, reputation, operational and strategic risk. Our Risk Committee provides risk oversight for the Board as a dedicated forum to review and discuss risks and risk management policies and practices. In addition, the Credit Committee of the First Commonwealth Bank Board of Directors oversees the Bank's lending operations and the quality and performance of its loan portfolios.

## **Audit Committee**

The Audit Committee is comprised of Julie A. Caponi (Chair), Gary R. Claus, Laurie S. Singer and Robert J. Ventura, each of whom is an independent director under our Guidelines and the NYSE and Securities and Exchange Commission (SEC) standards. The primary responsibilities of the Audit Committee are to monitor the integrity of our financial statements, select and oversee our independent registered public accounting firm, oversee our internal audit process, monitor our compliance with legal and regulatory requirements, including the receipt and resolution of complaints concerning accounting, internal controls and auditing matters, and review and discuss major financial risk exposures with management and steps taken to monitor and control those exposures, including risk assessments and risk management policies. Each member of the Audit Committee is financially literate, and our Board has determined that Directors Caponi and Claus qualify as audit committee financial experts as defined by the rules of the SEC. The Audit Committee met eight times in 2014. A report of the Audit Committee follows on page 18.

## **Compensation and Human Resources Committee**

The Compensation and Human Resources Committee is comprised of Robert J. Ventura (Chair), Julie A. Caponi, Ray T. Charley, Gary R. Claus and David W. Greenfield. The primary responsibilities of the Compensation and Human Resources Committee are to review and determine the compensation of the CEO and other executive officers, lead the annual review

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of the performance of the CEO, develop and approve the CEO succession plan and oversee succession and development planning for the other executive officers, establish and oversee executive compensation and employee benefit programs, and review and approve the terms of any employment, severance, change of control or similar agreement for our CEO and other executive officers. The Compensation and Human Resources Committee met eight times during 2014. Each member of the Compensation and Human Resources Committee is an independent director under our Guidelines and applicable NYSE standards. A report of the Compensation and Human Resources Committee follows on page 37.

## **Governance Committee**

The Governance Committee is comprised of Laurie S. Singer (Chair), Ray T. Charley, David W. Greenfield, Luke A. Latimer and James W. Newill, each of whom is an independent director under our Guidelines and applicable NYSE standards. The primary responsibilities of the Governance Committee are to identify and recommend director nominees to the Board of Directors, recommend directors to serve as members and as chair for each committee of the Board, determine director compensation, lead the annual review of the performance of the Board and its committees, recommend and approve corporate governance policies and practices for the Board, and review and approve related party transactions and monitor compliance with our Code of Conduct and Ethics, insider trading and related policies. The Governance Committee met six times during 2014.

## **Risk Committee**

The Risk Committee is a joint committee of First Commonwealth Financial Corporation and First Commonwealth Bank and is comprised of David S. Dahlmann (Chair), James G. Barone, Johnston A. Glass and Jon L. Gorney, each of whom is an independent director under our Guidelines and applicable NYSE standards. The primary responsibilities of the Risk Committee are to oversee and review information regarding our enterprise risk management framework, review and approve our significant risk management policies, assess the risks associated with our compensation practices, review and discuss with management the level and trend of risk exposures, including credit, market, liquidity, operational, compliance and legal, reputation and strategic risk, and assess risks associated with strategic and operating plans and strategic initiatives. The Risk Committee met thirteen times during 2014.

## **Code of Conduct and Ethics**

The Code of Conduct and Ethics governs the actions and working relationships of First Commonwealth employees, officers and directors. This Code addresses, among other items, conflicts of interest, confidentiality, fair dealing, protection and proper use of corporate assets and compliance with laws, rules and regulations. The Code of Conduct and Ethics encourages and provides a process for the reporting of any illegal or unethical behavior. First Commonwealth has established an ethics hotline to allow employees, officers and directors to anonymously report any known or suspected violation of laws, rules or regulations or the Code of Conduct and Ethics.



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### **Where to Find Governance Documents**

You can find copies of the charters for our Audit Committee, Compensation and Human Resources Committee, Governance Committee and Risk Committee, as well as our Corporate Governance Guidelines, Code of Conduct and Ethics and other important information, by visiting our website at [www.fcbanking.com](http://www.fcbanking.com) and following the links to Investor Relations and Corporate Governance.

### **Communicating with Directors**

You may communicate directly with any director or the full Board. To do so, please write to the person or persons desired and mail the communication to:

First Commonwealth Financial Corporation

Attn: Board Communications

P.O. Box 400

Indiana, PA 15701

Our employees will not open or otherwise screen any communications sent to this address. The communications will be delivered directly to the Lead Director, who will determine how to respond, including whether to present to the full Board or to forward to an individual director. If you send director-related communications to our offices, we will handle them in accordance with a collection and organization process approved by the Board. These communications are subject to a screening process that will determine which communications will be relayed to directors.

In addition, First Commonwealth has retained an independent service provider to receive calls from shareholders and other interested parties who wish to communicate with the non-management directors. The telephone number for this service is 1-866-825-5283. The independent service provider will forward all communications to the Lead Director who will take such action as he deems appropriate. A summary report of all communications received and actions taken by the Lead Director will be presented during the next executive session of the non-management directors and, if the non-management directors deem appropriate, to the full Board.

**Table of Contents****COMPENSATION OF DIRECTORS****Director Compensation Schedule**

Our Non-Management directors are compensated according to the following schedule:

Board Member Retainer <sup>1</sup>	\$48,000
Committee Member Retainer	\$8,000
Committee Chair Premium <sup>2</sup>	\$12,000
Audit Committee Chair Premium <sup>2</sup>	\$14,500

- (1) Half of the annual retainer fee for service on the Board of Directors is paid in cash and half is paid in shares of common stock based on the closing price of the Company's stock on the date of the annual meeting of Shareholders. Directors who own 50,000 or more shares of our stock may opt to receive their entire retainer in cash, payable in four quarterly installments of \$12,000. In 2014, directors Charley, Dahlmann, Glass and Newill elected to receive cash in lieu of shares of stock.
- (2) The Chair of each Committee is paid a premium for the additional time and effort required to chair the committee. The premium is in addition to the Committee Member Retainer.

The Credit Committee and Risk Committee met more frequently than other committees in 2014 due to the Credit Committee's oversight of lending activities and the Risk Committee's oversight of a core information technology system conversion completed in August 2014. As compensation for the additional time and effort required of these Committees, each member of the Risk Committee received a premium of \$4,000 and each member of the Credit Committee received a premium of \$8,000 in addition to the committee member retainer.

During 2014, Director Gorney was asked to facilitate the Risk Committee's oversight of the core information technology system conversion through frequent meetings and telephone conferences with management, vendors and other parties, developing the agenda for Risk Committee meetings to discuss the conversion and offering his insight and perspective regarding the status of the conversion as a member of the Risk Committee. The Governance Committee approved a supplemental payment to Mr. Gorney of \$12,000, which was paid in 2014 in recognition of these efforts.

In addition to the fees described above, Mr. Dahlmann received an annual retainer fee of \$200,000 during 2014 for his service as the non-executive Chairman of First Commonwealth Financial Corporation.

The Chief Executive Officer does not receive additional compensation for service on our Board of Directors.

**Table of Contents****Director Compensation in 2014**

The following table shows the compensation paid to our non-employee directors during 2014:

Name	Fees Earned or		All Other	Total
	Paid in Cash	Stock Awards	Compensation	
	(\$)(1)	(\$)(2)	(\$)(3)	(\$)
James G. Barone	36,000	24,000	16,000	76,000
Julie A. Caponi	49,667	24,000	-	73,667
Ray T. Charley	64,000	-	-	64,000
Gary R. Claus	40,000	24,000	-	64,000
David S. Dahlmann	272,000	-	16,000	288,000
Johnston A. Glass	60,000	-	28,000	88,000
Jon L. Gorney	48,000	24,000	-	72,000
David W. Greenfield	40,000	24,000	-	64,000
Luke A. Latimer	32,000	24,000	16,000	72,000
James W. Newill	63,500	-	-	63,500
Laurie Stern Singer	52,000	24,000	-	76,000
Robert J. Ventura	46,000	24,000	-	70,000

- (1) Fees Earned or Paid in Cash consists of retainer fees for service on the Board of Directors and committees of First Commonwealth Financial Corporation.
- (2) Represents the portion of the annual retainer paid in shares of common stock based upon the grant date fair value of the shares.
- (3) All Other Compensation consists of retainer fees for service on the Credit Committee of First Commonwealth Bank.

We did not grant any stock options to our directors in 2014. Certain directors hold options to purchase our stock that were awarded under prior plans. The table below sets forth the number of underlying shares, the exercise price and the expiration date of stock options held by the non-management directors as of December 31, 2014. All of these stock options have vested.

Name and Date of Award	Number of Securities Underlying Unexercised Options	Option Exercise Price (\$)	Option Expiration Date
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**Exercisable (#)**

Ray T. Charley			
1/18/2005	3,000	14.55	1/18/2015
David S. Dahlmann			
1/18/2005	3,000	14.55	1/18/2015
James W. Newill			
1/18/2005	3,000	14.55	1/18/2015
Laurie S. Singer			
1/18/2005	3,000	14.55	1/18/2015
Robert J. Ventura			
1/18/2005	3,000	14.55	1/18/2015

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**PROPOSAL 1 ELECTION OF DIRECTORS**

Upon the recommendation of our Governance Committee, the Board of Directors has nominated the twelve (12) persons named below for election at the 2015 Annual Meeting of Shareholders to serve until the next annual meeting and until his or her successor is elected and qualified. Director James W. Newill is not eligible to stand for re-election pursuant to the retirement age under our Governance Guidelines. The size of the Board will be reduced from thirteen (13) to twelve (12) directors upon the election of directors at the annual meeting. Relevant biographical information concerning each nominee, including the nominee's business experience and qualifications, is set forth below.

*James G. Barone.* Mr. Barone, age 67, is retired. He has served as a director of First Commonwealth Financial Corporation since April 2013 and as a director of First Commonwealth Bank since August 2011. Mr. Barone also serves on our Risk Committee and the Credit Committee of First Commonwealth Bank. Mr. Barone was Executive Vice President, Treasurer and Secretary for S&T Bancorp, Inc. from 1992 until he retired in 2002. Prior to joining S&T, he led the corporate investment activities at Integra Financial Corp. and Union National Corp., both in Pittsburgh, Pennsylvania. Mr. Barone earned a Bachelor's Degree in Economics from Allegheny College and an MBA from Northwestern University. Mr. Barone's qualifications for Board service include over 30 years of experience in banking and investments with extensive expertise in asset/liability management, investment management and mergers and acquisitions.

*Julie A. Caponi.* Ms. Caponi, age 53, is a Certified Public Accountant. She was appointed Assistant Treasurer of Alcoa Inc., a producer of aluminum and aluminum products that is headquartered in Pittsburgh, Pennsylvania, in May 2013. She previously served as Vice President-Audit of Alcoa Inc. from 2005 to 2013 and as Assistant Controller of Alcoa Inc. from 2000 to 2005. Before joining Alcoa, Ms. Caponi was an audit partner at Deloitte, principally serving clients in the financial services industry. Ms. Caponi joined our Board in 2007 and currently chairs our Audit Committee and is a member of our Compensation and Human Resources Committee. She is also a director of First Commonwealth Bank. Ms. Caponi earned a Bachelor of Science Degree in Accounting from the Indiana University of Pennsylvania. She is a member of the American and Pennsylvania Institutes of Certified Public Accountants. Ms. Caponi's qualifications for service on our Board include her leadership experience and her expertise in financial accounting, auditing and internal controls.

*Ray T. Charley.* Mr. Charley, age 63, has served as the Chief Executive Officer of Thomi Co., an operator of retail grocery stores in Greensburg, Pennsylvania, since 1983. Mr. Charley served as a director of Southwest National Corporation from 1989 and joined our Board in 1998 upon the completion of our merger with Southwest National Corporation. Mr. Charley is a member of our Governance Committee and our Compensation and Human Resources Committee and is also a director of First Commonwealth Bank. He is a former director and officer of Excelsa Health Holding Co., an operator of hospitals and other health care facilities in Western Pennsylvania, and serves as a director and in leadership capacities for various charitable organizations. Mr. Charley earned a Bachelor's degree from Duquesne University and a law degree from the Pennsylvania State University Dickinson School of Law. Mr. Charley's qualifications for service on our Board include his business acumen and his commitment to sound governance and oversight as demonstrated by his extensive experience as a director in the financial services industry.

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*Gary R. Claus.* Mr. Claus, age 62, is a Certified Public Accountant. He has served as Managing Director of the Jade Group, an executive search and management consulting firm since 2008. Prior to joining the Jade Group, Mr. Claus spent 35 years as a tax accountant at PriceWaterhouseCoopers, where he was admitted as a Partner in 1986 and served as the Pittsburgh Tax Site Leader from 1992 through 2004. Mr. Claus joined our Board in April 2011, serves as a member of our Audit Committee and our Compensation and Human Resources Committee and is also a director of First Commonwealth Bank. Mr. Claus has a wide variety of experience advising clients ranging from large publicly held companies to small privately owned companies, including manufacturers, law firms and other service companies. He is also active in professional, community and church organizations, serving as Chairman of the Board of Goodwill of Southwestern Pennsylvania and Chairman of the Board of Trustees of Robert Morris University. Mr. Claus earned a Bachelor of Science degree in Accounting from Robert Morris University. Mr. Claus's qualifications for Board service include his extensive professional experience in accounting, executive compensation and human resources.

*David S. Dahlmann.* Mr. Dahlmann, age 65, has served as the Chairman of the Board of First Commonwealth Financial Corporation and First Commonwealth Bank since 2006. He was formerly Vice Chairman of First Commonwealth Financial Corporation from 1998 to 2002, President and Chief Executive Officer of Southwest National Corporation from 1991 to 1998 and President and Chief Executive Officer of Southwest Bank from 1991 until its merger with First Commonwealth Bank in 2002. He was a director of Southwest National Corporation from 1991 and joined our Board in 1998 upon the completion of our merger with Southwest National Corporation. Mr. Dahlmann formerly served on the Board of Directors of the Federal Reserve Bank of Cleveland and as an Adjunct Professor at Saint Vincent College in Latrobe, Pennsylvania, and he serves as a director for numerous charitable, educational and civic associations. Mr. Dahlmann chairs our Risk Committee, is a member of the Credit Committee of First Commonwealth Bank and chairs the Trust Committee of First Commonwealth Bank. He earned a Bachelor's Degree in Economics and Masters of Business Administration degrees from the Indiana University of Pennsylvania. Mr. Dahlmann's qualifications for Board service include his extensive career as a director and executive in the financial services industry and his expertise and experience in corporate governance matters.

*Johnston A. Glass.* Mr. Glass, age 65, is retired. Mr. Glass has served on our Board since 1986. He served as Vice Chairman of First Commonwealth Financial Corporation and as President and Chief Executive Officer of First Commonwealth Bank and its predecessor, NBOC Bank, until his retirement in 2005. Mr. Glass is a director of First Commonwealth Bank, serves as member of our Risk Committee and Chairs the Credit Committee of First Commonwealth Bank. Mr. Glass served as a director of First National Bank of Santa Fe until May 2013. He has served as a director and officer of numerous civic and non-profit associations and as past director of the Pennsylvania Bankers Association. He earned a Bachelor of Science degree from the Pennsylvania State University. Mr. Glass's qualifications for Board service include his extensive leadership experience in the banking industry, his thorough understanding of First Commonwealth and its business and his long history of service as a director of First Commonwealth and other organizations.

*Jon L. Gorney.* Mr. Gorney, age 64, is a management consultant. He was appointed to our Board in January 2013. He is also a director of First Commonwealth Bank and a member of our Risk Committee. Mr. Gorney began his 37-year career in the financial services industry with National City Corporation. He served as Executive Vice President of National City

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Corporation from 1992 through 2008 and oversaw all technology and operations for National City. From 2004 through 2006, Mr. Gorney also served as Chairman and Chief Executive Officer of National Processing Company, a majority subsidiary of National City that was the second largest merchant card processor in the United States. Mr. Gorney joined PNC Financial Services Group through the acquisition of National City in December 2008 and served as an Executive Vice President until his retirement in June 2010. While at PNC, Mr. Gorney co-chaired the company-wide integration of PNC and National City and was responsible for the leadership and development of a single operating organization for PNC. Mr. Gorney earned a Bachelor of Science degree in Computer Science from the University of Dayton. His qualifications for Board service include his extensive experience as a financial services executive and his strong expertise in financial services information technology and operations.

*David W. Greenfield.* Mr. Greenfield, age 64, is retired. He has served on our Board since April 2010, is a member of our Compensation and Human Resources Committee and our Governance Committee and is also a director of First Commonwealth Bank. Mr. Greenfield was formerly Vice President, Secretary and General Counsel of Kennametal, Inc., a global manufacturer of tooling, engineered components and advanced materials consumed in production processes from 2001 until his retirement in 2010. Prior to joining Kennametal in 2001, Mr. Greenfield was a member of Buchanan Ingersoll & Rooney P.C., a Pittsburgh-based law firm, focusing on corporate, financial and transactional issues involving public and private companies. He also served as Senior Vice President, General Counsel and Secretary of Meritor Automotive, Inc. and Associate General Counsel of Rockwell International Corporation. He is also active in a number of charitable, educational and civic organizations. Mr. Greenfield earned a Bachelor of Arts degree from the University of Pittsburgh and a law degree from Wake Forest University School of Law. Having practiced law for over 35 years and served in executive capacities for three publicly traded companies, Mr. Greenfield has extensive experience in corporate governance, ethics and compliance matters and the execution of corporate strategy and is therefore qualified to serve as a director.

*Luke A. Latimer.* Mr. Latimer, age 38, has served as Executive Vice President and Treasurer of R&L Development, a heavy construction company in New Alexandria, Pennsylvania, since 1999, and Vice President and Treasurer of Derry International LTD, Incorporated, a mining company based in New Alexandria, Pennsylvania, since 1999. Mr. Latimer joined our Board in April 2011. He also serves as a director of First Commonwealth Bank and is a member of our Governance Committee and the Credit Committee of First Commonwealth Bank. Mr. Latimer served as Chairman of the Board of Directors of First National Bank of Santa Fe and a director of New Mexico Banquest Corporation, a bank and bank holding company in Santa Fe, New Mexico, until May 2013. He earned a Bachelor of Science degree in Business Management from Saint Vincent College. His qualifications for service as a director include his extensive business experience and his years of service as a director in the financial services industry.

*T. Michael Price.* Mr. Price, age 52, is the President and Chief Executive Officer of First Commonwealth Financial Corporation and Chief Executive Officer of First Commonwealth Bank. He has been a director of the Company since March 2012 and is also a director of First Commonwealth Bank. He served as Interim President and Chief Executive Officer of the Company from January 2012 until being appointed to serve in that capacity on a permanent

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basis in March 2012. Mr. Price served as President of First Commonwealth Bank from November 2007 until May 2013. Before joining First Commonwealth, Mr. Price served as Chief Executive Officer of the Cincinnati and Northern Kentucky Region of National City Bank from July 2004 to November 2007 and as Executive Vice President and Head of Small Business Banking of National City Bank prior to July 2004. Mr. Price received his Bachelor of Science degree from the University of Utah, and he earned his MBA from Cleveland State University. Mr. Price's qualifications for service on our Board include his thorough understanding of the banking and financial services industry, which he has attained through more than 25 years of executive leadership experience.

*Laurie Stern Singer.* Ms. Singer, age 63, consults in business finance and organization management in both the public and private sector. She served as President of the Allegheny Valley Development Corporation and Allegheny Valley Chamber of Commerce for 27 and 20 years respectively. Ms. Singer was a director of Southwest National Corporation from 1994 and joined our Board in 1998 upon the completion of our merger with Southwest National Corporation. She is also a director of First Commonwealth Bank, chairs our Governance Committee and serves as a member of the Audit Committee. Ms. Singer has held leadership positions and has served as a director for numerous professional associations, educational and community organizations. She has a Bachelor of Arts degree from the University of Michigan and a law degree from Wayne State University and is a graduate of the Institute for Organizational Management. Ms. Singer's qualifications for Board service include her business finance and development expertise, her extensive experience as a director of financial services companies and other organizations and her strong commitment and understanding of corporate governance matters.

*Robert J. Ventura.* Mr. Ventura, age 65, is Executive Managing Director of Ventura Group, LLC, an investment banking firm in Pittsburgh, Pennsylvania, and formerly served in a similar capacity as Managing Director of Raptor Partners, LLC, from June 2010 through August 2012 and as Principal of Ventura Group, LLC. Mr. Ventura previously served as Director of Acquisitions and Divestitures and Director of Financial Planning and Analysis during a 15-year career with Rockwell International Corporation, a diversified global manufacturing company. Mr. Ventura served as a director of GA Financial, Inc. from 1998 and joined our Board in 2004 at the completion of our acquisition of GA Financial, Inc. Mr. Ventura chairs our Compensation and Human Resources Committee, serves as a member of our Audit Committee and is also a director of First Commonwealth Bank. He earned a Bachelor of Science degree in Industrial Engineering from the University of Pittsburgh and Masters of Business Administration degree from Duquesne University and holds his Series 79 and 63 securities licenses. Mr. Ventura's qualifications for Board service include his expertise in business and financial analysis and mergers and acquisitions and his experience as a director in the financial services industry.

Each director elected this year will continue in office until a successor has been elected. Each nominee has indicated that he or she will serve if elected. We do not anticipate that any nominee will be unable or unwilling to stand for election, but if that happens, your proxy will be voted for another person nominated by the Board. The Board may also choose to reduce the number of directors to be elected, as permitted by our By-laws.

**The Board of Directors recommends that you vote FOR each of the nominees listed above.**



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**PROPOSAL 2 RATIFICATION OF INDEPENDENT ACCOUNTING FIRM**

At the annual meeting, shareholders will be asked to ratify the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015. KPMG LLP has audited our financial statements since 2006.

The Audit Committee of the Board has appointed KPMG LLP as the independent auditors of First Commonwealth and our subsidiaries for the year ending December 31, 2015. Although shareholder approval is not required, the Board desires to obtain shareholder ratification of this appointment. If the appointment is not ratified at the annual meeting, the Board will review its future selection of auditors. If the appointment is ratified, the Audit Committee in its discretion may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of First Commonwealth and its shareholders. Representatives of KPMG LLP are expected to be present at the annual meeting to make a statement if they so desire and to respond to appropriate questions.

The affirmative vote of the holders of a majority of First Commonwealth's common stock present in person or represented by proxy at the annual meeting is necessary for ratification of the selection of KPMG LLP as our independent registered public accounting firm.

**The Board of Directors recommends that you vote FOR the ratification of the selection of KPMG LLP as our independent registered public accounting firm.**

**AUDIT INFORMATION**

**Report of the Audit Committee**

The Audit Committee of First Commonwealth's Board of Directors operates under a written charter that specifies the Audit Committee's duties and responsibilities. This charter is available on First Commonwealth's website at [www.fcbanking.com](http://www.fcbanking.com) by following the links to Investor Relations and Corporate Governance.

Management is responsible for the financial reporting process, the system of internal controls, including internal control over financial reporting, and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. KPMG LLP, First Commonwealth's independent registered public accounting firm ( independent auditors ), is responsible for the integrated audit of the consolidated financial statements and internal control over financial reporting. The Audit Committee's responsibility is to monitor and oversee these processes and procedures. The Audit Committee relies, without independent verification, on the information provided to the Audit Committee and on the representations made by management regarding the effectiveness of internal control over financial reporting, that the financial statements have been prepared with integrity and objectivity and that such financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Audit Committee also relies on the opinions of the independent auditors on the consolidated financial statements and the effectiveness of internal control over financial reporting.

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In fulfilling its responsibilities, the Audit Committee has reviewed and discussed the audited consolidated financial statements of First Commonwealth as of and for the year ended December 31, 2014 with First Commonwealth's management and the independent auditors. The Audit Committee has also discussed with First Commonwealth's independent auditors the firm's independence from the Company and management, and has received the written disclosures and the communication from the independent auditor required by applicable requirements of the Public Company Accounting Oversight Board (PCAOB) regarding the independent auditor's communications with the Committee concerning independence. In addition, the Committee has discussed with the independent auditor the required communications of PCAOB Auditing Standard No. 16, *Communication with Audit Committees*.

Based on the review and discussions noted above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in First Commonwealth's annual report on Form 10-K for the fiscal year ended December 31, 2014 for filing with the Securities and Exchange Commission.

Submitted by the Audit Committee,

Julie A. Caponi, Chair

Gary R. Claus

Laurie S. Singer

Robert J. Ventura

**Fees Billed by KPMG LLP to First Commonwealth**

The aggregate fees billed by KPMG LLP for each of the fiscal years ended December 31, 2014 and 2013, respectively, were as follows:

	<b>For the Fiscal Year Ended December 31, 2014 (\$)</b>	<b>For the Fiscal Year Ended December 31, 2013 (\$)</b>
Audit Fees	1,283,870 <sup>(1)</sup>	975,060
Audit Related Fees	0	0
Tax Fees	0	41,490 <sup>(2)</sup>
All Other Fees	0	0

(1) The amount of Audit Fees for 2014 represents actual fees billed and does not include additional fees related to the integrated audit of First Commonwealth's 2014 consolidated financial statements that may be billed after the date of this proxy statement.

(2) Tax Fees for 2013 consisted of fees for 1099 tax compliance services provided to our trust business.

**Audit Committee Pre-Approval Policies and Procedures**

The Audit Committee is required to pre-approve the audit and non-audit services performed by First Commonwealth's independent auditors in order to assure that the provision of those services does not impair the accounting firm's independence. Accordingly, the Audit Committee has adopted a policy for the pre-approval of audit and non-audit services by First

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Commonwealth's independent auditors. This policy allows the Audit Committee to pre-approve services through general pre-approval or specific pre-approval.

Under general pre-approval, the Audit Committee approves in advance the payment of up to a specified amount of fees for the performance of specified types of audit, audit-related, tax and other services by the independent auditors. The term of general pre-approval is generally twelve (12) months from the date of pre-approval. Any services that are not subject to general pre-approval or fees in excess of pre-approved limits must be specifically pre-approved by the Audit Committee on a case-by-case basis. Pre-approved fee levels or budgeted amounts for all services to be provided by the independent auditors are established annually by the Audit Committee.

The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent auditors to management. However, the pre-approval policy allows the Audit Committee to delegate to one or more designated members of the Audit Committee the authority to grant required pre-approvals. The decision of any member to whom authority is delegated to pre-approve an activity is presented to the full Audit Committee at its next scheduled meeting.

### **PROPOSAL 3 ADVISORY VOTE ON EXECUTIVE COMPENSATION**

First Commonwealth is providing shareholders with the opportunity at the 2015 Annual Meeting of Shareholders to vote on an advisory resolution, commonly known as Say-on-Pay, to approve the compensation of First Commonwealth's named executive officers. Such compensation is described on pages 21 through 49 of this proxy statement. We currently conduct Say-on-Pay votes annually; accordingly, the next Say-on-Pay vote is expected to occur in 2016.

The Compensation and Human Resources Committee, which is responsible for the compensation of our executive officers, has overseen the development of a compensation program designed to attract, retain and motivate executives who enable us to achieve our strategic and financial goals. The Compensation Discussion and Analysis section of this proxy statement and the tabular disclosures regarding named executive officer compensation, together with the accompanying narrative disclosure, allow shareholders to view the trends in compensation and application of our compensation philosophies and practices for the years presented.

Shareholders are being asked to vote on the following advisory resolution:

RESOLVED, that the shareholders approve the compensation of First Commonwealth Financial Corporation's named executive officers as described in the Compensation Discussion and Analysis section and in the tabular disclosure regarding named executive officer compensation (together with the accompanying narrative disclosure) in this proxy statement.

Because your vote is advisory, it will not be binding upon the Board of Directors. However, the Compensation and Human Resources Committee and the Board will take the outcome of the vote into account when considering future executive compensation arrangements.

**The Board of Directors recommends that you vote FOR the advisory resolution on executive compensation.**

**Table of Contents****EXECUTIVE COMPENSATION****Compensation Discussion and Analysis**

This Compensation Discussion & Analysis, or CD&A, is intended to assist shareholders in understanding and evaluating the information found in this proxy statement about the compensation and benefits provided to First Commonwealth's named executive officers (NEOs) in 2014. Our NEOs, which consist of our Chief Executive Officer (CEO), our Chief Financial Officer (CFO), our former CFO and the three other executive officers who earned the highest compensation during 2014, are identified below.

Name	Positions
T. Michael Price	President and Chief Executive Officer
James R. Reske	Executive Vice President and Chief Financial Officer
Jane Grebenc	Executive Vice President and Chief Revenue Officer
I. Robert Emmerich	Executive Vice President and Chief Credit Officer
Norman J. Montgomery	Executive Vice President/Business Integration Group
Robert E. Rout	Former Chief Financial Officer

**Overview of 2014 Executive Compensation**

First Commonwealth produced strong earnings per share growth in 2014 while simultaneously implementing key initiatives that are expected to position the Company for improved financial performance in the future. The following are among the Company's significant strategic accomplishments during 2014:

The Company successfully converted its core information technology systems replacing over 40 applications with an integrated suite of products. This project involved over two years of planning and substantial involvement from over 200 employees and is expected to provide expense savings from pre-conversion levels of approximately \$1.5 million to \$1.7 million per quarter, reduce operating risk and improve the Company's speed to market with product innovation.

The Company launched a new mortgage banking division with an experienced leadership team, dedicated sales force and a full array of traditional mortgage products. This initiative added an essential community banking product and is expected to generate increased fee income and loan growth beginning in 2015.

The Company entered the Northeastern Ohio market with the opening of a business center in Cleveland staffed by experienced local lenders. The business center is expected to build upon the company's existing lending presence in Northeastern Ohio and enhance commercial loan growth in a desirable and complementary market.

The Company acquired a property and casualty insurance agency to increase the scale of its existing insurance business and provide immediate access to additional insurance carriers and product capabilities.

The Company added key executive talent by hiring a new CFO with considerable merger and acquisition and capital markets expertise and a head of wealth management with strong investment management, trust and sales leadership experience.

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The Compensation and Human Resources Committee (the Committee) provided a compensation program for NEOs in 2014 that aligned executive incentives with the transformative initiatives described above. The compensation program consisted of three primary elements: (1) base salary, (2) potential annual cash and equity incentive awards and (3) long-term equity incentive awards.

To implement the annual and long-term incentive components, the Committee established performance goals for 2014 under First Commonwealth's Annual Incentive Plan (AIP) and for 2014-2016 under First Commonwealth's Long-Term Incentive Plan (LTIP). In addition to 2014 goals tied to profitability and efficiency, the Committee included an objective related to the success of the core system conversion in the AIP. Annual performance goals for executives with risk management responsibilities also included individual performance goals that were tied to key business objectives.

### *2014 Performance Highlights*

Adjusted for unusual items:<sup>1</sup>

Earnings per share increased 26% from \$0.43 in 2013 to \$0.54 in 2014.

Return on average assets increased from 0.68% in 2013 to 0.80% in 2014.

Return on equity increased from 5.70% in 2013 to 6.95 % in 2014.

Non-interest expense declined from \$168.8 million in 2013 to \$162.7 million in 2014, and the efficiency ratio<sup>2</sup> improved from 67.5% in 2013 to 65.8 % in 2014.

<sup>1</sup> 2014 financial results exclude the effect of a one-time charge in connection with a litigation settlement in the amount of \$5.6 million (after tax) or \$0.06 per share.

<sup>2</sup> Efficiency ratio is noninterest expense as a percentage of net interest income, on a fully taxable equivalent basis, and noninterest income excluding gains and losses from securities transactions.

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The Company's long-term total return to shareholders remains strong. Total return to shareholders for the three-year period 2012-2014 was 92%, which placed the Company at the 88th percentile of its Pennsylvania peer group.

Credit quality trends were favorable in 2014 and remain strong.

The Company grew loans by \$173.5 million or 4.0%.

The Company returned approximately \$31 million of capital to shareholders by repurchasing approximately 3.6 million shares of common stock, while improved earnings enabled the Company to increase its quarterly dividend 16.7% to \$0.07 per share.

*Corporate Governance Highlights*

We maintain important corporate governance policies:

Our directors receive a substantial portion of their compensation in stock, and all of our NEOs are subject to stock ownership guidelines.

Our no-hedging policy prohibits our directors, NEOs and all employees from engaging in hedging transactions with Company stock.

Our incentive compensation plans allow our Board to recoup any excess compensation paid to our NEOs if the Company restates its financial results upon which an award is based due to fraud, intentional misconduct or gross negligence.

Our long-term equity awards reward performance over a three-year time horizon.

We annually conduct a risk assessment of all of our compensation plans and the Committee annually reviews the assessment to ensure the compensation programs do not encourage inappropriate risk taking.



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**Summary of Executive Compensation Practices**

Align executive pay with performance and align executive interests with shareholders

- ü Measure performance with financial, strategic and total return measures
- ü Allow limited discretion on the part of the Compensation Committee to recognize individual performance that may not be reflected in specific pre-approved performance measures
- ü Consider competitive pay opportunity as well as realizable pay in managing and aligning overall executive compensation arrangements and individual pay decisions
- ü Limit the use of perquisites
- ü Require directors and executives to maintain significant share ownership
- ü Use of a claw-back in our annual cash bonus and long-term incentive plans
- ü Conduct executive sessions of the Compensation Committee without management present
- ü Prohibit liberal share recycling within the equity plan
- ü Prohibit re-pricing of equity awards
- ü Use double-trigger vesting of equity upon a change of control
- ü Prohibit hedging or pledging of company stock by directors or executive officers
- ü Utilize an independent compensation consultant that only serves the Board and Compensation Committee

Maintain effective governance of our programs

ü

Do not provide any change of control excise tax gross-ups or benefit income gross-ups

- ü Consider competitive pay opportunity as well as realizable pay in managing overall executive compensation costs and individual pay decisions
- ü Require executives to agree to reasonable protective covenants including confidentiality and non-solicitation provisions
- ü Generally maintain deductibility of executive incentive awards under 162(m) shareholder-approved plans
- ü Emphasize the role of total return relative to others in our industry

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### *Summary of Executive Compensation Actions*

We adopted Annual Incentive and Long-Term Incentive Plans in 2014 that are materially the same as our 2013 plans and granted awards to our NEOs under these Plans on substantially the same terms as previous years.

In recognition of individual performance and leadership, we approved salary increases averaging 2% for the NEOs.

In 2015, in recognition of our strong annual 2014 performance, we paid Annual Incentive Plan awards between each NEO's target and superior amount. Amounts in excess of the target award were paid in shares of restricted stock.

In 2015, pursuant to our 2012-2014 Long-Term Incentive Plan, and in recognition of our top-quartile total shareholder return (TSR) relative to our peers, we approved payout under the plan of one year time-vesting restricted stock at the maximum level for the component, representing 60% of the target payout. In 2014, pursuant to the 2011-2013 Long-Term Incentive Plan and our TSR performance during that period, we awarded payout at a level representing approximately 15% of target payout.

### **Composition and Role of the Compensation Committee**

The Compensation and Human Resources Committee of the Board is comprised of five directors: Robert Ventura (Chairman), Julie Caponi, Ray Charley, Gary Claus and David Greenfield. Each member of the Committee is an independent director for purposes of the New York Stock Exchange listing standards for compensation committee members. The Committee operates under a written charter that is reviewed and approved annually by the Board. A copy of this charter is available under the Investor Relations Corporate Governance section of our website, <http://www.fcbanking.com>.

The basic responsibilities of the Committee are to:

oversee First Commonwealth's overall compensation structure, policies and programs, and assess whether that structure establishes incentives for management and employees that appropriately balance risk and financial results;

determine the CEO's salary, bonus and other incentive and equity compensation and review and approve the individual and corporate goals assigned to the CEO and evaluate the performance of the CEO in light of those goals;

approve the salary, bonus and other incentive and equity compensation of the other executive officers and review and approve the individual and corporate goals assigned to the executive officers and the CEO's

evaluation of the performance of the executive officers in light of those goals;

oversee the succession planning and talent management processes; and

oversee the development, implementation and administration of incentive compensation and equity-based plans and approve awards under equity-based plans.

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The Committee relies upon performance data, statistical information and other data regarding executive compensation programs and peer practices provided from time to time by First Commonwealth's Human Resources department, officers and outside advisors. The Committee has access to individual members of management and employees and may invite them to attend any Committee meeting. The Committee has the power and discretion to retain, at First Commonwealth's expense, independent counsel and other advisors and experts as it deems necessary or appropriate to carry out its duties.

### **Independent Compensation Advisor**

Board Advisory LLC has served as the Committee's compensation advisor since 2010. Board Advisory provides the Committee with peer executive compensation data, as well as expertise and advice on various matters brought before the Committee. Board Advisory also provides data and advice relating to non-employee director compensation to the Governance Committee. As part of its engagement in 2014, Board Advisory was asked to evaluate our performance and compensation against the performance and compensation of our peer group, make recommendations regarding the design of executive incentive compensation plans and provide advice in connection with the amendment of our equity compensation plan and the disclosures within this proxy statement seeking shareholder approval of the amended equity plan.

The Committee has the sole authority to retain and terminate Board Advisory as its compensation consultant and approve fees and other engagement terms. The Committee has determined that Board Advisory is independent from management based upon the consideration of relevant factors, including:

that Board Advisory does not provide any services to the Company except advisory services to the Committee and the Governance Committee;

that the amount of fees received from the Company by Board Advisory is not material as a percentage of Board Advisory's total revenue;

that Board Advisory has policies and procedures that are designed to prevent conflicts of interest;

that Board Advisory and its employees who provide services to the Committee do not have any business or personal relationship with any member of the Committee or any executive officer of the Company; and

that Board Advisory and its employees who provide services to the Committee do not own any stock of the Company.

### **Role of Executives in Establishing Compensation**

The CEO plays a significant role in the design and implementation of our compensation program for all executive officers other than himself. His role includes:

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making recommendations on performance measures and goals for our incentive plans;

evaluating executive officer performance;

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making recommendations regarding corporate titles, base salaries, annual and long-term incentive award opportunities and other employment terms for executive officers; and

providing background information for Committee meeting agenda items.

The CEO generally attends Committee meetings, but he is not present during executive sessions of the Committee at which his performance and compensation are discussed. Other members of management also attend meetings from time to time at the request of the Committee to provide reports and information on agenda topics.

## **Peer Comparisons**

The Committee reviews a peer compensation assessment annually as a market check for the Company's executive pay and performance. This assessment is performed using compensation data provided by Board Advisory. The peer group is intended to:

serve as a point of reference for defining the range of competitive pay practices, including the range of target total pay opportunities appropriate for First Commonwealth executive officers;

serve as a point of reference in understanding the relative expense burden associated with First Commonwealth executive officer pay;

help the Committee to assess pay-related talent risk by providing transparent pay data from those companies most likely to attract First Commonwealth's executive officers; and

help the Committee test the alignment of actual pay delivered relative to Company performance and calibrate future payouts.

For 2014, and generally for prior recent years, the Committee used two peer groups for its compensation assessment. The first is a national group consisting of all community banks with assets of \$4 billion to \$10 billion. The national peer group is intended to provide stable information regarding competitive pay for First Commonwealth's executive positions. The Committee then considered the local pay practices and performance of an 11-company group of banks having significant operations in or near First Commonwealth's Pennsylvania market area, which we refer to as the Pennsylvania peer group. This peer group represents the banks that would most likely be an attractive source of talent and a realistic source of competition for current executive officers and aligns the Committee's compensation philosophy with our strategic vision of becoming the top performing bank in Pennsylvania.

The Pennsylvania peer group consisted of the following companies:

Community Bank System  
FNB Corporation  
Fulton Financial Group  
Metro Bancorp Inc.

Northwest Bancshares, Inc.  
S & T Bancorp Inc.  
Susquehanna Bancshares  
Univest Corp.

N B T Bancorp Inc.  
National Penn Bancshares

Wesbanco Inc.



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Due to changes in the size and composition of the Pennsylvania peer group over time, including the recently-announced acquisition of Susquehanna Bancshares by a large regional bank, the Committee approved a new peer group in February 2015. The new peer group will be comprised of 21 publicly traded commercial banks with headquarters in the Mid-Atlantic and Midwest regions and total assets generally between \$3.5 billion and \$12.1 billion, which is roughly one-half to double First Commonwealth's asset size. FNB Corporation is included, at \$15.8 billion, based on its position as a key competitor for talent, customers and investors within our market. This peer group will replace both the Pennsylvania peer group and national peer group for incentive plans and compensation assessments beginning in 2015. The Committee determined that a larger peer group was appropriate to allow for a wider distribution of data points and the likelihood that some members may exit the peer group due to acquisitions.

The following table provides a comparison of the former and 2015 peer groups.

Peer Company	Headquarters	Assets (\$billions)	
		Former Peer Group	2015 Peer Group
1st Source Corp.	South Bend, IN		\$4.8
Chemical Financial Corp.	Midland, MI		\$6.6
Community Bank Systems, Inc.	De Witt, NY	\$7.5	\$7.5
Community Trust Bancorp	Pikeville, KY		\$3.7
FNB Corporation	Pittsburgh, PA	\$15.8	\$15.8
First Financial Bancorp	Cincinnati, OH		\$7.3
First Merchants Corp.	Muncie, IN		\$5.6
Fulton Financial Corp		\$17.2	N/A
Great Southern Bancorp, Inc.	Springfield, MO		\$3.9
Lakeland Bancorp, Inc.	Oak Ridge, NJ		\$3.5
Metro Bancorp		\$3.0	N/A
National Penn Bancshares	Allentown, PA	\$8.6	\$8.6
NBT Bancorp Inc.	Norwich, NY	\$7.9	\$7.9
Northwest Bancshares Inc.	Warren, PA	\$7.8	\$7.8
Park National Corp.	Newark, OH		\$7.0
Republic Bancorp, Inc.	Louisville, KY		\$3.6
S&T Bancorp	Indiana, PA	\$4.9	\$4.9
Sandy Spring Bancorp, Inc.	Olney, MD		\$4.2
Susquehanna Bancshares Inc.		\$18.6	N/A
Talmer Bancorp Inc.	Troy, MI		\$5.7
Tompkins Financial Corp.	Ithaca, NY		\$5.1
United Bankshares Inc.	Charleston, WV		\$12.1
Univest Corp of Pennsylvania		\$2.2	N/A
Wesbanco Inc.	Wheeling, WV	\$6.3	\$6.3
WSFS Financial Corporation	Wilmington, DE		\$4.8
Median		\$7.8	\$5.7
First Commonwealth Financial Corp.		\$6.4	\$6.4
First Commonwealth Percentile Rank		31 <sup>st</sup>	56 <sup>th</sup>

In assessing the pay-for-performance relationship, the Committee considers the historic realizable pay provided by the Company to its CEO and other NEOs in relation to the Company's performance. Realizable pay consists of actual base salary and annual cash

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incentives paid, the fair market value of full-value share grants and payouts (or shares earned) under long-term incentive plans for a specified performance period. The Committee believes this can be a more accurate reflection of the actual compensation delivered to the NEOs than the amounts reported in the Summary Compensation Table, which include a mix of actual pay and unearned long-term pay opportunities. The charts below shows the realizable pay of the Company's CEO compared to the 11-company Pennsylvania peer group, relative to the Company's ROE and relative to the Company's total shareholder return (TSR) over the most recent three-year period, 2011 through 2013 (the most recent publicly-available compensation data as of the publication of this proxy statement). As these charts illustrate, the relatively low CEO pay realized through Company programs remained commensurate in comparative terms with Company performance over the same three-year time period.

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**Executive Compensation Philosophy and Strategy**

**Overall Objective.**

The Committee believes that the success of the Company in achieving its strategic objectives will depend in large part on the talent and leadership of its executives and the alignment of those executives with the interests of our investors. Accordingly, the Committee's philosophy toward executive compensation can be summarized as follows:

*Competitive Compensation.* We will provide compensation opportunities to executive officers that, in the aggregate, reflect the median practices of similarly-sized community banks nationwide and our Pennsylvania peer banks, adjusted for individual variance in skill and contribution.

*Pay-for-Performance.* To earn competitive total pay levels, executive officers will be required to meet financial and operating objectives derived from internal business plan objectives as well as outperform their Pennsylvania peers.

*Link Compensation to Talent and Accountability.* To attract, retain and develop superior talent, we assess the leadership skills and professional competence of executive officers as part of our overall assessment of individual performance. Executives are held individually accountable for providing leadership to the organization and achievement of individual internal financial and non-financial objectives, as well as identifying and developing successors. Results of this assessment serve as input to Committee deliberations over salary increases and incentive adjustments and as input to related management selection and employment discussions.

*Promote Long-Term Share Ownership.* We use share ownership to support risk management efforts, balancing demands for short term results with long term consequences. All annual incentive awards in excess of target and all long term incentive awards are paid with restricted shares of Company stock, and all executives are expected to maintain a significant investment in the Company and meet share ownership and retention guidelines.

*Provide Reasonable Income Security.* We provide change of control agreements to our executive officers consistent with industry standards and competitive requirements. These agreements are designed to foster stability and retain well-qualified executives by providing reasonable income protection upon termination of employment following a change of control. All agreements are double trigger, requiring both a change of control and the loss of employment, and no agreement provides for any gross-up of taxes.

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The following graph shows the direct relationship between our financial performance and our CEO total compensation levels by comparing our return on average assets to the total annual compensation for Mr. Price, since he was named CEO of First Commonwealth in January 2012:<sup>1</sup>

**Compensation Positioning and Mix.**

First Commonwealth generally targets its total compensation package (both individual components and in the aggregate) to be competitive with the market. While targets are set to provide competitive pay for meeting expected performance, actual pay levels (by component and in the aggregate) vary to reflect performance relative to goals and industry performance over both short- and long-term timeframes. In the aggregate, the objective of First Commonwealth's total compensation program is to provide a balanced mix of fixed and variable (i.e., incentive / performance) and cash and equity compensation. The target mix of compensation will vary based on the executive's role, and the actual mix will vary based on performance. For example, in a year when no annual incentive is paid, the percentage of total compensation paid in salary will increase.

The Committee generally targets incentive compensation to represent approximately 50% of the total compensation opportunity for the CEO and 33% to 39% of the total compensation opportunity of other NEOs.

<sup>1</sup> ROA for 2014 excludes the effect of a one-time charge in connection with a litigation settlement in the amount of \$5.6 million (after tax). CEO Compensation includes allocation of 2012 special retention award over the four year vesting period.

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The following charts illustrate the target and actual compensation mix for our CEO for 2014. The target compensation mix depicted below is derived from the target annual incentive payout and the target long-term incentive grant value relative to the CEO's actual salary. The actual compensation mix reflects actual CEO salary and the annual incentive earned for 2014 performance (both as reflected in the summary compensation table), as well as the value of the shares earned from the 2012-2014 long-term incentive plan award.

**Elements of Compensation.**

The compensation program for our NEOs consists of base salary, cash and equity-based incentive compensation and other benefits. Each of these elements of compensation is described below.

**Base Salary.** We provide base salaries to compensate our NEOs for services performed during the year. Base salaries further our objectives of attracting and retaining executive talent and providing compensation that is competitive with our peers. Base salary directly affects the size of incentive plan awards, because we express incentive plan awards as a percentage of salary.

Base salaries for executive officers are determined by:

Evaluating the responsibilities of the position held and the experience of the individual; and

Considering the competitive marketplace for executive talent, primarily through a comparison to base salaries for comparable positions with companies in our Pennsylvania and national peer groups.

The Committee typically reviews base salaries annually as part of the performance review process as well as upon promotion or other change in job responsibility. Adjustments to base salaries, within a range of competitive practices, are determined primarily by:

The performance of the executive's business unit or area or responsibility, based upon measures contained in business unit scorecards and the success of business unit operating initiatives; and

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An evaluation of the executive's personal development, which includes an assessment of his or her individual skills and attributes through a formal performance evaluation and progress on individual development objectives.

Incentive Compensation. In order to align pay with corporate performance, the Committee seeks to appropriately balance fixed compensation with variable, or at risk, incentive compensation that is contingent on performance and the financial success of the organization.

For 2014, the NEOs and certain other key executives participated in two incentive compensation plans:

an annual incentive plan, or AIP, which provides for the payment of annual cash awards (and to the extent the target goals are exceeded, time-based restricted stock) based on the attainment of annual corporate performance measures, and

a long-term incentive compensation plan, or LTIP, which provides performance-based equity compensation determined by the attainment of corporate performance measures relative to the Company's peers over a rolling three-year period.

Each plan includes performance goals with threshold, target and superior performance levels. The threshold level represents the minimum acceptable level of performance to earn an award under the particular performance goal. The target level of performance is generally aligned with our budget in the case of corporate performance goals under the AIP and performance that exceeds the peer median in the case of our LTIP. Superior performance reflects stretch targets in the case of corporate performance goals under the AIP and performance within the top quartile of our peer group in the case of our LTIP. The Committee has discretion to consider unusual factors and their resulting effect on our performance, e.g. significant merger and acquisition transactions, the impact of share repurchase activity on the achievement of performance goals, strategic decisions that have an adverse impact on near-term results such as conversion-related expenses, unusual investment gains or losses, corporate and balance sheet restructuring, significant asset sales and other items it deems appropriate in determining the extent of which we achieve our performance goals.

These plans are intended to align our executives' financial interests with those of our investors. The combination of annual and long-term incentives is intended to balance our desire to improve financial results over the short term with the need to employ prudent and sustainable growth strategies.

## Benefits.

The executive officers participate in employee benefit programs available to all other eligible employees of First Commonwealth, including our 401(k) plan, and group medical, life and disability insurance. In addition, First Commonwealth maintains a Nonqualified Deferred Compensation Plan that is designed to restore benefits that are not available to them under our 401(k) plan as highly compensated employees, according to rules of the IRS. Under the terms of this Plan, each participant may contribute up to 25% of his/her compensation to the Plan in the form of a salary reduction. There are presently no employer matching contributions under this Plan.

**Table of Contents****Agreements with Executives.**

We provide employment and change of control agreements to certain executive officers to promote stability and continuity of executive officers and ensure their interests are aligned with shareholders. Terms of these agreements consider marketplace practices and First Commonwealth's unique needs and are tailored to the individual executive with a focus on retention and recruitment. The change of control agreements contain a double trigger, providing benefits only upon an involuntary termination or constructive termination of the executive officer in connection with a change of control. The agreements do not provide for any tax gross-ups payments upon a change of control event. The Committee considers change of control agreements to be necessary in the current financial services industry legal, regulatory and economic environment. Details on employment agreements and change of control agreements are included under Potential Payments Upon Termination or Change of Control on page .

**Stock Ownership Guidelines.**

The Committee has established stock ownership and retention guidelines to encourage higher levels of stock ownership by our executive officers. These guidelines are summarized in the table below.

Position	Ownership Target (lesser of)		
	Multiple of Salary	Or	Number of Shares
Chief Executive Officer	5X	Or	300,000
Chief Financial Officer / Bank President	3X	Or	140,000
Other Executive Officers	2X	Or	60,000
Other key officers	1X	Or	25,000

Executives are not required to purchase shares to reach these ownership guidelines. However, they are restricted from liquidating shares received as equity-based compensation (net of tax) until the guidelines are achieved, and are required to retain at least 50% of shares earned under equity-based compensation plans once the guidelines have been met. The Committee believes that these stock ownership guidelines, coupled with the use of equity-based compensation in our AIP and LTIP, will increase the level of executive stock ownership over time, which will further align the interests of our executives with shareholders.

**Policy Regarding Derivatives, Short Sales and Hedging.**

First Commonwealth's policy prohibits directors and executive officers from pledging shares on margin, trading in derivative securities of First Commonwealth's common stock, engaging in short sales of First Commonwealth securities, or purchasing any other financial instruments that are designed to hedge or offset any decrease in the market value of First Commonwealth securities.



**Table of Contents****Executive Compensation Decisions in 2014****Base Salary**

The Committee approved Mr. Reske's base salary in connection with his employment as Executive Vice President and Chief Financial Officer in April 2014. In January 2014, the Committee approved normal merit increases for Mr. Price and other NEOs. The table below compares the base salaries of the NEOs as of December 31, 2013 and 2014.

	2014 Base Salary	2013 Base Salary
T. Michael Price	\$437,000	\$428,400
James R. Reske	\$350,000	N/A
Jane Grebenc	\$357,000	\$350,000
I. Robert Emmerich	\$275,400	\$270,000
Norman J. Montgomery	\$262,650	\$257,500

**Annual Incentive Plan**

The Committee approved AIP participation for the NEOs in January 2014. The 2014 AIP utilized corporate performance measures to maximize the alignment between executive incentive pay and corporate performance. The Committee retained earnings per share (EPS) and efficiency ratio as corporate performance measures but substituted return on average assets (ROA) for return on average equity (ROE) in the AIP. The Committee concluded that ROA effectively measures corporate performance without creating conflict with the board-approved equity leverage that is inherent in ROE. The Committee also included in the incentive a performance goal tied to the success of the core system conversion in the 2014 AIP to recognize the importance and magnitude of this project. Finally, the Committee retained an individual performance component for those executive officers with risk management responsibilities (our Chief Credit Officer, Chief Risk Officer and Chief Audit Executive) with a weighting of 30%.

The table below lists the performance goals for the 2014 AIP and their respective weightings and threshold, target and superior performance levels, and results:

<i>Performance Goal</i>	<i>Performance Range</i>			<i>Results</i>	<i>Weighting</i>	
	<i>Threshold</i>	<i>Target</i>	<i>Max</i>		<i>Risk Executives</i>	<i>All Other NEOs</i>
EPS	\$0.41	\$0.46	\$0.58	\$0.54	25%	40%
ROA	0.61%	0.68%	0.85%	0.80%	15%	20%
Efficiency Ratio	69.00%	66.85%	65.00%	65.77%	15%	20%
Core System Conversion		Discretionary		Achieved	15%	20%
Individual Performance		Discretionary		Varies	30%	0%
					100%	100%

In 2014, excluding the effect of a one-time charge in connection with a litigation settlement in the amount of \$5.6 million (after tax) or \$0.06 per share, First Commonwealth achieved earnings per share of \$0.54 per, return on average assets of 0.80% and an efficiency ratio of 65.8%, each of which fell between the target and superior performance levels. The Committee determined that the impact of the litigation settlement should be excluded for purposes of determining the attainment of corporate performance goals due to the fact that



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the lawsuit stemmed from a product that was offered long before the tenure of the current management team and the terms of the settlement were appropriate when weighed against the risks of further litigation. The Committee also determined that Mr. Emmerich achieved his individual goals at the Superior performance level due to improved asset quality and lower provision for loan losses compared to 2013 and the budget for 2014. As a result, the Committee approved a payout under the AIP to each of the NEOs between the target and superior performance levels. In accordance with the terms of the AIP, each NEO received a cash payment in the amount of the target incentive award and shares of one year time-vesting restricted stock for the portion of his or her award in excess of target, in each case as set forth in the table below.

Executive	Percent of Target Earned	Target Cash Payout	Above Target (in Stock)	Annual Incentive Payout
T. Michael Price	126.2%	\$218,500	\$57,313	\$275,813
Jane Grebenc	126.2%	\$124,950	\$32,774	\$157,724
James R. Reske	126.2%	\$91,875	\$24,099	\$115,974 <sup>(1)</sup>
I. Robert Emmerich	133.0%	\$68,850	\$22,725	\$91,575
Norman J. Montgomery	126.2%	\$65,663	\$17,223	\$82,886

(1) The 2014 AIP award for Mr. Reske was prorated at three-fourths (3/4) based upon the portion of the year during which he was employed.

**Long-Term Incentive Plans**

**2012-2014 LTIP.** 2014 represented the final year of the three-year performance cycle for the 2012-2014 LTIP. Under the 2012-2014 LTIP, participants received time-vesting shares of restricted stock and performance restricted stock units. The time-vesting shares vested on December 31, 2014. The vesting of performance restricted stock units was based upon First Commonwealth's ROE and total return to shareholders in relation to the Pennsylvania peer group during the performance period. The Committee determined that the company's ROE fell short of the threshold performance level, while total return to shareholders of 92% over the performance period resulted in performance at the 88th percentile of the peer group, which is a superior level of performance. Accordingly, the Committee determined that each participant earned 60% of the target share award.

**2014-2016 LTIP.** In January 2014, the Committee approved LTIP awards to the NEOs based on performance over a three-year performance cycle from 2014 through 2016. Awards under the 2014-2016 LTIP consist entirely of performance-vesting restricted stock units. The number of shares which may be earned under the LTIP ranges from 40% of the target award for threshold performance to 200% of the target award for superior performance. Performance measures under the 2014-2016 LTIP are based on the Company's financial performance in relation to the Pennsylvania peer group. The Company's performance must reach the 35th, 55th, or 75th percentile of the peer group to merit a threshold, target or superior award, respectively. The measures and weightings are as follows:

<u>Measure</u>	<u>Weighting</u>
ROE relative to peers <sup>1</sup>	60%
Three-year total return to shareholders relative to peers	40%

<sup>1</sup> Based on the average of Company ROE relative to peers for 2015 and 2016.

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**Agreements with Executives.** The Committee approved the terms of an Employment Agreement and Change of Control Agreement and a restricted stock award for Mr. Reske in connection with his acceptance of employment as our Executive Vice President and Chief Financial Officer. The Committee determined that the terms of these agreements were reasonable and customary for this position and necessary to attract and retain an executive of Mr. Reske's caliber.

## **Tax Treatment of Compensation**

Section 162(m) of the Code limits the deductibility of the compensation in excess of one million dollars paid to the CEO, CFO and the three most highly compensated executive officers other than the CEO and CFO, unless such compensation qualifies as performance-based compensation. We intend for awards under our AIP and LTIP (other than awards of time-vested restricted stock) to meet the performance-based compensation exception to the annual one million dollar limitation. While we are cognizant of the tax deduction limitations applicable to our compensation program for NEOs, we may set compensation levels outside the deduction limitations if we deem the amount of compensation appropriate.

## **Advisory Vote on Executive Compensation**

Our shareholders approved, in an advisory vote, the compensation of our NEOs at our 2014 annual meeting of shareholders. The advisory vote received the support of approximately 98% of the votes cast (excluding abstentions and broker non-votes). While the Committee considered the results of this advisory vote to be overwhelmingly favorable, it did not speculate as to the intent of the shareholders or otherwise consider the advisory vote when making decisions regarding the compensation of our NEOs.

## **Compensation Committee Report**

The Compensation and Human Resources Committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth in the preceding pages of this proxy statement, and based on such review and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 as filed with the Securities and Exchange Commission.

Respectfully submitted,

Robert J. Ventura, Chairman  
Julie A. Caponi  
Ray T. Charley  
Gary R. Claus  
David W. Greenfield

**Table of Contents****Summary Compensation Table**

The table below shows compensation of our named executive officers.

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)	Stock	Non-Equity	All	Total
				Awards	Incentive	Other	
				(\$)(2)	Plan	Compensation	
					(\$)(3)	(\$)(4)	(\$)
T. Michael Price	2014	435,567	--	263,562	218,500	78,659	996,288
President and Chief Executive Officer	2013	427,000	--	73,600	131,097	32,550	664,247
	2012	420,000	--	764,400	118,582	34,000	1,336,982
James R. Reske	2014	237,372	50,000(5)	379,756	91,875	22,718	781,721
Executive Vice President and Chief Financial Officer							
Jane Grebenc	2014	355,833	25,000(6)	148,277	124,950	20,255	674,315
Executive Vice President and Chief Revenue Officer	2013	210,898	25,000	398,050	46,464	17,132	697,544
I. Robert Emmerich	2014	274,500	--	88,727	68,850	24,269	456,346
Executive Vice President and Chief Credit Officer	2013	268,333	--	73,600	69,536	22,430	433,899
	2012	260,000	20,000	71,520	49,647	21,400	422,567
Norman J. Montgomery	2014	261,792	--	83,213	65,663	17,272	427,939
Executive Vice President and Business Integration Group Manager	2013	256,250	--	73,600	48,834	16,775	395,459
	2012	232,808	--	59,600	39,198	15,712	347,318
Robert E. Rout	2014	135,613	--	--	--	195,503	331,116
Former Executive Vice President and Chief Financial Officer	2013	375,814	--	73,600	86,154	17,830	553,398
	2012	372,708	--	131,120	73,660	17,650	595,138

- (1) Annual salary includes compensation deferred at the election of the named executive officer pursuant to First Commonwealth's 401(k) plan and non-qualified deferred compensation plan.

(2) Stock awards for 2014 consist of the following:

In the case of Mr. Reske, an equity inducement award of 27,500 shares of restricted stock granted on April 10, 2014 in connection with his employment as Executive Vice President and Chief Financial Officer. These shares vest in three equal installments on each of the first three anniversaries of the grant date.

In the case of all NEOs other than Mr. Rout, performance-based restricted stock unit awards ( RSUs ) granted under the Company s 2014-2016 long-term incentive plan ( LTIP ). The RSUs vest only if the Company achieves certain performance goals and the officer continues his or her employment with the Company until the end of the performance period (i.e., December 31, 2016).

In the case of all NEOs other than Mr. Rout, the portion of awards earned by each NEO under the 2014 Annual Incentive Plan that exceeds such NEO s target award, which amount is paid in shares of time-vesting restricted stock.

All stock awards are reflected at their grant date fair value, as determined pursuant to Accounting Standards Codification Topic 718, Stock Compensation ( ASC 718 ). Assumptions used in the calculation of this amount are included in Note 23 to the Company s audited financial statements for the fiscal year ended December 31, 2014, included in the Company s Annual Report on Form 10-K. The amounts reflected for performance-based restricted stock units assume that we will achieve the required performance goals at target levels and that the officer will continue to be employed by

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us through December 31, 2016. The following table provides additional information regarding the performance-based RSUs granted during 2014. The target amounts have been included in the above table and are reflected below for comparative purposes:

<b>Name</b>	<b>At Target (\$)</b>	<b>At Superior (\$)</b>
T. Michael Price	206,250	412,500
James R. Reske	119,980	239,960
Jane Grebenc	115,500	231,000
I. Robert Emmerich	66,000	132,000
Norman J. Montgomery	66,000	132,000

- (3) Represents cash awards earned by the named executive officers under our 2014 Annual Incentive Plan ( AIP ).
- (4) The amounts shown under the heading All Other Compensation include, with respect to each named executive officer, (i) matching contributions made by First Commonwealth under First Commonwealth's 401(k) plan, and (ii) dividends on unvested shares of restricted stock:

<b>Name</b>	<b>Matching 401(k) Contributions (\$)</b>	<b>Restricted Stock Dividends (\$)</b>
T. Michael Price	15,600	15,145
James R. Reske	--	5,775
Jane Grebenc	9,755	10,500
I. Robert Emmerich	15,250	9,019
Norman J. Montgomery	14,472	2,800
Robert E. Rout	6,836	1,943

The amount shown for Mr. Price includes relocation expenses of \$47,914.

The amount shown for Mr. Reske includes temporary living expenses of \$16,943.

The amount shown for Mr. Rout includes payments totaling \$186,724 to Mr. Rout pursuant to a Retirement and Transition Services Agreement dated November 29, 2013 between the Company and Mr. Rout.

- (5) The amount shown under the heading Bonus for Mr. Reske represents a signing bonus paid in connection with his employment as Executive Vice President and Chief Financial Officer.
- (6) The amount shown under the heading Bonus for Ms. Grebenc represents the second half of a signing bonus paid in connection with her employment as Executive Vice President and Chief Revenue Officer.





**Table of Contents****Grants of Plan-Based Awards**

The following table shows information on plan-based awards to the named executive officers during 2014:

Name	Grant Date	Estimated Future Payouts Under Non-Equity			Estimated Future Payouts Under Equity			All Other Stock Awards:	
		Incentive Plan Awards(1)		Maximum (\$)	Incentive Plan Awards(2)		Number of Shares of Stocks or Units (#)(3)	Grant Date Fair Value of Stock Awards (\$)(4)	
		Threshold (\$)	Target (\$)		Threshold (#)	Target (#)			Maximum (#)
T. Michael Price	1/27/2014	54,625	218,500	327,750	10,000	25,000	50,000	6,216	263,562
James R. Reske	4/10/2014	22,969	91,875	137,813	5,600	14,000	28,000	30,114	379,756
Jane Grebenc	1/27/2014	31,238	124,950	187,425	5,600	14,000	28,000	3,555	148,277
I. Robert Emmerich	1/27/2014	17,213	68,850	103,275	3,200	8,000	16,000	2,614	88,727
Norman J. Montgomery	1/27/2014	16,416	65,663	98,495	3,200	8,000	16,000	1,868	83,223
Robert E. Rout	N/A	--	--	--	--	--	--	--	--

- (1) Amounts reflected under the Estimated Future Payouts Under Non-Equity Incentive Plan Awards column of the table above represent the award opportunities for named executive officers under our AIP for 2014 based upon the threshold, target and maximum (referred to as superior in the AIP) levels of performance for all relevant performance goals. The 2014 AIP award for Mr. Reske was prorated at three-fourths (3/4) based upon the portion of the year during which he was employed. Awards under the 2014 AIP were payable in cash up to the amount of the target award and in shares of time-vested restricted stock for any amount in excess of the target award amount. The number of shares is determined by dividing such excess by the fair market value of our stock on December 31, 2014. Cash awards earned by each named executive officer under the 2014 AIP are reflected in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table above. Restricted share awards earned by each NEO under the 2014 AIP are reflected under the Stock Awards column of the Summary Compensation and are included in the table above under All Other Stock Awards and Grant Date Fair Value of Stock Awards. Refer to the discussion of 2014 Incentive Plans under the Compensation Discussion and Analysis section of this proxy statement for additional information concerning the 2014 AIP.
- (2) The amounts reflected under the Estimated Future Payouts Under Equity Incentive Plan Awards column of the table above represent the number of shares of restricted stock that may be issued to our named executive officers under the 2014-2016 LTIP based upon the threshold, target and maximum (referred to as superior in the LTIP) levels of performance for all relevant performance goals. Performance-based awards deemed earned for the 2015-2016 performance period will be paid in time-vested restricted stock which will vest one year

following the end of the performance period (i.e., December 31, 2017).

- (3) The amounts under the All Other Stock Awards reflect (i) in the case of each NEO other than Mr. Rout, the number of shares of time-vested restricted stock awarded to the NEO pursuant to the 2014 AIP; and (ii) in the case of Mr. Reske, the number of shares of time-vested restricted stock granted to Mr. Reske as an equity inducement award upon his employment as Chief Financial Officer.
- (4) The amounts shown under Grant Date Fair Value of Stock Awards represents the grant date fair value of all performance-based and time-vested restricted stock awards granted in 2014, assuming performance at target levels, and the grant date fair value of the equity inducement award granted to Mr. Reske in 2014, in each case, as determined under ASC Topic 718.

**Table of Contents****Outstanding Equity Awards at Fiscal Year-End**

The following table presents the number and market value of unvested stock awards held by the named executive officers as of December 31, 2014:

Name	Grant Date	Stock Awards		Equity Incentive Plan	
		Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
		(#)(1)	(\$)(2)	(#)(3)	(\$)(2)
T. Michael Price	1/27/2014	--	--	10,000	92,200
	1/28/2013	--	--	4,000	36,880
	1/1/2012	50,000	461,000	--	--
James R. Reske	4/10/2014	27,500	253,550	--	--
	4/10/2014	--	--	5,600	51,632
Jane Grebenc	1/27/2014			5,600	51,632
	5/31/2013	--	--	--	--
	5/31/2013	30,000	276,600	4,000	36,880
		--	--	3,200	29,504
I. Robert Emmerich	1/27/2014	--	--	4,000	36,880

	1/28/2013	25,000	230,500	--	--
	4/1/2011				
Norman J.	1/27/2014	--	--	3,200	29,504
Montgomery	1/28/2013	--	--	4,000	36,880
	2/24/2012	10,000	92,200	--	--
Robert E. Rout	N/A	--	--	--	--

- (1) Shares reflected in this column include special awards of time-vested restricted stock issued to Mr. Reske in 2014, Ms. Grebenc in 2013, Messrs. Price and Montgomery in 2012, and Mr. Emmerich in 2011.
- (2) Market values are calculated using the closing market price of First Commonwealth's stock on the NYSE on the last trading day of 2014 (\$9.22 per share).
- (3) Shares reflected in this column represent the number of shares that would be issued to each named executive officer under our 2013-2015 LTIP and 2014-2016 LTIP assuming that the threshold level of performance is achieved for each plan.

#### Option Exercises and Stock Vested

None of the named executive officers exercised stock options during 2014. The following table presents information concerning shares of restricted stock held by named executive officers that vested during 2014:

Name	Stock Awards	
	Number of Shares	Value Realized
	Acquired on Vesting	on Vesting
	(#)	(\$)(1)
T. Michael Price	29,091 (2)	258,219
James R. Reske	--	--
Jane Grebenc	15,000 (3)	129,000
I. Robert Emmerich	7,212 (4)	66,495
Norman J. Montgomery	--	--
Robert E. Rout	11,740 (5)	95,564



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- (1) Calculated by multiplying the number of shares acquired on vesting by market value of the shares on the vesting date using the closing market price of First Commonwealth's stock on the NYSE on the vesting date.
- (2) Consists of 25,000 shares of restricted stock, representing one-fourth of a restricted stock award that was granted to Mr. Price upon his appointment as Interim President and CEO, which vested January 1, 2014, and 4,091 shares of restricted stock representing shares earned under the 2011-2013 LTIP, which vested December 31, 2014.
- (3) Represents one-third of a restricted stock award that was granted to Ms. Grebenc upon her employment as Executive Vice President and Chief Revenue Officer which vested May 31, 2014.
- (4) Consists of 1,212 shares earned under the 2011-2013 LTIP and 6,000 shares of time-vested restricted stock awarded under the 2012-2014 LTIP, each of which vested December 31, 2014.
- (5) In accordance with the Retirement and Transition Services Agreement between the Company and Mr. Rout, a pro rata portion of the restricted shares earned under the 2011-2013 LTIP and the time-vested restricted stock awarded to Mr. Rout under the 2012-2014 LTIP vested upon his retirement on May 16, 2014.

**Nonqualified Deferred Compensation**

We maintain a non-qualified deferred compensation plan in which each named executive officer may contribute up to 25% of his or her base salary. Amounts held in the plan may be invested at the discretion of the executive in one or more eligible mutual funds. Plan assets are generally distributed in a lump sum following the later of the termination of the officer's employment or the attainment of age 62. Amounts held in the plan are not subject to vesting or forfeiture. The following table presents executive and employer contributions, aggregate earnings, withdrawals and distributions and year-end balance for each of the named executive officers for 2014:

Name	Executive	Registrant	Aggregate	Aggregate	Aggregate
	Contributions	Contributions	Earnings in	Withdrawals/	
	in Last FY	in Last FY	Last FY	Distributions	Balance at
	\$(1)	\$(1)	\$(2)	(\$)	Last FYE (\$)
T. Michael Price	34,272	--	(7,337)	--	269,841
James R. Reske	--	--	--	--	--
Jane Grebenc	--	--	--	--	--
I. Robert Emmerich	--	--	--	--	--
Norman J. Montgomery	20,600	--	2,689	--	52,604
Robert E. Rout	37,975	--	9,890	--	215,609

(1)

Amounts contributed to the non-qualified deferred compensation plan are invested in third party investment vehicles, such as mutual funds and money-market accounts. These amounts are included in the Salary column of the Summary Compensation Table.

- (2) Earnings reflect the market return on plan investments and include interest, dividends and appreciation (or depreciation) in the net asset value of investments held in each named executive officer's Non-Qualified Deferred Compensation Plan account.



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### **Compensation Policies and Practices Relating to Risk Management**

As a financial services institution, our objective is to effectively understand and manage our risk exposures and to ensure we are compensated appropriately for the risks that we take. Incentive plans play an important role in our success by providing specific rewards for achievement of goals, while balancing the risks we undertake with asset quality and safety and soundness considerations. We follow the following compensation policies and practices to ensure that we achieve this balance:

All of our incentive plans have explicit provisions that allow First Commonwealth to recoup any amounts paid to an employee as a result of erroneous or intentionally misrepresented data.

Our corporate banking incentive plans provide the Company with the right to recover any payments made to an employee in respect of loans that are downgraded to non-accrual status or charged off within 24 months after origination.

Our corporate banking incentive plans have explicit credit quality disqualifiers, which can reduce or eliminate an incentive otherwise earned if the employee fails to follow established portfolio management requirements.

All sales and service incentives, including all incentives relating to the sale of loan and line-of-credit products, are capped at a performance level reflecting strong but achievable results, at total earnings levels that are within a range of competitive pay levels.

All sales and service incentive plans are reviewed annually and must be approved by a panel of executive officers.

All incentives are monitored by our Human Resources department for compliance with documentation, risk profile and credit quality requirements.

In addition, management performs an annual assessment of First Commonwealth's incentive plans in order to determine the extent to which the incentives could potentially encourage excessive risk taking by our employees or otherwise expose the organization to risks that could destroy shareholder value or jeopardize the safety and soundness of First Commonwealth Bank. This assessment is reviewed by the Risk Committee and Compensation and Human Resources Committee of the Board of Directors. In 2014, the assessment was conducted by our Chief Risk Officer and our Assistant Compensation Manager. These officers reviewed incentive designs, performance metrics, and resulting performance/payout relationships for positions where incentives for individual behavior could potentially create an incentive for excessive risk taking, as well as mitigating controls in the design and administration of incentive plans. The assessment concluded that our compensation policies do not encourage excessive and unnecessary risk-taking and that the level of risk that they do encourage is not reasonably likely to have a material adverse effect on the Company.

### **Potential Payments Upon Termination or Change of Control**

First Commonwealth has entered into agreements with certain executive officers and key employees, including each named executive officer, which provide for the payment of

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severance and benefits in the event of a qualifying termination of employment following a change of control. In addition, Mr. Price, Mr. Reske and Ms. Grebenc are parties to employment agreements that entitle those officers to receive severance payments and benefits if their employment is terminated under certain circumstances. These agreements are summarized below. Except as provided in these agreements, First Commonwealth has not agreed to pay severance or provide benefits to any of the named executive officers following the termination of his or her employment.

### *Change of Control Agreements*

We have entered into a Change of Control Agreement with each of the Named Executive Officers which entitle the executive to receive severance payments in equal monthly installments over a specified period following the termination of his or her employment if the executive is terminated without cause (as defined below) or terminates his or her employment for good reason (as defined below) within a specified period following the occurrence of a change of control (as defined below) of First Commonwealth, each of which is referred to in the Change of Control Agreements as a qualifying termination.

As used in the Change of Control Agreements: (A) cause includes (i) the conviction of a felony which results or is intended to result in a loss to the Company or its clients, employees, directors or officers; (ii) the failure to perform the executive's duties with the degree of skill and care reasonably expected of a professional of his or her experience and stature after notice and an opportunity to cure; (iii) acts of dishonesty which result in material damage to the business or reputation of the Company; or (iv) a violation of the terms of the Change of Control Agreement or any Company policy or procedure which is deliberate and results or is intended to result in material damage to the business or reputation of the Company; (B) good reason includes (i) the diminution of or assignment of duties which are inconsistent with the position, authority, duties or responsibilities of the executive prior to the change of control; (ii) changing the location of the executive's employment by more than fifty miles or substantially increasing the executive's travel obligations; or (iii) reduction of the executive's base salary or discontinuance of any benefit, welfare or compensation plan or material fringe benefit for the executive; and (C) change of control means (i) the acquisition by any person of beneficial ownership of 50% or more of the outstanding shares of our stock; (ii) a change in the composition of the majority of our Board of Directors (except for nominees who are approved by a majority vote of the incumbent Board); or (iii) a merger, reorganization, consolidation, sale or similar transaction in which the persons who owned our outstanding shares prior to the transaction do not beneficially own at least 50% of the outstanding shares of the resulting entity. However, the placement of the Company into receivership by the FDIC, the sale of the Company in an FDIC-assisted transaction or a change in the composition of our Board of Directors at the direction of an agency having supervisory authority over us will not constitute a change of control for purposes of the Change of Control Agreements.

The monthly severance payment is calculated as one-twelfth (1/12) of the sum of the following:

the executive's annual base salary immediately prior to the change of control;

the average of the aggregate amount of all bonuses paid to the executive during the thirty-six months prior to the change of control;

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the aggregate amount of all contributions by First Commonwealth for the account of the executive under First Commonwealth's 401(k) plan during the twelve months prior to the change of control; and

the aggregate amount of any contributions by First Commonwealth to the executive's Non-Qualified Deferred Compensation Plan account during the twelve-months prior to the change of control.

In addition to severance payments, the former executive and his or her family will continue to receive, at the employer's expense, the same level of medical benefits for up to eighteen (18) months following the occurrence of a qualifying termination.

If the payments and benefits to which the executive is entitled under his or her Change of Control Agreement, either alone or together with any other payments or benefits that he or she is entitled to receive from First Commonwealth, would constitute a parachute payment for purposes of section 280G of the Internal Revenue Code, the payments and benefits will be reduced by the minimum amount necessary to result in no portion of the payments and benefits being non-deductible by First Commonwealth and subject to the excise taxes imposed under the Internal Revenue Code for parachute payments.

The following table sets forth the payments and the value of benefits that each such person would have been entitled to receive if a qualifying termination had occurred following a change of control on December 31, 2014:

Name	Severance Period	Aggregate	
		Severance Payments (\$)	Value of Health Benefits \$(1)
T. Michael Price	24 months	1,071,653	23,720
James R. Reske	24 months	800,000	23,720
Jane Grebenc	24 months	876,438	23,720
I. Robert Emmerich	24 months	674,089	7,845
Norman J. Montgomery	12 months	306,573	15,060

(1) Calculated using actual premium costs for 2014 and estimated premium costs for 2016 based on a 15% projected annual increase in premiums.

*Employment Agreement with Mr. Price*

We entered into an employment agreement with Mr. Price in November 2007 when he joined First Commonwealth as President of First Commonwealth Bank, and we entered into an amended and restated employment agreement with Mr. Price when he assumed the position of Interim President and Chief Executive Officer of the Company effective January 1, 2012. Under the terms of his employment agreement, as amended and restated, Mr. Price is employed for successive one-year terms ending December 31 unless the agreement is terminated by either party upon notice given at least 60 days prior to the end of the current term. The current term of Mr. Price's employment agreement ends December 31, 2015.



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If First Commonwealth terminates Mr. Price's employment other than for cause (as defined below) during the term of the agreement or Mr. Price resigns for good reason (as defined below) during the term of the agreement, then First Commonwealth will pay Mr. Price severance in an amount equal to one year's base salary, subject to the execution of an agreed form of separation agreement and general release by Mr. Price. As used in Mr. Price's employment agreement: (A) cause includes (i) the failure by Mr. Price to comply with any material provision of his employment agreement; (ii) the refusal by Mr. Price to comply with any lawful, written directive from the Board of Directors; (iii) Mr. Price's failure to perform his duties with the degree of skill and care reasonably to be expected of a professional of his experience and stature after notice and a reasonable opportunity to cure (unless the failure to perform is incapable of being cured); or (iv) any act of dishonesty, fraud or moral turpitude by Mr. Price or the conviction of Mr. Price of a crime which, in the judgment of the Board of Directors, renders his continued employment materially damaging or detrimental to the Company; and (B) good reason includes (i) a substantial reduction in Mr. Price's title, position or responsibilities; (ii) any reduction in Mr. Price's base salary or a material reduction of benefits (unless such reduction of benefits applies equally to all similarly situated employees of the Company); (iii) the assignment of Mr. Price to a position which requires him to relocate permanently to a site more than fifty (50) miles outside of Indiana, Pennsylvania; or (iv) the assignment to Mr. Price of any duties or responsibilities (other than due to a promotion) which are materially inconsistent with the position of the President and Chief Executive Officer.

The severance amount is payable in equal periodic installments in accordance with the Company's normal payroll schedule, provided that any installments that would otherwise be payable within six months following Mr. Price's separation from service will be paid on the day following the six-month anniversary of the separation from service. First Commonwealth will also offer continuation coverage to Mr. Price, as required by COBRA, under First Commonwealth's group health plan on the terms and conditions mandated by COBRA and will pay the cost of Mr. Price's COBRA premiums for 12 months following his separation from service.

The employment agreement contains certain covenants which protect the Company during and following the termination of Mr. Price's employment, including: (i) a non-competition covenant which prohibits Mr. Price from serving in certain capacities with competitive businesses for a period of one year following the termination of his employment; (ii) a provision prohibiting Mr. Price from soliciting or hiring our employees for one year following the termination of his employment; and (iii) customary provisions protecting the confidentiality of Company information and requiring the return of documents and information upon the termination of Mr. Price's employment.

If we had terminated Mr. Price's employment without cause on December 31, 2014, or if Mr. Price had terminated his employment with us for good reason on that date, he would have been entitled to severance payments totaling \$437,000 and COBRA premiums having an aggregate value of \$15,060

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*Employment Agreement with Mr. Reske*

We entered into an employment agreement with Mr. Reske in April 2014 when he joined First Commonwealth as Executive Vice President and Chief Financial Officer. Under the terms of his employment agreement Mr. Reske is employed for an initial term of three years ending March 31, 2017, at which time Mr. Reske's employment will be automatically renewed for successive one-year periods unless the agreement is terminated by either party upon notice given at least 60 days prior to the end of the current term.

If First Commonwealth terminates Mr. Reske's employment other than for cause (as defined below) during the term of the agreement or Mr. Reske resigns for good reason (as defined below) during the term of the agreement, then First Commonwealth will pay Mr. Reske severance in an amount equal to the product of (x) one-twelfth (1/12) of his base salary multiplied by (y) the greater of (i) twelve months or (ii) the number of months remaining in the term of his employment agreement, subject to the execution of an agreed form of separation agreement and general release by Mr. Reske. As used in Mr. Reske's employment agreement: (A) cause includes (i) the failure by Mr. Reske to comply with any material provision of his employment agreement; (ii) the refusal by Mr. Reske to comply with any lawful, written directive from the Board of Directors; (iii) Mr. Reske's failure to perform his duties with the degree of skill and care reasonably to be expected of a professional of his experience and stature after notice and a reasonable opportunity to cure (unless the failure to perform is incapable of being cured); or (iv) any act of dishonesty, fraud or moral turpitude by Mr. Reske or the conviction of Mr. Reske of a crime which, in the judgment of the Board of Directors, renders his continued employment materially damaging or detrimental to the Company; and (B) good reason includes (i) a substantial reduction in Mr. Reske's title, position or responsibilities; (ii) any reduction in Mr. Reske's base salary or a material reduction of benefits (unless such reduction of benefits applies equally to all similarly situated employees of the Company); (iii) the assignment of Mr. Reske to a position which requires him to relocate permanently to a site more than fifty (50) miles outside of Indiana, Pennsylvania; or (iv) the assignment to Mr. Reske of any duties or responsibilities (other than due to a promotion) which are materially inconsistent with the position of the Executive Vice President and Chief Financial Officer.

The severance amount is payable in equal periodic installments in accordance with the Company's normal payroll schedule, provided that any installments that would otherwise be payable within six months following Mr. Reske's separation from service will be paid on the day following the six-month anniversary of the separation from service. First Commonwealth will also offer continuation coverage to Mr. Reske, as required by COBRA, under First Commonwealth's group health plan on the terms and conditions mandated by COBRA and will pay the cost of Mr. Reske's COBRA premiums for 12 months following his separation from service.

The employment agreement contains certain covenants which protect the Company during and following the termination of Mr. Reske's employment, including: (i) a non-competition covenant which prohibits Mr. Reske from serving in certain capacities with competitive businesses for a period of one year following the termination of his employment; (ii) a provision prohibiting Mr. Reske from soliciting or hiring our employees for one year following the termination of his employment; and (iii) customary provisions protecting the confidentiality

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of Company information and requiring the return of documents and information upon the termination of Mr. Reske's employment.

If we had terminated Mr. Reske's employment without cause on December 31, 2014, or if Mr. Reske had terminated his employment with us for good reason on that date, he would have been entitled to severance payments totaling \$787,509 and COBRA premiums having an aggregate value of \$15,060.

*Employment Agreement with Ms. Grebenc*

We entered into an employment agreement with Ms. Grebenc in May 2013 when she joined First Commonwealth as Executive Vice President and Chief Revenue Officer and President of First Commonwealth Bank. Under the terms of her employment agreement Ms. Grebenc is employed for an initial term of two years ending May 31, 2015, at which time Ms. Grebenc's employment will be automatically renewed for successive one-year periods unless the agreement is terminated by either party upon notice given at least 60 days prior to the end of the current term.

If First Commonwealth terminates Ms. Grebenc's employment other than for cause (as defined below) during the term of the agreement or Ms. Grebenc resigns for good reason (as defined below) during the term of the agreement, then First Commonwealth will pay Ms. Grebenc severance in an amount equal to the product of (x) one-twelfth (1/12) of her base salary multiplied by (y) the greater of (i) twelve months or (ii) the number of months remaining in the term of her employment agreement, subject to the execution of an agreed form of separation agreement and general release by Ms. Grebenc. As used in Ms. Grebenc's employment agreement: (A) cause includes (i) the failure by Ms. Grebenc to comply with any material provision of her employment agreement; (ii) the refusal by Ms. Grebenc to comply with any lawful, written directive from the Board of Directors; (iii) Ms. Grebenc's failure to perform her duties with the degree of skill and care reasonably to be expected of a professional of her experience and stature after notice and a reasonable opportunity to cure (unless the failure to perform is incapable of being cured); or (iv) any act of dishonesty, fraud or moral turpitude by Ms. Grebenc or the conviction of Ms. Grebenc of a crime which, in the judgment of the Board of Directors, renders her continued employment materially damaging or detrimental to the Company; and (B) good reason includes (i) a substantial reduction in Ms. Grebenc's title, position or responsibilities; (ii) any reduction in Ms. Grebenc's base salary or a material reduction of benefits (unless such reduction of benefits applies equally to all similarly situated employees of the Company); (iii) the assignment of Ms. Grebenc to a position which requires her to relocate permanently to a site more than fifty (50) miles outside of Pittsburgh, Pennsylvania; or (iv) the assignment to Ms. Grebenc of any duties or responsibilities (other than due to a promotion) which are materially inconsistent with the position of the Executive Vice President and Chief Revenue Officer.

The severance amount is payable in equal periodic installments in accordance with the Company's normal payroll schedule, provided that any installments that would otherwise be payable within six months following Ms. Grebenc's separation from service will be paid on the day following the six-month anniversary of the separation from service. First Commonwealth will also offer continuation coverage to Ms. Grebenc, as required by COBRA, under First Commonwealth's group health plan on the terms and conditions mandated by COBRA and



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will pay the cost of Ms. Grebenc's COBRA premiums for 12 months following her separation from service.

The employment agreement contains certain covenants which protect the Company during and following the termination of Ms. Grebenc's employment, including: (i) a non-competition covenant which prohibits Ms. Grebenc from serving in certain capacities with competitive businesses for a period of one year following the termination of her employment; (ii) a provision prohibiting Ms. Grebenc from soliciting or hiring our employees for one year following the termination of her employment; and (iii) customary provisions protecting the confidentiality of Company information and requiring the return of documents and information upon the termination of Ms. Grebenc's employment.

If we had terminated Ms. Grebenc's employment without cause on December 31, 2014, or if Ms. Grebenc had terminated her employment with us for good reason on that date, she would have been entitled to severance payments totaling \$357,000 and COBRA premiums having an aggregate value of \$15,060.

**Table of Contents****PROPOSAL 4 APPROVAL OF THE AMENDED AND RESTATED FIRST COMMONWEALTH FINANCIAL CORPORATION INCENTIVE COMPENSATION PLAN**

The Board of Directors is requesting that First Commonwealth's shareholders vote in favor of amending, restating and extending the First Commonwealth Financial Corporation Incentive Compensation Plan (the Plan and, as amended, the Amended Plan). The Plan first was approved by shareholders in 2009 and currently is scheduled to terminate in 2019. We are submitting the Amended Plan for shareholder approval at the Annual Meeting in order to, among other items, extend the term of the Plan and preserve the Company's ability to deduct qualified performance-based compensation awarded to certain executives under the Amended Plan. If shareholders do not approve the Amended Plan, our Compensation and Human Resources Committee (the Committee) will be unable to grant awards of qualified performance-based compensation exempt from the \$1 million deduction limitation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) to certain executives under the Plan, as discussed more fully below under the heading *Approval of the Amended Plan for Purposes of Section 162(m) of the Tax Code*.

The Committee's independent compensation consultant, Board Advisory LLC, provided assistance with preparing the Amended Plan. Based on its review of relevant factual information, the Committee approved, and recommended that the Board approve, the Amended Plan. The Amended Plan was approved by the Company's Board of Directors on January 27, 2015, subject to shareholder approval. The Amended Plan is an amendment and restatement of the Plan (and therefore supersedes the Plan). All outstanding awards under the prior Plan will continue to be governed by the terms of the prior Plan. We will not grant any awards under the Amended Plan prior to shareholder approval.

*Highlights of the Amended Plan***Features of the Amended Plan:**

- ü Funded with the balance of the 5,000,000 shares authorized for issuance when the prior Plan was approved by shareholders in 2009, without any additional shares requested
- ü Approximately 3,955,542 shares, plus any shares forfeited or otherwise recycled from the prior Plan, remain available for issuance
- ü Allows the Company to continue its current grant practices, which to date have resulted in actual share usage of roughly one-third the level of equivalent share grants issued by the Company's peers, based on Institutional Shareholder Services (ISS) benchmarks.
- ü Maintains the award types available under the original Plan, consisting of annual cash incentives, restricted stock, restricted stock units, stock options, incentive stock options, stock appreciation rights, performance shares and units, and other awards.
- ü Maintains individual award limits for \$5,000,000 in cash awards and 500,000 shares in any calendar year.
- ü Retains prohibition on repricing and post-dating of options or SARs or issuance of discounted options or SARs.
- ü Material amendments require additional shareholder approval.
- ü Awards are administered by an independent Committee.

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**Key Changes from the Prior Plan as Approved by Shareholders in 2009:**

- ü Increased restrictions on share recycling.
- ü No liberal share counting.
- ü Addition of minimum vesting requirement of three (3) years, in pro-rata annual installments, for standard time-based restricted stock or restricted stock unit awards to executive officers.
- ü Addition of double-trigger for acceleration of time-based vesting in the event of a change of control of the Company.
- ü New restriction limiting shares issued to non-executive directors of 50,000 shares in any calendar year, subject to adjustment as described in the Amended Plan.
- ü All awards are subject to clawback provisions.

The following summary of the major features of the Amended Plan is qualified in its entirety by reference to the actual text of the Amended Plan, as set forth in ***Annex A*** to this Proxy Statement.

We are requesting that shareholders approve the Amended Plan as follows:

*Extension of the Expiration Date of the Plan*

The Plan currently is scheduled to expire on April 20, 2019. The Company is seeking an extension of the expiration of the Amended Plan to April 28, 2025. The Company believes this extension is appropriate given the company's conservative use of shares since the Plan was approved by shareholders in 2009, the strong alignment of share issuance with corporate performance, and the importance of equity-based compensation, which aligns executive pay with the interests of shareholders.

*Approval of the Amended Plan for Purposes of Section 162(m) of the Tax Code*

Section 162(m) of the Code ( Section 162(m) ), limits the deductibility of compensation paid to each of the Company's chief executive officer and the three other highest compensated officers, other than the chief financial officer (collectively, the Covered Employees ), in any one year to \$1,000,000, unless the compensation is qualified performance-based compensation. The Amended Plan has been structured in a manner that enables the Company to grant awards to Covered Employees that are designed to satisfy the requirements of qualified performance-based compensation within the meaning of Section 162(m). These awards are referred to as qualified performance-based awards and are in addition stock options and stock appreciation rights, which also are expressly authorized under the Amended Plan and also may qualify as qualified performance-based compensation for purposes of Section 162(m).

One of the requirements of Section 162(m) relates to shareholder approval (and, in certain cases, re-approval) of the plan under which the awards are granted, including approval of the material terms of the performance goals under which qualified performance-based awards may be paid. In this regard, Section 162(m) requires re-approval of those performance goals after five years if the Committee has retained discretion to vary the targets under the performance goals from year to year. The Committee has retained discretion to vary the targets under the performance goals from year to year under the Plan.

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In addition, stock options or SARs also can qualify as qualified performance-based compensation under Section 162(m). In order for stock options and SARs to qualify as qualified performance-based compensation, Section 162(m) requires that the shareholders approve a maximum limit on the number of shares underlying such awards that may be granted to a participant over a specified period and that the exercise price of any such award not be less than the fair market value of a share of common stock on the grant date of the award.

The shareholders are being asked to approve the Amended Plan and, specifically, the material terms of the performance goals under which an award of qualified performance-based compensation may be granted in the Amended Plan, in order to preserve the Company's ability to deduct compensation paid to Covered Employees pursuant to any qualified performance-based award, stock option or SAR that may be made in the future under the Amended Plan. For purposes of Section 162(m), the material terms include the employees eligible to receive compensation, a description of the business criteria on which the performance goal is based (*i.e.*, performance measures), and the maximum amount of compensation that can be paid to an employee under the performance goal (*i.e.*, individual annual award limits). Shareholder approval of the material terms of the Amended Plan (including, but not limited to, the individual annual award limits) will allow the Committee the opportunity to grant awards intended to qualify as performance-based compensation under Section 162(m). Each award under the Amended Plan is discussed below. Shareholder approval of the Amended Plan also will constitute re-approval of the material terms of the Plan for purposes of Section 162(m) approval requirements. However, nothing in this proposal precludes the Committee from granting, and the Committee reserves the right to grant, awards that do not qualify as qualified performance-based compensation under Section 162(m). Additionally, there is no any guarantee that awards intended to qualify as qualified performance-based compensation under Section 162(m) ultimately will be deductible by the Company.

For more information, refer to the Amended Plan as set forth in *Annex A* to this Proxy Statement.

## **Purpose**

The Amended Plan is intended to advance the Company's interests and those of its shareholders by providing incentives to our employees, directors and consultants to contribute significantly to the strategic and long-term performance objectives and growth of the Company and its subsidiaries. The Plan is designed to provide flexibility to enable us to attract and retain the services of these individuals, upon whose judgment, interest and special effort the successful conduct of our operations is largely dependent.

## **Eligibility**

Any officer, employee, director or consultant of the Company or any of its subsidiaries or affiliates is eligible to receive an award under the Plan. As of December 31, 2014, there were approximately 1,373 employees of the Company and its subsidiaries and 12 non-employee directors of the Company. The selection of participants and the nature and size of the awards is subject to the Committee's discretion.

**Table of Contents****Awards Outstanding**

Since 2009, the Company has awarded equity primarily for the following purposes:

As compensation for non-employee directors by paying a portion of the annual retainer with the issuance of unrestricted shares;

To attract and retain select employees with time-based restricted shares; and

To provide competitive long-term incentive compensation for executives and senior officers, primarily using performance-based restricted stock units.

**Shares Issued and Shares Remaining under the Plan**

	2014	2013	2012	2011	2010	2009
Stock Options Granted	0	0	0	0	0	0
Unrestricted Shares Granted	21,960	25,359	24,528	23,376	4,930	2,872
Restricted Shares Granted	94,626	58,000	224,000	35,000	30,120	0
Restricted Shares Forfeited <sup>1</sup>	2,139	5,000	4,000	0	0	0
Net Shares	114,447	78,359	244,528	58,376	35,050	2,872
Performance Vested RSUs Granted during the year (target)	117,000	120,000	74,000	126,000	0	0
Shares Forfeited <sup>1</sup>	0	10,000	39,800	113,374	0	0
Incremental Shares if Performance RSUs Issued at Maximum	117,000	120,000	n/a	n/a	n/a	n/a
Net Units	234,000	230,000	34,200	12,626	0	0
Cumulative Maximum Total Units Issued (Cumulative Net Shares plus Cumulative Net Units)	1,044,458					
Shares Authorized (2010)	5,000,000					
Shares Available for Issuance (Authorized less Maximum Issue)	3,955,542					

- (1) Per the terms of the prior Plan, shares are re-credited to the Plan's reserve in the same amount as such shares depleted the reserve if (i) an award lapses, expires, terminates, or is cancelled without the underlying shares being issued, (ii) it is determined during or at the conclusion of the term of an award that all or some portion of the underlying shares may not be issued on the basis that the conditions for such issuance were or will not be satisfied, (iii) shares to be issued pursuant to an Award are forfeited, or (iv) shares are issued pursuant to any award and the Company subsequently reacquires them pursuant to rights reserved upon the issuance of the shares.

As of December 31, 2014, there also were outstanding awards under a now-expired plan of the Company of approximately 15,000 previously-granted stock options, which had a weighted-average exercise price of \$14.55 per share and a weighted-average term of less than one month. These options expired unexercised on January 18, 2015.

The Amended Plan provides that the total number of shares of common stock that may be issued pursuant to awards under the Plan may not exceed five million (5,000,000) shares, which remains unchanged from the prior Plan. As of December 31, 2014, approximately 3,955,542 shares were available for issuance under the Plan, which will be eligible for issuance under the Amended Plan. This represents approximately 4.3% of the Company's shares of common stock outstanding as of February 9, 2015.

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Over the three years ending December 31, 2014, the Company has granted equity-based awards under the Plan at an average rate (or burn rate) of 0.64% of average shares outstanding for each of the years, all of which have been granted in the form of unrestricted common stock, restricted common stock or restricted stock units (RSUs). The Company's three-year burn rate and burn rate since approval of the prior Plan is well below both the industry mean burn rate and industry group maximum burn rate under ISS guidelines. The low burn rate corresponds with Company performance following the financial crisis of 2008-2010 and is consistent with the Company's disciplined pay-for-performance program.

**Historic Equity Burn Rate**

	2014	2013	2012	2011	2010	2009
Gross Shares Granted	233,586	203,359	322,528	184,376	35,050	2,872
(Target) <sup>(1)</sup>						
Option Equivalent Shares Granted (ISS Method) <sup>(2)</sup>	583,965	508,398	806,320	460,940	87,625	7,180
Average Shares Outstanding	93,114,654	97,028,157	103,885,396	104,700,227	93,197,225	84,589,780
Option Equivalent Burn Rate	0.63%	0.52%	0.78%	0.44%	0.09%	0.01%
Three Year Average Option Equivalent Burn Rate	0.64%					
ISS 3-Year Equity Burn Rate Industry Benchmark <sup>(3)</sup>	3.34%					

(1) Gross shares granted includes performance restricted stock units at target award levels.

(2) In accordance with corporate governance policy updates published by ISS, Option Equivalent shares are calculated by multiplying the number of full-value shares granted during the year by a multiplier determined by ISS based on recent historic stock price volatility. Based on our recent historical stock price volatility, a full-value award multiplier of 2.5 is used for purposes of the calculation.

(3) Burn Rate Industry Benchmark based on GICS 4010 (Banks), as reported in the Institutional Shareholder Services (ISS) 2015 United States Summary Proxy Voting Guide, page 42.

**Corporate Governance Aspects of the Incentive Compensation Plan**

The Amended Plan clarifies and emphasizes a number of changes that the Committee believes reinforce the alignment between equity compensation arrangements for eligible participants and shareholders' interests. These provisions include the following:

*No Discounted Options or Stock Appreciation Rights (SARs).* Stock options and SARS may not be granted with exercise prices lower than the market value of the underlying shares on the grant date.



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*Repricing Prohibited.* The Amended Plan explicitly prohibits the reduction of the purchase price of a stock option or SAR or the exchange of a stock option or SAR with a lower purchase price, except in connection with a recapitalization or reorganization event.

*Minimum Vesting Requirements.* As contemplated by the Amended Plan, grants of restricted stock, RSUs, stock options and SARs to executive officers are subject to minimum vesting requirements. Restricted stock and RSUs grants to executive officers that are not performance-based are subject to a minimum vesting period of pro rata installments over three years from the date the award is made. Grants of stock options and SARs to executive officers must have a vesting period of at least three years from the date of grant, subject to death or disability of the participant or a change in control.

*No Liberal Share Recycling.* Shares used to pay the exercise price or withholding taxes related to any outstanding awards, shares repurchased by the Company in the open market using proceeds from option exercises and unissued shares resulting from the net settlement of outstanding options or SARs do not become available for issuance as future awards under the Amended Plan.

*Double Trigger Change of Control Vesting.* In the event of a change of control where the outstanding awards under the Plan are assumed or replaced by the surviving entity with a replacement award, unvested awards are not automatically vested, but vesting is accelerated in the event of a qualifying termination of employment within two years of the Change in Control.

*No Transferability.* The Amended Plan imposes restrictions on transfer such that awards generally may not be transferred, other than by will, the laws of descent and distribution or pursuant to a qualified domestic relations order.

*No Evergreen Provision.* The Amended Plan does not contain an evergreen provision pursuant to which shares authorized for issuance can be automatically replenished.

*No Automatic Grants.* Neither the prior Plan nor the Amended Plan provides for automatic grants to any participant.

*No Tax Gross-ups.* Neither the prior Plan nor the Amended Plan provides for any tax gross-ups.

**Table of Contents****Equity Compensation Plan Information**

The following table provides information regarding our existing equity compensation plans and shares available for future issuance as of December 31, 2014:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b> (a)	<b>Weighted average exercise price of outstanding options, warrants and rights</b> (b)	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding shares referenced in column (a))</b> (c)
Equity compensation plans approved by shareholders:			<b>3,955,542</b>
Options Unrestricted	15,000 <sup>(1)</sup>	\$ 14.55	
Shares, Restricted			
Shares and RSUs	1,044,458 <sup>(2)</sup>		
Equity compensation plans not approved by shareholders:	N/A	N/A	N/A
<b>Total</b>	<b>1,059,458</b>	<b>\$14.55<sup>(3)</sup></b>	<b>3,955,542</b>

- (1) The 15,000 shares of common stock underlying options presented herein expired unexercised on January 18, 2015.
- (2) The number of RSUs is based on the maximum number of RSUs granted to certain executive officers under the Company's current Long-Term Incentive Plans.
- (3) The weighted-average exercise price does not include the shares issuable upon vesting of RSUs, which have no exercise price.

**Plan Reserve**

The number of shares reserved under the Amended Plan will be depleted by one share for each share subject to a stock-settled award. Fractional shares will not be issued under the Amended Plan. Awards settled solely in cash do not reduce the number of shares of Stock available for Awards.

Shares may be recredited to the plan reserve if (i) an award lapses, expires, terminates, or is cancelled without the underlying shares being issued; (ii) it is determined during or at the conclusion of the term of an award that all or some shares underlying the award may not be issued because the conditions for such issuance failed to be met; (iii) shares subject to an award are forfeited; or (iv) shares are issued pursuant to an award but are subsequently

reacquired by the Company (except with respect to incentive stock options).

Shares of common stock issued in connection with awards that are assumed, converted or substituted pursuant to a merger, acquisition or similar transaction entered into by the Company or any of its subsidiaries will not reduce the number of shares available to be issued under the Amended Plan.

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### **Shares Available for Awards; Individual Limits**

The aggregate number of shares available for issuance under the Amended Plan (5,000,000) is unchanged from the prior Plan. Additionally, the Amended Plan provides for maximum amounts of shares (and/or cash payments) that may be awarded to participants in any one calendar year. Under the Amended Plan, in any one calendar year, no participant may receive awards of stock options or SARs for more than 500,000 shares, stock-settled performance awards for more than 500,000 shares, cash-denominated performance awards of more than \$5,000,000, or annual incentive awards for more than \$5,000,000. Additionally, no non-employee director may receive awards of more than 50,000 shares in any one calendar year.

### **Awards**

A participant is permitted to receive multiple grants of awards. The terms and provisions of a type of award with respect to any recipient need not be the same with respect to any other recipient of such award.

The following types of awards may be granted under the Plan:

*Stock Appreciation Rights ( SARs )*. The Committee may grant SARs either separately or in tandem with a stock option granted under the Plan. Upon exercise, each SAR entitles a participant to receive an amount equal to the appreciation in Fair Market Value of a share of common stock on the date the SAR is exercised over the Fair Market Value of a share of common stock on the date the SAR is granted. The payment may be settled in cash, shares of common stock, or a combination of both. Except in the event of certain corporate events or transactions that are further identified and outlined in the Plan, once a SAR is granted, the Committee has no authority to reduce the grant price, nor may any SAR granted under the Plan be surrendered to the Company as consideration for the grant of a new SAR with a lower price at the date of grant.

*Restricted Stock and RSUs*. An award of Restricted Stock is an award of shares of common stock that may not be sold or otherwise disposed of during a restricted period as determined by the Committee. An award of RSUs is an award of the right to receive a share of common stock after the expiration of a restricted period determined by the Committee. The Committee may also impose additional restrictions on an award of Restricted Stock or Restricted Stock Units, including, but not limited to, attainment of certain performance goals during the restricted period. Restricted Stock may be voted by the recipient. Restricted stock and RSUs grants to executive officers that are not performance-based are subject to a minimum vesting period of pro rata installments over three years from the date the award is made.

*Performance Awards (Performance Shares and Performance Units)*. Performance shares and performance units are awards of a fixed or variable number of shares or of stock units that are contingent upon the achievement of performance goals established by the Committee. The performance period may consist of one or more calendar years or other period for which performance is being measured. If the applicable performance criteria are met, (i) the shares are earned and become unrestricted with respect to performance shares, to the extent no other restrictions have been placed on the underlying shares, or (ii) an amount is payable with respect to performance units in cash, shares, or a combination of both. No participant may

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receive cash-denominated performance awards of more than \$5,000,000 or share-denominated performance awards of more than 500,000 shares in any one calendar year.

*Stock Options.* Stock Options may be nonqualified stock options or incentive stock options that comply with Code Section 422. Only an employee of the Company may receive incentive stock options. The Committee determines all terms and conditions of stock options, including the number of shares subject to the option and the applicable vesting period. Except in the event of death or disability, or in the event of a change in control, the vesting period for stock options granted to executive officers cannot be less than three years. The exercise price per share for all shares of common stock issued pursuant to stock options under the Amended Plan may not be less than the fair market value of the shares subject to the option on the grant date. The Amended Plan limits the term of any stock option to 10 years and prohibits repricing of options.

*Annual Incentive Awards.* Participants in the Plan may receive Annual Incentive Awards. Under an Annual Incentive Award, the participant may receive an amount based on the achievement of performance goals established by the Committee. As proposed to be revised by the Amended Plan, the Committee must certify whether the performance goals applicable to the Annual Incentive Award have been satisfied. As required by Code Section 162(m), the Plan provides an annual limit of \$5,000,000 on the amount a single participant may earn under an Annual Incentive Award for any calendar year.

*Other Incentive Awards.* The Committee may grant other types of awards that may be based in whole or in part by reference to common stock or upon the achievement of performance goals or such other terms and conditions as the Committee may prescribe.

## **Performance Measures - Section 162(m)**

As discussed above under the heading *Approval of the Amended Plan for Purposes of Section 162(m) of the Tax Code*, Section 162(m) limits the federal income tax deductibility of compensation in excess of \$1,000,000 per year paid to Covered Employees, unless the compensation is qualified performance-based compensation within the meaning of Section 162(m). Under the Amended Plan, awards may, but need not, include performance criteria that are intended to satisfy Section 162(m). To the extent that awards are intended to qualify as qualified performance-based awards under Section 162(m), the performance criteria will be based upon one or more of the following performance criteria, as determined by the Committee and subject to adjustment as provided in the Amended Plan:

return measures (such as total shareholder return, return on assets and return on equity);

earnings measures (such as earnings per share, net income, net interest income, net interest margin and non-interest income, or any components thereof);

growth measures (including, but not limited to, earnings growth, revenue growth, loan growth, asset growth, and book value growth);

expense measures (such as expenses, operating efficiencies, efficiency ratios and non-interest expense or any components thereof);



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balance sheet measures (such as assets, loans, charge-offs, loan loss reserves, non-performing assets, deposits, asset quality levels, investments or any components thereof);

book value, tangible book value, share price, and ratios using such measures;

enterprise risk management measures (such as interest-sensitivity, capital adequacy, regulatory compliance, asset quality satisfactory internal or external audits and financial ratings);

fair market value of the common stock;

strategic initiatives (including, but not limited to milestone or outcome measurements relating to reorganizations, technological changes, mergers and acquisitions, market expansions, new products and services and capital and balance sheet management initiatives); and

achievement of balance sheet or income statement objectives, or other financial, accounting or quantitative objective established by the Committee.

These factors may be applied individually, alternatively, or in any combination, and subject to such modifications or variations as specified by the Committee, applied to either the Company as a whole or to a business unit or subsidiary, either individually, alternatively, or in any combination, and measured over a period of time, including any portion of a year, annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Committee. Performance goals may include a threshold level of performance below which no payment will be made, target levels of performance at which specified payments will be paid, and a maximum level of performance above which no additional payment will be made.

The number of shares of common stock or other benefits granted, issued, retainable, or vested under an award that is intended to satisfy Section 162(m) upon satisfaction of performance criteria may be reduced by the Compensation Committee in its sole discretion.

**Administration**

The Compensation and Human Resources Committee of the Board of Directors or a sub-committee consisting of two or more Board members will administer the Plan. Each Committee member must qualify as a non-employee director under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act) and an outside director under Section 162(m), and also must meet the director independence criteria under the rules of the New York Stock Exchange.

The Committee has full authority and discretion to administer and interpret the Amended Plan, including, but not limited to, the authority to:

select the persons to whom awards may be granted;

determine the terms, conditions, form and amount of the awards;



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establish objectives, conditions and, where applicable, performance goals with respect to awards; and

determine whether the conditions for earning an award have been met.

As proposed to be revised, the Amended Plan provides that the Committee has the authority to determine the circumstances under which vesting provisions applicable to awards may be accelerated. The Committee will have full power to adopt or establish such rules, regulations, agreements, guidelines, procedures, forms and instruments, as may be necessary or advisable for the administration and operation of the Amended Plan. The Committee may delegate its authority to the Chief Executive Officer or to other officers or employees of First Commonwealth, provided that such delegation will not extend to actions with respect to awards made to covered employees, as defined in Section 162(m) of the Code, or to officers for purposes of Rule 16b-3 under the Exchange Act.

## **Termination of Employment or Services**

As proposed to be revised, unless otherwise provided in the applicable award agreement, unvested awards granted under the Amended Plan expire, terminate or are forfeited upon a participant's termination of employment or service with the Company or a subsidiary, other than as a result of death or disability, in which event awards subject to vesting conditions that are based solely on continued employment or the passage of time shall become fully vested and (if applicable) exercisable and free of restrictions.

## **Change in Control**

Unless otherwise provided in an award agreement or by the Committee prior to the date of a Change in Control, in the event of a Change in Control, to the extent that outstanding awards under the Plan are assumed or replaced by the surviving entity with a replacement award, such awards will remain outstanding and continue to be governed by their terms. If, within two years following a Change in Control, a participant is involuntarily terminated other than for cause, death or disability, or voluntarily terminates with good reason within two years after such Change in Control, such participant's outstanding awards will become fully vested. If the Committee determines that replacement awards are not provided in connection with a Change in Control, and unless otherwise provided by the Committee in the agreement applicable to an award, upon a Change in Control, each SAR and Option then outstanding shall become fully vested and exercisable, all restrictions on shares of Restricted Stock will lapse and all Restricted Stock Units will become fully vested. With respect to any performance-based awards, such awards will be deemed earned and will be paid to the extent of the greater of:

the extent to which the performance goals applicable to such award have been met during the performance period up through and including the effective date of the Change in Control; or

the target award determined at the date of grant.

The treatment of Annual Incentive Awards or any other incentive awards under the Plan will be reflected in the applicable award agreement.

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### **Transferability**

In general, except to the extent provided by the Committee in the specific terms of an award or with respect to certain transfers of nonqualified stock options to certain family members or foundations for no value or other consideration, no award will be assignable or transferable except by will, the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended.

The Committee may impose such restrictions and limitations on any awards granted under the Plan as it may deem advisable, including, but not limited to share ownership or holding period requirements and requirements to enter into or to comply with confidentiality, non-competition and other restrictive or similar covenants. Additionally, the Committee may specify in any award agreement that the participant's rights, payments and benefits with respect to an award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions.

### **Clawback Provision**

The Amended Plan provides that awards and amounts paid or payable pursuant to or with respect to awards are subject to clawback as determined by the Committee, which may include forfeitures, repurchase, reimbursement and/or recoupment of awards and amounts paid or payable. The Committee has discretion to determine whether the Company may effect any such recovery (i) by seeking repayment from the participant, (ii) by reducing (subject to applicable law and the terms and conditions of the applicable plan, program or arrangement) the amount that would otherwise be payable to the participant under any compensatory plan, program or arrangement maintained by the Company or any subsidiary, (iii) by withholding payment of future increases in compensation (including the payment of any discretionary bonus amounts) or grants of compensatory awards that would otherwise have been made in accordance with the Company's otherwise applicable compensation practices, or (iv) by any combination of the foregoing or otherwise.

### **Effective Date, Amendment and Termination**

If approved by the shareholders, the Amended Plan will become effective as of the date of such approval and will remain in effect until all shares subject to the Amended Plan have been purchased and/or acquired according to the provisions of the Amended Plan. However, no award may be granted on or after the tenth anniversary of the effective date of the Amended Plan. The Board of Directors may terminate the Amended Plan at any time and may amend or modify the Plan from time to time, provided that no material revision may be effected without shareholder approval. In addition, unless approved by the company's shareholders, no amendment or modification may increase the number of shares of common stock which may be issued under the Plan (except pursuant to an adjustment related to a corporate change affecting the common stock), expand the types of awards available to participants under the Amended Plan, materially expand the class of persons eligible to participate in the Plan, delete or limit the provisions prohibiting the repricing of options or reduce the price at which shares may be offered under options, extend the termination date for making awards under the Plan, or become effective if such amendment or modification is

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required under the rules of the New York Stock Exchange or another national exchange on which the common stock is then listed, or other applicable law, rules or regulations, to be approved by the shareholders.

The Committee may amend or modify any outstanding awards in any manner to the extent that the Committee would have had the authority under the Plan initially to make such award as so amended or modified, provided that any modification or amendment that materially diminishes the rights of a participant, or the cancellation of award, shall be effective only if agreed to by the participant or any other person(s) who may have an interest in the award.

## **Federal Income Tax Considerations**

The following is a brief summary of the principal United States federal income tax consequences applicable to the Amended Plan participants and the Company and is based upon an interpretation of present federal tax laws and regulations, which may be inapplicable if such laws and regulations are changed. This summary is not intended to be exhaustive or constitute tax advice, nor does it not describe state, local or foreign tax consequences. To the extent any awards under the Amended Plan are subject to Section 409A of the Code, the following description assumes that such awards will be designed to conform to the requirements of Section 409A of the Code and the regulations promulgated thereunder (or an exception thereto). The Amended Plan is not subject to the protective provisions of the Employee Retirement Income Security Act of 1974 and is not qualified under Section 401(a) of the Code.

*Stock Appreciation Rights.* No taxable income is generally recognized by a participant upon the grant of a SAR under the Plan. Upon the exercise of a SAR, the participant will recognize ordinary income in an amount equal to either: (i) the Fair Market Value of the shares of common stock; or (ii) the amount of cash received. Shares of common stock received upon the exercise of a SAR will, upon subsequent sale, be eligible for capital gain treatment, with the capital gain holding period commencing on the date of exercise of the SAR.

The Company is entitled to a tax deduction for compensation paid to a participant at the same time and in the same amount as the participant recognizes ordinary income upon exercise of the SAR.

*Unrestricted Stock Awards.* The tax consequences of receiving common stock pursuant to any other share-based incentive award under the Amended Plan are similar to receiving cash compensation from the Company, unless the common stock awarded is restricted stock. If the shares of common stock are unrestricted, the participant must recognize ordinary income equal to the fair market value of the common stock received, less any amount paid for common stock. The Company generally is entitled to a tax deduction for compensation paid to a participant at the same time and in the same amount as the participant recognizes ordinary income.

*Restricted Stock Awards and Performance Stock Awards.* A recipient of restricted stock normally will not be required to recognize income for federal income tax purposes at the time of grant, nor is the Company entitled to any deduction, to the extent that the common stock awarded has not vested. When any portion of the restricted stock vests, the participant will recognize ordinary income in an amount equal to the fair market value of the vested common

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stock on the vesting date. A recipient may, however, make an election under Section 83(b) of the Code within 30 days of the date of the grant of shares of common stock to be taxed at the time of the grant of the award. A participant who makes a Section 83(b) election will recognize ordinary taxable income on the date of the grant equal to the fair market value of the shares as if the shares were unrestricted. If the shares subject to such election are subsequently forfeited, the recipient will not be entitled to any deduction, refund or loss for tax purposes with respect to the forfeited shares. If a Section 83(b) election has not been made, any dividends received with respect to the restricted stock award prior to the lapse of the restrictions will be treated as additional compensation that is taxable as ordinary income to the participant. Upon sale of the vested common stock, the participant will realize short-term or long-term capital gain or loss, depending on the holding period. The holding period generally begins when the restriction period expires. If the recipient timely made a Section 83(b) election, the holding period commences on the date of the grant. The Company generally is entitled to a deduction for compensation paid to a participant at the same time and in the same amount as the participant recognizes ordinary income.

Depending on the terms of the award, performance stock awards are taxed in a manner similar to restricted stock. A participant generally will not recognize income upon the grant of a performance stock award. Upon payment of the performance stock award, the participant will recognize ordinary income in an amount equal to the fair market value of the common stock received. The Company generally is entitled to a deduction for compensation paid to a participant at the same time and in the same amount as the participant recognizes ordinary income.

*Restricted Stock Units and Performance Units.* A recipient of units generally will be subject to tax at ordinary income rates on the fair market value of any common stock issued or cash paid pursuant to an award of restricted stock units and/or performance units, and the Company generally will be entitled to a deduction equal to the amount of the ordinary income realized by the recipient. The fair market value of any common stock received generally will be included in income (and a corresponding deduction generally will be available to the Company) at the time of receipt. The capital gain or loss holding period for any common stock distributed under an award will begin when the recipient recognizes ordinary income in respect of that distribution.

*Nonqualified Stock Options.* For federal income tax purposes, no income is generally recognized by a participant upon the grant of a nonqualified stock option. Upon exercise, the participant will recognize ordinary income in an amount equal to the excess of the fair market value of a share of common stock on the date of exercise over the exercise price, multiplied by the number of shares received pursuant to the exercise of the option. Upon a subsequent sale of the common stock acquired under a nonqualified stock option, the participant will recognize a gain or loss that is measured by the difference between (i) the exercise price, increased by any compensation reported upon the participant's exercise of the option and (ii) the amount realized on such sale or exchange. Any such gain or loss will be capital in nature if the shares were held as a capital asset, and will be long-term if such shares were held for more than one year. The Company generally is entitled to a tax deduction for compensation paid to a participant at the same time and in the same amount as the participant recognizes compensation upon exercise of the option.

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*Incentive Stock Options.* Options issued under the Amended Plan and designated as incentive stock options are intended to qualify as such under Section 422 of the Code. No taxable income is recognized by the participant upon the grant or exercise of an incentive stock option and the Company will not be entitled to a deduction at the time of the grant or exercise of the option; provided, however, that the difference between the fair market value of the common stock received on the exercise date and the exercise price paid is an item of tax preference for purposes of determining the participant's alternative minimum tax. The taxation of gain or loss upon the sale of the common stock acquired upon exercise of an incentive stock option depends, in part, on whether the holding period of the common stock is at least (i) two years from the date the option was granted and (ii) one year from the date the common stock was transferred to the participant. If this holding period is satisfied, any gain or loss realized on a subsequent disposition of the common stock will be treated as a long-term capital gain or loss. If this holding period is not met, then upon such disqualifying disposition of the common stock, the participant will realize compensation, taxable as ordinary income, in an amount equal to the excess of the fair market value of the common stock at the time of exercise over the option price, limited to the gain on such sale. Any further gain (or loss) realized by the participant generally will be taxed as short-term or long-term capital gain (or loss), depending on the holding period. If the participant recognizes ordinary income upon a disqualifying disposition, the Company generally will be entitled to a tax deduction in the same amount. If, however, the participant meets the applicable holding period, the Company generally will not be entitled to a tax deduction with respect to capital gains recognized by the participant.

If an incentive stock option is exercised at a time when it no longer qualifies as an incentive stock option, the option will be treated as a nonqualified stock option.

*Annual Incentive Award and Other Incentive Awards.* A participant will recognize ordinary income upon receipt of cash pursuant to a cash award. The Company generally will be entitled to a deduction equal to the amount of the ordinary income realized by the participant.

*Other Incentive Awards.* The federal income tax consequences of other incentive awards will depend on how the awards are structured. Generally, the Company will be entitled to a deduction with respect to other incentive awards only to the extent that the recipient realizes compensation income in connection with such awards.

*Limitations on Company Deductions; Consequences of a Change of Control.* With certain exceptions, Section 162(m) limits the Company's ability to deduct compensation paid to Covered Employees in excess of \$1,000,000. However, compensation paid to Covered Employees is not subject to the deduction limitation if it is considered qualified performance-based compensation within the meaning of Section 162(m). Under the Amended Plan, awards of stock options, stock appreciation rights, and performance shares and/or units (intended to be treated as qualified performance-based compensation as defined in the Code) granted to Covered Employees generally are intended to satisfy the requirements of qualified performance-based compensation and it is expected that the Company generally will be entitled to a deduction with respect to such awards. However, the rules and regulations promulgated under Section 162(m) are complicated and subject to change from time to time, sometimes with retroactive effect. In addition, a number of requirements must be met in order for particular compensation to so qualify. As such, there can be no assurance that any

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compensation awarded or paid under the Amended Plan will be deductible under all circumstances

In addition, under the Amended Plan, if a change of control occurs that (i) accelerates the vesting of awards or (ii) is deemed to result in the attainment of performance goals linked to awards, the participants could receive payments in excess of a threshold amount ( excess parachute payments ), which could result in (i) a 20% excise tax on the excess parachute payments to the participants and (ii) a disallowance of the Company's tax deductions under Section 280G of the Code.

*Internal Revenue Code Section 409A.* Awards of stock options, stock appreciation rights, restricted stock units, other share-based awards and performance grants under the Amended Plan may, in certain instances, result in the deferral of compensation that is subject to the requirements of Section 409A of the Code. Generally, to the extent that these awards fail to meet certain requirements under Section 409A, the regulations issued thereunder or an exception thereto, the award recipient will be subject to immediate taxation, interest and tax penalties in the year the award vests. It is our intent that awards under the Amended Plan will be structured and administered in a manner that complies with the requirements of Section 409A of the Code.

## **New Plan Benefits**

The benefits that will be awarded or paid under the Amended Plan cannot currently be determined. Awards granted under the Plan are within the Committee's discretion, and the Committee has not yet determined future awards or which individuals may receive them.

## **Existing Plan Benefits**

As of December 31, 2014, none of our Named Executive Officers, executive officers or other employees held options to purchase shares of our common stock. Certain non-employee directors held options to purchase an aggregate of 15,000 shares at an exercise price of \$14.55 per share. These options expired unexercised on January 18, 2015.

## **Vote Required and Recommendation of the Board**

The affirmative vote of a majority of the shares present in person or represented by proxy at the meeting is required to approve the Amended Plan. Abstentions will have the same effect as a vote cast against the proposal. Shares not voted by brokers and other entities holding shares on behalf of beneficial owners, and shares for which authority to vote is withheld, will have no effect on the outcome. Proxies received by the company and not revoked prior to or at the meeting will be voted for this proposal and the adoption of the Amended Plan unless otherwise instructed by the shareholders.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ADOPTION OF THE AMENDED AND RESTATED FIRST COMMONWEALTH FINANCIAL CORPORATION INCENTIVE COMPENSATION PLAN.**

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**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires First Commonwealth's directors and executive officers, and persons who own more than 10% of a registered class of First Commonwealth's equity securities, to file with the Securities and Exchange Commission ( SEC ) an initial report of ownership and reports of changes in ownership of our common stock and other equity securities of First Commonwealth. Executive officers, directors and greater than 10% shareholders are required by SEC regulations to furnish First Commonwealth with copies of all Section 16(a) forms they file. Based solely on First Commonwealth's review of the copies of forms received by it, and written and oral representations from its directors, executive officers and greater than 10% shareholders, First Commonwealth is not aware of any late filings or failures to file Section 16(a) forms during 2014.

**RELATED PARTY TRANSACTIONS**

Any transaction, arrangement or relationship or series of similar transactions, arrangements or relationships between First Commonwealth or any of its subsidiaries and any of First Commonwealth's executive officers, directors or nominees for election as a director, any person owning more than 5% of First Commonwealth's common stock or any immediate family member of any of the foregoing persons is considered a related party transaction and must be approved or ratified by the Governance Committee in accordance with a written policy adopted by First Commonwealth's Board of Directors. This policy requires the Governance Committee to review the material facts of any related party transaction and either approve or disapprove the transaction after considering, among other factors it deems appropriate, whether the related party transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction. Any director who has an interest in the transaction may not participate in any discussion or approval of the transaction except for the purpose of providing material facts concerning the transaction.

The policy does not apply to the following categories of transactions:

transactions that are available to all employees or customers of First Commonwealth generally;

transactions involving less than \$120,000 when aggregated with all similar transactions; and

loans made by First Commonwealth Bank (or any other banking subsidiary of First Commonwealth) in the ordinary course of business, made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the lender, and not involving more than the normal risk of collectibility or presenting other unfavorable features.

In addition, certain categories of transactions have been pre-approved under the terms of the policy, including:

compensation paid to executive officers of First Commonwealth if either (i) the compensation is required to be reported in First Commonwealth's proxy statement

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under the rules of the SEC or (ii) the executive officer is not an immediate family member of another executive officer or director of First Commonwealth and the compensation would be reported in First Commonwealth's proxy statement if the executive officer was a named executive officer (as defined above under Executive Compensation ) and such compensation has been approved by the Compensation and Human Resources Committee;

compensation paid to directors that is required to be reported in First Commonwealth's proxy statement; and

transactions in which all shareholders benefit proportionately (such as the payment of dividends).

First Commonwealth Bank is a party to a lease agreement with SML Limited Partnership, a real estate holding company of which director Luke A. Latimer is a general partner and owns a 34% interest, for the construction and operation of a branch in New Alexandria, PA. The lease has an initial term of 15 years with three optional renewal terms of five years each. First Commonwealth Bank paid \$83,059 under the terms of the lease during 2014. The aggregate rent payable from January 1, 2015 through the expiration of the initial 15-year term is \$672,000.

In 2014, certain of our directors and executive officers were customers of, and had banking transactions with, various subsidiaries of First Commonwealth Financial Corporation, including our subsidiary bank First Commonwealth Bank. All relationships between any director or executive officer and First Commonwealth or any of its subsidiaries are conducted in the ordinary course of business. All loans and loan commitments were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not affiliated with us, and did not involve more than the normal risk of collectability nor did they present other unfavorable features. We determined that these loans and loan commitments were performing in accordance with their contractual terms.

## **ANNUAL MEETING INFORMATION**

### ***What matters will be voted upon at the meeting?***

At the meeting, you will be asked to consider the following items of business:

election to our Board of Directors of the twelve (12) nominees who are named in this proxy statement to serve until the next annual meeting and until their successors are elected and qualified;

ratification of the selection of KPMG LLP as our independent registered public accounting firm for our 2015 fiscal year;

approval of a non-binding advisory vote on the compensation of our named executive officers;

approval of an amended and restated Incentive Compensation Plan; and



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any other business that may properly come before the meeting.

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### ***Why did I receive a Notice of Internet Availability of Proxy Materials instead of paper copies of the proxy materials?***

The SEC notice and access rule allows us to furnish our proxy materials over the internet to our shareholders instead of mailing paper copies of those materials to each shareholder. As a result, on or around March 19, 2015 we sent to most of our shareholders by mail or e-mail a notice containing instructions on how to access our proxy materials over the internet and vote online. This notice is not a proxy card and cannot be used to vote your shares. If you received only a notice this year, you will not receive paper copies of the proxy materials unless you request the materials by following the instructions on the notice or on the website referred to on the notice.

We provided some of our shareholders, including shareholders who have previously asked to receive paper copies of the proxy materials and shareholders who are participants in our benefit plans, with paper copies of the proxy materials instead of a notice that the materials are electronically available over the internet.

### ***What does the Notice of Internet Availability of Proxy Materials look like?***

You will get a document titled *Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on April 28, 2015* containing instructions on how to access the proxy statement and the 2014 Annual Report over the Internet, how to request a printed copy of these materials, and how to vote your shares.

### ***Who can vote?***

Shareholders of record on the record date, which is Monday, March 6, 2015, may vote at the annual meeting. As of the record date, there were 90,487,377 shares of our common stock outstanding.

### ***How does the Board of Directors recommend I vote on the proposals?***

The Board of Directors recommends that you vote as follows:

FOR the election of the twelve (12) nominees who are named in this proxy statement to the Board of Directors;

FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm;

FOR the advisory vote on named executive officer compensation; and

FOR the approval of the amended and restated Incentive Compensation Plan.

### ***What constitutes a quorum to hold the annual meeting?***

The presence at the meeting, in person or by proxy, of the holders of a majority of the aggregate voting power of the common stock outstanding on the record date will constitute a



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quorum, permitting us to hold the meeting and conduct business. Proxies received but marked as abstentions and broker non-votes (described below under *How do I vote my shares if they are held in the name of my broker?* ) will be included in the calculation of the number of votes considered to be present at the meeting for purposes of determining a quorum.

### ***How many votes are required to approve each proposal?***

**Election of Directors:** Directors are elected by a plurality of votes cast. The twelve (12) nominees who receive the most votes will be elected. Abstentions, broker non-votes and instructions to withhold authority to vote for one or more of the nominees will result in those nominees receiving fewer votes but will not count as votes against the nominee.

**Ratification of Independent Registered Public Accounting Firm:** The ratification of the selection of KPMG as our independent registered public accounting firm for the 2015 fiscal year will be approved if the proposal receives the affirmative vote of at least a majority of the votes cast by shareholders present, in person or by proxy, at the meeting. Abstentions will not be counted as votes cast either for or against the proposal.

**Approval of Named Executive Officer Compensation:** The non-binding advisory vote on the compensation of our named executive officers will be approved by the affirmative vote of at least a majority of the votes cast by shareholders present, in person or by proxy, at the meeting. Abstentions and broker non-votes will not be counted as votes cast either for or against the proposal.

**Approval of the Amended and Restated Incentive Compensation Plan.** A majority of the votes cast will be required to approve the amended and restated Incentive Compensation Plan. This will be considered a non-routine item. As a non-routine item, there may be broker non-votes. Any broker non-votes or abstentions will not be included in the total votes cast and will not affect the results.

### ***How many votes may I cast?***

For the election of directors, you are entitled to cast one vote for each share that you held as of the record date for each candidate nominated. Cumulative voting is not permitted.

For each other proposal and any other matter brought before the meeting, you are entitled to one vote for each share that you held as of the record date.

### ***What do I have to do to vote?***

You may vote by granting a proxy, or for shares held in street name, by submitting voting instructions to your broker or other nominee. If your shares are held by a broker or other nominee, you will receive instructions that you must follow to have your shares voted. See below for more information on voting your shares if held in the name of your broker.

If you hold your shares as the shareholder of record, you may vote by signing and dating each proxy card you receive and returning it in the postage paid envelope that accompanies the proxy card. You may also submit your proxy over the Internet or by telephone by following the instructions provided on the proxy card.

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

### *Light*

Total energy consumption in the concession area of Light Serviços de Eletricidade S.A. ( Light SESA ), which is controlled by our subsidiary Light S.A., (including captive customers and transport of free customers) came to 22,932 GWh in 2011, a 2.5% increase over 2010. The commercial and residential segments, which increased by 4.3% and 2.1%, respectively, were the best performers. If consumption of the free clients CSN, CSA and Valesul is taken into account, total consumption came to 24,658 GWh<sup>3</sup> in 2011, versus 24,588 GWh in 2010.

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

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

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

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

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

**LIGHT S ELECTRIC ENERGY BALANCE**

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

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\* Including CSN and CSA

*Generation*

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

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

*Transmission*

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

- Cemig Generation and Transmission: 1,352 miles of 500 kV lines, 1,222 miles of 345 kV lines and 476 miles of 230 kV lines located in Minas Gerais.
- TAESA: Our proportional share of TAESA transmissions lines includes 1,222 miles of 500 kV lines, 177 miles of 440 kV lines and 308 miles of 230 kV lines in 16 different Brazilian States.

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- TBE: Our proportional share of TBE transmissions lines includes 55 miles of upper 525 kV lines, 581 miles of 500 kV lines, one mile of 345 kV lines and 383 miles of 230 kV lines.
- Transchile operates a total of 62 miles of 220 KV lines (the Charrúa Nueva Temuco line) in the country of Chile.

*Distribution*

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

Through Light Serviços de Eletricidade S.A. ( Light SESA ), which is controlled by our subsidiary Light S.A., we participate in the distribution service concession contract in the State of Rio de Janeiro, which gives us the right to supply electricity in an area of 4,237 square miles. In 2011, Light SESA reached about 4.1 million consumers. Total energy consumption in Light SESA's concession area (captive customers and transport of free customers<sup>3</sup>) came to 22,932 GWh in 2011, a 2.5% increase over 2010. The commercial and residential segments, of Rio de Janeiro, with respective growth of 4.3% and 2.1%, were the best performers, fueling the market as a whole.

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

*Other Businesses*

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



*Revenue Sources*

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

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

Table of Contents**Power Generation and Trading***Overview*

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

Facility	Installed Capacity (MW)	Assured Energy (1) (average MW)	Year Commenced Operations	Installed Capacity % of Total	Date Concession or Authorization Expires	CEMIG's Interest
<b>Major Hydroelectric Plants</b>						
São Simão	1,710	1,281.0	1978	24.5	January 2015	100%
Emborcação	1,192	497.0	1982	17.1	July 2025	100%
Nova Ponte	510	276.0	1994	7.3	July 2025	100%
Jaguara	424	336.0	1971	6.1	August 2013	100%
Miranda	408	202.0	1998	5.9	December 2016	100%
Três Marias	396	239.0	1962	5.7	July 2015	100%
Volta Grande	380	229.0	1974	5.5	February 2017	100%
Irapé	360	206.3	2006	5.2	February 2035	100%
Aimorés	161.7	84.3	2005	2.3	December 2035	49%
Salto Grande	102	75.0	1956	1.5	July 2015	100%
Funil	88.2	43.6	2002	1.3	December 2035	49%
Sá Carvalho	78	58.0	2000(2)	1.1	December 2024	100%
Queimado	86.6	47.8	2004	1.2	January 2033	82.5%
Rosal Energia	55	30.0	2004(2)	0.8	May 2032	100%
Itutinga	52	28.0	1955	0.7	July 2015	100%
Baguari	47.6	27.3	2009	0.7	August 2041	34%
Amador Aguiar I	50.5	32.6	2006	0.7	August 2036	21.05%
Amador Aguiar II	44.2	27.6	2007	0.6	August 2036	21.05%
Camargos	46	21.0	1960	0.7	July 2015	100%
Porto Estrela	37.3	18.6	2001	0.5	July 2032	33.3%
Igarapava	30.5	25.1(3)	1999	0.4	December 2028	14.5%
Pai Joaquim	23	12.5	2004	0.3	April 2032	100%
Cachoeirão	13.2	8.0	2008	0.2	July 2030	49%
Piau	18	13.5	1955(2)	0.3	July 2015	100%
Gafanhoto	14	6.7	1946	0.2	July 2015	100%
Pipoca	9.8	5.8	2010	0.1	September 2031	49%
<b>Smaller Hydroelectric Plants</b>						
(4)	115.2	61.6		1.7		
<b>Thermoelectric Plants</b>						
Igarapé	131	71.3	1978	1.9	August 2024	100%
Ipatinga	40	40.0	2000(2)	0.6	December 2014	100%
Barreiro	12.9	11.4	2004	0.2	April 2023	100%
<b>Wind Farm</b>						
Praias de Parajuru	14.1	4.1	2009	0.2	September 2032	49%
Praia do Morgado	14.1	6.5	2010	0.2	December 2031	49%
Volta do Rio	20.6	9.0	2010	0.3	December 2031	49%
<b>Light Hydroelectric Plants</b>						
Fonte Nova	34.4	27.1	1940	0.6	July 2029	32.47%

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

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

(2) Indicates our date of acquisition.

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(3) The amount of 5.49 average MW of Assured Energy, as set forth in the agreement with a consortium formed by Cemig Generation and Transmission, Vale S.A., Companhia Siderúrgica Nacional, Votorantim Metais Zinco S.A and AngloGold Ashanti Córrego do Sítio Mineração S.A . is included.

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

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

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

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

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

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

*Generation Assets*

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

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

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

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

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- *Queimado Hydroelectric Power Plant* Our partner in this project is CEB Participações S.A. (CEBPar), a subsidiary of Companhia Energética de Brasília, or CEB, a state-controlled electricity company. As per the second Amendment to Concession Contract 006/1997, executed on July 17, 2009, CEB has a 17.5% interest and we have the remaining 82.5%.
- *Aimorés Hydroelectric Power Plant* We have a 49% interest in this enterprise and our partner, Vale S.A., has the remaining 51% interest.
- *Funil Hydroelectric Power Plant* We have a 49% interest in this enterprise and our partner, Vale S.A., has the remaining 51% interest.
- *Porto Estrela Hydroelectric Plant* We have a 33.3% interest in this enterprise and our partners are Vale S.A. (33.3%) and Companhia de Tecidos Norte de Minas Coteminas (33.3%).

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

*Renova Energia S.A.* At December 31, 2011, we generated electricity at three small hydro plants with a total installed generation capacity of 3.542 MW. *Usina Térmica Ipatinga S.A.* We operate the Ipatinga Thermoelectric Power Plant through our subsidiary.

*Usina Térmica Ipatinga S.A.* - This plant is an SPP (self power producer) installed and operated within the premises of Usinas Siderúrgicas de Minas Gerais S.A. USIMINAS, or Usiminas, a large Brazilian steel manufacturer. The plant supplies power to a large steel mill owned by Usiminas, located in eastern Minas Gerais. The plant currently has an installed capacity of 40 MW, generated by two units that began operating in 1986 and that use blast furnace gas as fuel.

*Sá Carvalho S.A.* We operate the Sá Carvalho Hydroelectric Power Plant, located on the Piracicaba River in the municipality of Antônio Dias, in the State of Minas Gerais, through our subsidiary Sá Carvalho S.A.. The plant currently has an installed capacity of 78 MW.

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

*Cemig Capim Branco Energia S.A.* We incorporated Cemig Capim Branco Energia S.A. (21.1%) to develop the Capim Branco Generating Complex in partnership with Vale S.A. (48.4%), a mining company, Comercial e Agrícola Paineiras (17.9%), an agricultural company, and Votorantim Metais Zinco S.A. (12.6%), or VMZ, a metallurgical company. On March 16, 2007, Aneel published Ruling No. 683 approving the change of the name of the Capim Branco Generating Complex to the Amador Aguiar Generating Complex. The project consists of the Amador Aguiar I and Amador Aguiar II Hydroelectric Power Plants, with installed capacity of 240 MW and 210 MW, respectively.

*Horizontes Energia S.A.* We formed Horizontes Energia S.A., or Horizontes Energia, to generate and trade electricity as an IPP (independent power producer) through the commercial operation of the following of our smaller hydroelectric plants: the Machado Mineiro Small Hydro Plant (SHP), with an installed capacity of 1.72 MW; the Salto do Paraopeba SHP, with an installed capacity of 2.37 MW; the Salto Voltão SHP, with an installed capacity of 8.2 MW; and the Salto do Passo Velho SHP, with an installed capacity of 1.8 MW, as well as other generating projects to be acquired or built with our participation. The concession relating to the Machado Mineiro SHP expires on July 7, 2025; the concessions relating to the other plants expire on October 4, 2030. The Salto do Paraopeba SHP is currently out of service for refurbishment. We expect that this power plant will resume its operations in 2014.

*Usina Termelétrica Barreiro S.A.* We formed Usina Termelétrica Barreiro S.A. to participate, in partnership with V&M do Brasil S.A., or Vallourec & Mannesmann, a metallurgic company, in the construction and operation of the 12.9 MW Barreiro Thermoelectric Power Plant, located on Vallourec & Mannesmann's premises in the Barreiro neighborhood of the city of Belo Horizonte in Minas Gerais. *Cemig PCH S.A.* We formed Cemig PCH S.A. to generate and trade electric energy as an IPP. Its main activity is the production and sale of electricity through the Pai Joaquim SHP, as an IPP. This plant, located on the Araguari River, has an installed capacity of 23 MW.

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

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

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

*Wind Farms*

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

Our first wind farm, Morro do Camelinho, began operating in 1994. It is located in Gouveia, a town in northern Minas Gerais. This project is the first wind farm in Brazil to be connected to the national electricity transmission grid. With a total generation capacity of 1 MW, Morro do Camelinho was built through a technical and scientific cooperation agreement with the government of Germany. Taking into account the experimental nature of the facility, and the fact that the equipment used is now obsolescent, Cemig applied to Aneel for permission to de-activate the plant, which was agreed, by Dispatch N° 1653, of September 2, 2010. On August 15, 2009, Cemig Generation and Transmission purchased from Energimp S.A. a 49% interest in three wind farms located in the State of Ceará, for the amount of R\$223 million. The three wind farms, named UHE Praia do Morgado, UHE Praias de Parajuru and UHE Volta do Rio, have a total installed capacity of 99.6 MW.

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

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



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

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

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*Expansion of Generation Capacity*

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

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

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

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

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

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

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

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

*Co-generation Joint Ventures with Consumers*

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

*Power Trading*

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

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

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

Table of Contents**Transmission***Overview*

Our transmission business mainly consists of the transfer of electricity from generation power plants to consumer agents directly connected in the basic transmission grid, final consumers and distribution companies. The transmission system is comprised of transmission lines and step-down substations with voltages ranging from 230 kV to 500 kV.

During the year ended December 31, 2011, our transmission businesses recorded revenues totaling R\$ 1,473 million. In turn, our usage of the basic transmission grid by connected generation power plants and distribution system and electricity purchases from Itaipu and others suppliers requires us to pay scheduled rates to National System Operator (Operador Nacional do Sistema), or ONS, and owners of different parts of the basic transmission grid. See -The Brazilian Power Industry and Item 5. Operating and Financial Review and Prospects.

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

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

Voltage of Transmission Lines	Circuit Length of Transmission Lines in Miles (from generation substations to distribution substations) As of December 31,		
	2011	2010	2009
>525 kV	55	38	38
500 kV	3,155	2,663	2,292
440 kV	177	177	101
345 kV	1,223	1,347	1,287
230 kV	1,197	909	665
Total	5,807	5,134	4,383

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

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

- (2) Does not consider the shared substations.

*Transmission Assets*

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

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

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

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

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

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

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



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

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

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

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

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

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

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*Expansion of Transmission Capacity*

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

**Distribution and Purchase of Electric Power**

*Overview*

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

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

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

Table of Contents**Circuit Length of Distribution Lines in Miles - High Voltage  
(from distribution substations to final consumers)**

Voltage of Distribution Lines	As of December 31,		
	2011	2010	2009
161 kV	34.2	34.2	34.2
138 kV	7,073.3	7,012.8	6,897.2
69 kV	3,009.9	2,980.7	2,817.9
34.5 kV + Others	593.4	593.4	593.4
Total	10,710.8	10,621.1	10,342.7

**Circuit Length of Distribution Lines in Miles - Medium and Low Voltage  
(from distribution substations to final consumers)**

Type of Distribution Lines	As of December 31,		
	2011	2010	2009
Overhead urban distribution lines	56,931.3	56,406.7	55,608.2
Underground urban distribution lines	426.9	426.9	426.9
Overhead rural distribution lines	234,785.0	225,227.8	219,557.5
Total	292,143.2	282,061.4	275,592.6

**Step-Down Transformation Capacity(1)  
of Distribution Substations**

	As of December 31,		
	2011	2010	2009
Number of substations	366	364	360
MVA	8,623.5	8,427.0	8,250.0

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

*Expansion of Distribution Capacity*

Our distribution expansion plan for the next five years is based on projections of market growth. For the next five years, we anticipate an increase of approximately 1.07 million new urban consumers and 50,000 rural consumers. In order to accommodate this growth, we expect that we will need to add 142,800 medium-voltage poles, 1,818 miles of transmission lines and 62 step-down substations, adding 1,749 MVA to our distribution network, increasing the network's installed capacity by 3,598 MVA, including reinforcement. Ongoing projects for development of our distribution capacity include the following:

*Luz para Todos* We have adopted a rural electricity development program called Light for All (Luz para Todos) program sponsored by the Federal Government and the State Government of Minas Gerais. We plan to use the program to meet our goal of providing electricity to 100% of the rural consumers in the State of Minas Gerais. The first phase of the Light for All program supplied electricity to 190,000 additional rural residences in the State of Minas Gerais and required a total investment of approximately R\$1.7 billion, of which CEMIG invested R\$1.05 billion. This first phase included the Light in the Knowledge (Luz no Saber) sub-program, which used solar energy to provide electricity to schools, community centers and rural homes in remote locations not yet connected to the distribution network. In 2009, the Federal Government, the State Government and the CEMIG concessionaire launched the second and third phases of the program. A total investment of R\$1.19 billion was realized in these phases of the program, of which CEMIG was responsible for approximately R\$ 408 million. The end of the Light for All

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

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

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

*Purchase of Electric Power*

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

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

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

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

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

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

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

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

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

**Other Businesses**

*Natural Gas Distribution*

Gasmig was established in Minas Gerais, Brazil, in 1986 for the purpose of developing and implementing the distribution of natural gas in Minas Gerais. CEMIG holds approximately 55% of Gasmig while Petrobras, through its subsidiary Gaspetro Petrobras Gas S.A., holds 40%. The remaining shares are owned by the State of Minas Gerais and by the city of Belo Horizonte. In January 1993, the State Government granted Gasmig an exclusive 30-year concession for distribution of natural gas covering the entire State of Minas Gerais and consumers located within it. Gasmig's marketing efforts focus on its ability to provide a more economically efficient and environmentally friendly alternative to oil, liquefied petroleum gas, or LPG, and wood. In 2011, Gasmig supplied approximately 2.6 million cubic meters of natural gas per day to 309 consumers: 195 industrial and commercial consumers, 90 retail distribution stations for natural gas vehicles, 2 thermal power plants 18 smaller-consumers (non-residential) and 4 distributors of compressed natural gas, or CNG. In 2011, Gasmig distributed approximately 5.3% of all natural gas distributed in Brazil.

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

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



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

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

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

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

Many energy-intensive industries such as cement, steel, ferroalloys and metallurgy have significant operations in Minas Gerais. We estimate that the total demand for natural gas in Minas Gerais will amount to nearly 4.5 million cubic meters of gas per day by 2013. Gasmig's key strategy is to expand its distribution network in order to serve the portion of the demand not yet reached. Gasmig is engaged in the development of new projects to extend its natural gas distribution grid to reach consumers in other areas of Minas Gerais, mainly in heavily industrialized areas. In 2006, Gasmig began supplying natural gas to three industrial companies and two distribution stations of Vehicular Natural Gas, or VNG, in the region of the Vale do Aço (Steel Valley) in Minas Gerais, thus concluding the first phase of service to that region of the State of Minas Gerais. The average volume of natural gas distributed in the first phase was approximately 200,000 cubic meters/day. The second phase, which began in 2009, was concluded in 2010, adding 155 miles to Gasmig's networks. In the end of this phase, we are expected to add approximately 1.0 million m<sup>3</sup> per day to Gasmig's market in 2011.

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

*Exploration and Production of Crude Oil and Natural Gas*

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

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

*Telecommunications, Internet and Cable Television*

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

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

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

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

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

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

*Consulting and Other Services*

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

Through our wholly-owned subsidiary, Efficientia S.A., we have completed 34 energy efficiency projects in the last ten years. These projects have saved the equivalent to 110,037 MWh of energy per year, representing a reduction of 30,930 tCO<sub>2</sub>eq/year. In 2011, Efficientia signed contracts for modernization of illumination systems using LED technology, modernization of compressed air generation systems, and installation of inverters for control of motor speed in pumping and ventilation systems. It also completed an important 5MW cogeneration project at the steel company Siderúrgica Plantar, which started in 2009. Over the course of 2011, R\$ 25 million was invested in putting energy efficiency projects in place under the management of Efficientia, which has an annual budget of R\$ 40 million to invest in energy efficiency projects in the next four years.

*Sale and Trading of electricity*

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

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

### Energy Losses

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

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

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

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Technical losses accounted for approximately 81.5% of Cemig Distribution's and 59.5% of Light's energy losses in the local distribution system in 2011. These losses are the inevitable result of the step-down transformation process and the transportation of electric energy. We attempt to minimize technical losses by performing rigorous and regular evaluations of the quality of our electricity supply and our facilities. We routinely upgrade and expand our transmission and distribution system in order to maintain quality and reliability standards, and consequently, reduce technical losses. In addition, we operate our transmission and distribution system at certain specified voltage levels in order to minimize losses.

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

Non-technical losses accounted for the remaining approximately 18.5% of Cemig Distribution's and 40.5% of Light's energy losses in 2011 in the distribution system and result from fraud, illegal connections, metering errors and meter defects. In order to minimize non-technical losses, we regularly take preventive actions, including inspection of consumers' meters and connections, modernization of metering systems, training of meter-reading personnel, standardization of meter installation and inspection procedures, installation of meters with quality control warranties, consumer database updating and development of a theft-protected distribution network. Additionally, we have developed an integrated system designed to help detect and measure controllable losses in all parts of our distribution system.

Non-technical losses are partially comparable between electricity companies because they indicate a sector's inefficiencies and the social complexities within the concession area. Non-technical losses are partially comparable between electricity companies because they indicate a sector's inefficiencies and the social complexities within the concession area. At the end of 2011, the indicators that measure the quality of supply by Cemig Distribution, DEC - Consumer Outage Duration in hours per year and FEC - Number of Outages Per Year, were 14.32 and 7.01, respectively, compared to 12.99 and 6.56 in 2010. At the end of 2011, the DEC and FEC of Light were 16.73 and 7.76, respectively, compared to 11.33 and 5.76 in 2010.

## **Consumers and Billing**

### *Consumer Base*

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

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

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

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

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

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

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

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

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

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

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

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

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





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

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

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

**Ten Largest Cemig's Industrial Consumers**

(listed in order of the amount of electricity (GWh) billed in 2011)

	<b>Industry</b>
White Martins Gases Industriais Ltda	Chemical
Usiminas - Usinas Siderúrgicas de Minas Gerais - Cubatão	Steel
Usiminas - Usinas Siderúrgicas de Minas Gerais - Ipatinga Gerais	Steel
Rima Industrial S.A.	Ferroalloys
Companhia Ferroligas Minas Gerais	Ferroalloys
Ligas de Alumínio S.A. - LIASA	Ferroalloys
Kinross Brasil Mineração S.A.	Mining
ArcelorMittal Brasil S.A.	Steel
Samarco Mineração S.A.	Mining
Gerdau Aços Longos S.A.	Steel

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

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

*Billing*

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

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

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

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

*Seasonality*

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

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

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

**Competition***Contracts with Free Consumers*

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

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

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

*Concessions*

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

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

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**Raw Materials**

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

**Environmental Matters**

*Overview*

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

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

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

*Environmental Licensing*

Brazilian law requires that licenses be obtained for construction, installation, expansion and operation of any facility that utilizes environmental resources, causes environmental degradation, or pollutes or has the potential to cause environmental degradation or pollution or to harm archaeological heritage.

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

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

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

#### *Corrective Environmental Operation Licensing*

Resolution No. 1, of January 23, 1986, issued by the Environmental National Council (*Conselho Nacional do Meio Ambiente*) or CONAMA, requires environmental impact assessment studies to be undertaken, and a corresponding environmental impact assessment report to be prepared, for all major electricity generation facilities built in Brazil after February 1, 1986. Facilities built prior to February 1, 1986 do not require these studies, but must obtain corrective environmental operation licenses, which may be acquired by filing a form containing certain information regarding the facility in question. Obtaining the corrective licenses for the projects which began operations before February 1986, according to the Resolution No. 6, of September 16, 1987, requires presentation to the competent environmental body of an environmental report containing the characteristics of the project, the environmental impacts of the construction and operation, and also the mitigating and compensatory measures adopted or that are in the process of being adopted by the organization carrying out the project.

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

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

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

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

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

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

**Legal Forest Reserves**

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

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



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

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

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

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

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

1. The undertakings of the electricity sector are public utility activities, operating commercially under federal concession or authorization, for commercial operation of hydroelectric potential, and transmission and distribution of electricity, and are certainly not characterized as being a rural property or possession.
2. The acquisition of the real estate properties for putting in place the undertakings occurs as a function of the concession authorization by the grantor, through Aneel as an intermediary, and is carried out on a temporary basis, since at the end of the concession or authorization, the assets revert to public ownership.
3. The environmental impacts caused to biodiversity by the implementation of the electricity sector's undertakings have already been compensated. Examples of the environmental compensation specified in Brazilian legislation, already applying to the sector, are: (I) the Environmental Compensation specified by Federal Law No. 9,985, of July 18, 2000 (the SNUC Law); (II) the Forest Compensation for suppression of vegetation or intervention in an area of permanent preservation, specified in §4° of Article 4 of Federal Law No. 4,771, of September 15, 1965 (including by Provisional Measure 2166-67, of 2001); (III) the Environmental Compensation for cutting or suppression of the Atlantic Forest biome, under Federal Law No. 11,458, of December 22, 2006; and (IV) the Forest Charge for removal of vegetation for installation of the undertakings, as specified in State Law No. 4,747, of May 9, 1968.
4. The principle of non bis in idem cannot thus be violated. Such an obligation could characterize a double charge imposed on concession holders. CEMIG referred his understanding to SEDE, presenting arguments against the Legal Reserves provision obligation.

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

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

*Compensation Measures*

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

the environment resulting from its activities.

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

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

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

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

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

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

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

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

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

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

*Fish Management*

The dams at each of our hydroelectric generation facilities can endanger fish that inhabit the adjoining reservoirs. To reduce the impact of these facilities, CEMIG carries out numerous procedures to mitigate accidents involving fish in its hydroelectric power plants. Also, we are currently developing research projects in partnership with universities to study more effective techniques to control the impact of our operations on fish.

In spite of these efforts, one incident occurred in 2007, at the Três Marias Hydroelectric Power Plant, resulting in the death of approximately 17 tons of fish as estimated by the Environmental Police (8.2 tons by our estimate). The volume of dead fish was not estimated or measured. As a result, the State Forests Institute imposed two fines on us, totaling approximately R\$5.5 million, which currently corresponds to R\$7.7 million. We paid 50% of the fine and the rest is being negotiated with the environmental authority for application in research projects. On April 8, 2010, CEMIG and the Public Attorneys Office of Minas Gerais State signed a Conduct Adjustment Commitment (TAC), corresponding to the amount

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

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

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

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

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

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

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

### **The Carbon Market**

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

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

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**Operational Technologies**

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

*Load Dispatch Center*

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

Through its activities the COS permanently guarantees the security, continuity and quality of our supply of electricity. The activities of the COS are supported by up-to-date telecommunications, automation and information technology resources, and executed by highly qualified personnel. The COS has a Quality Management System, with ISO 9001:2008 certification.

*Distribution Operation Center*

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

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

*Geospatial Information & Technology*



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

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

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

#### *IT Governance Program*

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

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

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

### *Customer Relationship Channels*

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

### *Commercial Management System*

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

### *Maintenance and Repair Systems*

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

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

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

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

#### *Information Security Management*

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

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

**Management Tools**

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

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

*Risk Management*

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

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

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

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

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

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

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

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

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

**The Brazilian Power Industry**

*General*

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

*The New Industry Model*

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

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

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

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

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

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between Brazil and Paraguay. As a consequence, Itaipu rates rise or fall in accordance with the variation of the U.S. Dollar/real exchange rate. Changes in the price of Itaipu generated electricity are, however, subject to a cost recovery mechanism.

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

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

***Coexistence of two Electricity Trading Environments***

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

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

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

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

The regulation under the New Industry Model Law stipulates that distribution companies that contract less than 100% of their total captive consumption may be subject to fines. There are mechanisms to reduce this possibility, such as the purchase of energy from other distribution companies whose energy purchases exceeded forecasted demand, or purchase energy in auctions during the year. Any remaining shortfall from



100% of total captive consumption can be bought at the spot market price and the concessionaire would be subject to a penalty payment equivalent to the shortfall. If a company contracts more than 103% of its captive consumption, it would be subject to price risk if it sells this energy in the spot market in the future. To reduce such price risk, a company may reduce the purchase contracts in the existing energy auction by up to 4% each year, and reduce those contracts due to loss of consumers that became free and are supplied by generators directly.

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

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

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

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energy purchased according to the volume of energy that they will no longer distribute to free consumers. State-owned generators may sell electricity to Free Consumers, but as opposed to private generators, they are obliged to do so through an auction process.

***Restricted Activities of Distributors***

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

***Contracts Executed prior to the New Industry Model Law***

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

***Reduction of the Level of Contracted Electricity***

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

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

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

*Limitation on Pass-Through*

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

- no pass-through of costs for electricity purchases that exceed 103% of regulatory demand;
- limited pass-through of costs for electricity purchases made in an A-3 auction, if the volume of the acquired electricity exceeds 10% of the demand verified in A-5 auctions;
- limited pass-through of electricity acquisition costs from new electricity generation projects if the volume re-contracted through CCEARs of existing generation facilities is below a Contracting Limit defined by Decree No. 5,163;
- electricity purchases from existing facilities in the A-1 auction are limited to 0.5% of distribution companies' demand frustrated purchases in previous A-1 auctions and involuntary exposition to captive consumer's demand, plus the

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

- electricity purchases in market adjustment auctions are limited to 0% of a distribution concessionaire's total demand (except for the years 2008 and 2009, when the limit was 5%) and pass-through of costs is limited to Annual Reference Value; and
- if distributors fail to comply with the obligation to fully contract their demand, the pass-through of the costs from energy acquired in the short-term market will be the equivalent to the lower of the PLD or the Annual Reference Value.

***Rationing Under The New Industry Model Law***

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

***Rates***

Electric energy rates in Brazil are set by Aneel, which has the authority to readjust and review rates in accordance with the provisions under the relevant concession contracts. Each distribution company's concession contract provides for an annual rate adjustment (*reajuste anual*). In general, Parcel A costs are fully passed through to consumers. Parcel A costs are the portion of the regular rate calculation formula, which provides for the recovery of certain costs that are not within the control of the distribution company. Parcel B costs, which are costs that are under the control of the distributors, are restated for inflation in accordance with the General Market Price Index (*Indice Geral de Preços do Mercado*), or IGP-M index. The average annual rate adjustment includes components such as the inter-year variation of Parcel A costs (CVA) and other financial adjustments, which compensate for changes in the company's costs that were not previously taken into account in the rate we charged the year before. Since this inter-year variation is to reimburse changes in costs that took place in the previous year, it should not be part of next year's annual adjustment.

Concessionaires of electricity distribution are also entitled to periodic revisions (*revisão periódica*). Our concession agreements establish a five-year period between periodic revisions. These revisions are aimed at (i) assuring necessary revenues to cover efficient Parcel B operational costs and adequate compensation for investments deemed essential for the services within the scope of each company's concession and (ii) determining the X factor, which is calculated based on expected productivity gains from increases in scale, labor costs and the grid investment amount planned by the distribution company during the five-year period.

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

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

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

### *Land Acquisition*

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

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event that a concessionaire is unable to obtain needed land in this way, such land may be condemned for the concessionaire's use through specific legislation. In cases of governmental condemnation, the concessionaires may have to participate in negotiations relating to the amount of compensation with landowners and the resettlement of communities to other locations. We make all efforts to negotiate with the communities before applying to the judiciary.

*The Brazilian Electricity System Overview*

Brazil's power production and transmission is a large-scale hydroelectric and thermal system made up predominantly of hydroelectric power stations, with multiple owners. The Brazilian Grid is comprised of companies in the southern, southeastern, west-central, and northeastern regions and part of the northern region of Brazil. About only 2% of the country's electricity production capacity is not connected to the Brazilian Grid, in small isolated systems located mainly in the Amazon region. Brazil's abundant hydrological resources are managed through storage reservoirs. It is estimated that Brazil has a hydroelectric power generation potential close to 243,362 MW, of which only 35.5% has been developed or is under construction, according to Eletrobrás studies consolidated in December 2010.

Brazil has an installed capacity in the interconnected power system of 113.33 GW, approximately 71.2% of which is hydroelectric, according to Brazilian Energy Balance 2011 Year 2010 from Empresa de Pesquisa Energética - EPE. This installed capacity includes half of the installed capacity of Itaipu - a total of 14,000 MW owned equally by Brazil and Paraguay. There are approximately 61,000 miles of transmission lines with voltages equal to or higher than 230 kV in Brazil.

Approximately 36% of Brazil's installed generating capacity and 56% of Brazil's high voltage transmission lines are operated by Eletrobrás, a company owned by the Federal Government. Eletrobrás has historically been responsible for implementing electric policy, conservation and environmental management programs. The remaining high voltage transmission lines are owned by state-controlled or local electric power companies. Distribution is conducted by approximately 60 state or local utilities, a majority of which have been privatized by the Federal Government or state governments.

*Historical Background*

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

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

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

- The Federal Government enacted Law No. 8,987 on February 13, 1995, or the Concessions Law, and Law No. 9,074 on July 7, 1995, or the Power Concessions Law, that together:
- required that all concessions for the provision of energy-related services be granted through public bidding processes;
- gradually allowed certain electricity consumers with significant demand (generally greater than 3 MW), referred to as Free Consumers, to purchase electricity directly from suppliers holding a concession, permission or authorization;
- provided for the creation of generation entities, or Independent Power Producers, which, by means of a concession, permission or authorization, may generate and sell all or part of their electricity to Free Consumers, distribution concessionaires and trading agents, among others;
- granted Free Consumers and electricity suppliers open access to all distribution and transmission grids; and
- eliminated the need for a concession to construct and operate power projects with capacity from 1 MW to 30 MW, or Small Hydroelectric Power Plants, lately updated on May 28, 2009 by Law No. 11,943, which raised the limit from 30 MW to 50 MW, independently of being a Small Hydroelectric Power Plant or not.

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- The creation of Aneel and of the CNPE, in 1997.
- In 1998, the Federal Government enacted Law No. 9,648, or the Power Industry Law, to overhaul the basic structure of the electricity industry. The Power Industry Law provided for the following:
  - the establishment of a self-regulated body responsible for the operation of the short-term electricity market, or the Wholesale Energy Market, which replaced the prior system of regulated generation prices and supply contracts;
  - the creation of the National Integrated System Operator (Operador Nacional do Sistema, or ONS), a non-profit, private entity responsible for the operational management of the generation and transmission activities of the interconnected power system; and
  - the establishment of public bidding processes for concessions for the construction and operation of power plants and transmission facilities, in addition to the bidding process requirements under the Concessions Law and the Power Concessions Law.
- On March 15, 2004, the Federal Government enacted Law No. 10,848, or the New Industry Model Law, in an effort to further restructure the power industry with the ultimate goal of providing consumers with secure electricity supplies combined with low rates. On July 30, 2004 the Federal Government published Decree 5,163, governing the purchase and sale of electricity under the New Industry Model Law, as well as the granting of authorizations and concessions for electricity generation projects. These include rules relating to auction procedures, the form of power purchase agreements and the method of passing costs through to final consumers.

***Rationing and Extraordinary Rate Increases***

Below average rainfall in the years preceding 2001 resulted in low reservoir levels and low hydroelectric capacity in the Southeast, Central West and Northeast regions. A program known as the Electricity Rationing Program, that lasted from June 2001 until February 2002, was designed to solve this problem and establish normal levels for reservoirs. As a result of the end of the rationing measures, the Federal Government created the Electricity Sector Management Committee (*Câmara de Gestão do Setor Elétrico*), or CGSE, as coordinator of the electricity sector revitalization measures. The General Agreement of the Electricity Sector was created to provide for compensation for rationing-related losses to generation and distribution companies in Brazil and restore the economic equilibrium of the concession agreements. An extraordinary rate increase, or RTE, applicable to final consumers would compensate both generators and distributors for such rationing-related losses. The RTE also covers financial losses from January 2001 to October 2001, resulting from those costs that are beyond the control of the distributor, referred to as Parcel A costs, as well as losses of generators incurred as a result of payment of free energy costs above the Initial Contract average price.

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



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

### *Concessions*

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

The Concession Law establishes, among other things, the conditions that the concessionaire must comply with in rendering electricity services, the consumer's rights and the obligations of the concessionaire and the granting authority. Furthermore, the

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concessionaire must comply with regulations in force governing the electricity sector. The main provisions of the Concession Law are summarized as follows:

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

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

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

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

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

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

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

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

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

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***Principal Regulatory Authorities***

*National Energy Policy Council CNPE*

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

*Ministry of Mines and Energy MME*

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

*National Electric Energy Agency Aneel*

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

*National System Operator ONS*

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

*Electric Energy Trading Chamber CCEE*

One of the main roles of the CCEE is to conduct public auctions in the regulated market, including the auction of existing electricity and new electricity. Additionally, the CCEE is responsible, among other things, for (1) registering the volume of all the energy purchase agreements within the regulated market (*Contratos de Comercialização de Energia no Ambiente Regulado*), or CCEAR, and the agreements resulting from the free market, and (2) the accounting for and clearing of short-term transactions.

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

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

#### *Energy Research Company EPE*

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

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*The Electricity Sector Monitoring Committee CMSE*

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

*Ownership Limitations*

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

*Incentives for Alternative Sources of Power*

In 2000, a Federal decree created the Thermolectric Priority Program (*Programa Prioritário de Termoelectricidade*), or PPT, for purposes of diversifying the Brazilian energy matrix and decreasing its strong dependency on hydroelectric plants.

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

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

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

*Regulatory Charges*

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

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

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

*Fuel Consumption Account CCC*

Distribution companies must contribute to the Fuel Consumption Account (*Conta de Consumo de Combustível*), or CCC. The CCC was created to generate financial reserves to cover elevated costs associated to the use of thermoelectric energy plants, especially in the northern region of Brazil given the higher operating costs of thermoelectric energy plants compared to hydroelectric energy plants. Each energy company is required to contribute annually to the CCC. The annual contributions are calculated on the basis of

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estimates of the cost of fuel needed by the thermoelectric energy plants in the following year. The CCC, in turn, reimburses energy companies for a substantial portion of the fuel costs of their thermoelectric energy plants. The CCC is administered by Eletrobrás.

*Charge for the Use of Water Resources*

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

*Energy Development Account - CDE*

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

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

*Aneel Inspection Charge*

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

*Energy Reallocation Mechanism*

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



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

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

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

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

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

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*TUSD*

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

TUST

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

*Distribution*

Distribution rates are subject to review by Aneel, which has the authority to adjust and review rates in response to changes in electricity purchase costs and market conditions. When adjusting distribution rates, Aneel divides the costs of distribution companies between (1) costs that are beyond the control of the distributor, or Parcel A costs, and (2) costs that are under the control of the distributor, or Parcel B costs. The rate adjustment is based on a formula that takes into account the division of costs between the two categories.

Parcel A costs include, among others, the following:

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

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

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

In general, Parcel A costs are fully passed through to consumers. Parcel B costs, however, are restated for inflation in accordance with General Market Price Index (*Índice Geral de Preços do Mercado*), or IGP-M index, adjusted by an X Factor. Electricity distribution companies, according to their concession contracts, are also entitled to periodic revisions (*revisão periódica*). These revisions are aimed at (1) assuring necessary revenues to cover efficient Parcel B operational costs and adequate compensation for investments deemed essential for the services within the scope of each company's concession and (2) determining the X factor.

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

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

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**Item 4A. Unresolved Staff Comments**

Not Applicable.

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

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

*Statement of Compliance*

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

*Basis of measurement*

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

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

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

**Critical Accounting Estimates**

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

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

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

#### *Allowance for Doubtful Accounts*

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

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

#### *Deferred income tax and social contribution*

We account for income taxes in accordance with IFRS. IFRS requires an asset and liability approach to recording current and deferred taxes. Accordingly, the effects of differences between the tax basis of assets and liabilities and the amounts recognized in our consolidated financial statements have been treated as temporary differences for the purpose of recording deferred income tax.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. If we are unable to generate

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

*Depreciation and Amortization*

Depreciation and Amortization is computed using the straight-line method, at annual rates based on the estimated useful lives of the assets, in accordance with ANEEL regulations and industry practice in Brazil.

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

To the extent that the actual lives differ from these estimates, there would be an impact on the amount of depreciation and amortization accrued in our consolidated financial statements. A significant decrease in the estimated useful life of a material amount of property, plant and equipment, intangibles, or in the assets of the electricity generation project consortium in which we are a partner, could have a material adverse impact on our operating results in the period in which the estimate is revised and in subsequent periods.

*Employee Post-Retirement Benefits*

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

The determination of the amount of our obligations for pension and other post-retirement benefits depends on certain actuarial assumptions. These assumptions are described in Note 21 to our consolidated financial statements and include, among others, the expected long-term rate of return on plan assets and increases in salaries and healthcare costs. While we believe that our assumptions are appropriate, significant differences in actual results or significant changes in our assumptions may materially affect our pension and other post-retirement obligations.

*Provision for Contingencies*

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

Such provisions are estimated based on historical experience, the nature of the claims, as well as the current status of the claims. Accounting for contingencies requires significant judgment by management concerning the estimated probabilities and ranges of exposure to potential liability. Management's assessment of our exposure to contingencies could change as new developments occur or more information becomes available. The outcome of the contingencies could vary significantly and could materially impact our consolidated results of operations, cash flows and financial position.

*Unbilled electric power supplied*

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

*Derivative Instruments*

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

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**Recently Issued IFRS Standards**

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

- IAS 1 Presentation of Financial Statements Prescribe the Other Comprehensive income. This international accounting standard is effective for fiscal years beginning on or after January 1, 2012.
- IAS 19 Employee Benefits The objective of IAS 19 is to prescribe the accounting and disclosure of employee benefits (that is, all forms of consideration given by an entity in exchange for service rendered by employees). This international accounting standard is effective for fiscal years beginning on or after January 1, 2013.
- IAS 27 Consolidated and Separate Financial Statements (revised in 2011) Superseded by IFRS 10 and IFRS 12, the main objective of IAS 27 is accounting for investments in subsidiaries, jointly controlled entities, and associations when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. This international accounting standard is effective for fiscal years beginning on or after January 1, 2013.
- IAS 28 Investments in Affiliated companies and joint ventures (revised in 2011) Superseded by IFRS 11 and IFRS 12, IAS 28 applies to all investments in which an investor has significant influence but not control or joint control except for investments held by a venture capital organization, mutual fund, and unit trust. This international accounting standard is effective for fiscal years beginning on or after January 1, 2013.
- IAS 32 The purpose of the changes is to clearly explain the compensation requirements of financial instruments, where the main explanations are related to the meaning of a legally executable right to be settled by the net amount and where some settlement systems at the gross amount may be considered equivalent to settlement at the net amount. This amendment comes into force on or as from January 1, 2014.
- IFRS 7 - Financial Instruments: Disclosures . Effective starting on July 1, 2011. This standard requires certain disclosures to be presented by category of instrument based on the IAS 39 measurement categories. The designation is made at the time of initial recognition. The classification depends on both the entity's business model and the cash flow characteristics of the financial instrument. Regarding financial liabilities, the standard does not change most of the established demands in IAS 39.
- IFRS 9 Financial Instruments Effective starting on January 1, 2013 This standard simplifies the model for measurement of financial assets and establishes two main categories of measurement: amortized cost and fair value. Any changes in the fair value of liabilities valued at fair value would not have an effect on the statement of other comprehensive income, because they would be recognized in the statement of other accumulated comprehensive income.



- IFRS 10 Consolidated Financial Statements - Effective starting on January 1, 2013. This standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It also defines the principle of control, and establishes control as the basis for consolidation. It establishes how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee.
  
- IFRS 11- Joint Arrangements Effective starting on January 1, 2013, but earlier adoption is encouraged. The core principle of IFRS 11 is that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. There are two types of joint arrangements: (i) joint operations, a situation in which an operator has assets and contractual obligations and, as a consequence, it recognizes its share in the assets and liabilities, revenues and expenses and (ii) joint control, a situation in which an operator has the right over the contractual net assets and as a consequence it recognizes the investment using the equity method. The main change is that if the type of joint arrangement is not a joint venture, the entities must use the equity method extinguishing the proportional consolidation which will impact consolidation for all jointly controlled entities in the Group.

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- IFRS 12 Disclosure of interests in other entities - Effective starting on January 1, 2013. This standard establishes disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, affiliated companies and unconsolidated structured entities and the effects on its financial position, financial performance and cash flows.
- IFRS 13 Fair Value Measurement - Effective starting on January 1, 2013. This standard defines fair value, set out in a single IFRS framework for measuring fair value and requires disclosures of fair value measurements. The main change is the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard requires using significant unobservable inputs for fair value measurements. To meet the disclosure objective, the following minimum disclosures are required for each class of assets and liabilities measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition. (Note that these requirements have been summarized and additional disclosure is required where necessary).

**Principal Factors Affecting our Financial Condition and Results of Operations**

*Analysis of Electricity Sales and Cost of Electricity Purchased*

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

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

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

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

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

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

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

*Distribution Rates*

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

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

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

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

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

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

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On November 7, 2011 Aneel established Light average annual rate adjustment of 6.57%. The components of this increase were as follows: (i) a 7.21% increase due to the Rate Adjustment Index; (ii) a 0.20% increase due to intra-annual variation of fixed costs; (iii) a 2.01% increase related to the advancement of subsidies on rates applicable to certain consumers and (iv) a 2.85% decrease due to other financial adjustment.

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

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	2011	2010	2009
<b>Average annual/periodic rate adjustment</b>	6.57%	6.88%	5.65%
<b>Components</b>			
Rate adjustment index	7.21%	8.21%	0.88%
Intra-annual variation of fixed costs (CVA)	0.20%	0.76%	4.72%
Advancement of subsidies on rates	2.01%	1.65%	1.42%
Other financial adjustments	-2.85%	-3.74%	-1.37%

*Transmission Rates*

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

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

The concession contract provides that the revenue requirements are restated for inflation annually in accordance with the General Market Price Index, IGP-M. This IGP-M index rose 9.36% from June 2010 to May 2011 increasing the revenue for the 2011-2012 cycle. In June 2011, ANEEL approved an increase in the transmission revenue of 6.4%.

*Power Rationing and Government Measures to Compensate Electric Utilities*

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

Nevertheless, the New Industry Model (that has as one of its main objectives to guarantee the supply of energy) created the auctions to the regulated market (ACR), where is possible to purchase energy from new plants to guarantee the supply of energy. Since the New Industry Model, approximately 47 GMW of capacity were negotiated on these auctions, which is being installed from 2008 to 2017. Of this amount, 5.97 GW were negotiated on the backup auctions, that is, this energy is not compromised with any contracts or any minimum supply.

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

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

We have an account receivable from the State Government, referred to as the CRC Account, that totaled R\$1,830 million as of December 31, 2011. Our liquidity is affected by payments made by the State Government in connection with the CRC Account. The agreement between CEMIG and the State Government that governs the CRC Account receivable is referred to as the CRC Account Agreement. The CRC Account Agreement has been amended five times, as described below.

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

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

Given the prior default by the State Government in the payment of amounts due under the CRC Account Agreement since 2001, and in order to ensure the full payment to us of the installments due by the State Government under the CRC Account balance, the Fourth Amendment to the CRC Account Agreement was signed on January 27, 2006. Under the Fourth Amendment, the State Government irrevocably agreed to pay the outstanding CRC Account balance, corresponding to R\$2,942 million at December 31, 2004, plus interest, by authorizing CEMIG to retain 65% of the ordinary dividends and interest on capital due to the State Government. The outstanding balance is subject to monetary correction for inflation by the variation in the IGP-DI inflation index and will bear interest at 8.18% per year, compounded semi-annually.

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

A Fifth Amendment to the CRC Account Agreement was executed by CEMIG and the State Government on September 12, 2007. The Fifth Amendment adjusts the outstanding balance of the CRC Agreement to R\$2,839.5 million in accordance with a provision in the Fourth Amendment in which the parties recognized that there was a disagreement regarding the outstanding balance of the CRC Agreement at December 31, 2004. Approval for the Fifth Amendment to the CRC Account Agreement was also obtained from the CEMIG CRC Account Securitization Fund (CEMIG *Fundo de Investimento em Direitos Creditórios Conta CRC*), or FIDC, to which the CRC Account receivables were transferred in January 2006.

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



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

### *Exchange Rates*

Substantially all of our revenues and operating expenses are denominated in *reais*. However, we have foreign currency-denominated debt. As a result, in reporting periods when the real declines against the dollar or other foreign currencies in which our debt is denominated, our operating results and financial position are adversely affected. Foreign exchange gain or loss and monetary variation gain or loss may impact our results of operations in periods in which there are wide swings in the value of the real relative to the dollar or high inflation. We have a number of financial and other contracts under which we owe, or are entitled to, amounts in

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respect of monetary variation as measured by an index of price inflation in Brazil. In 2011, we used financial instruments such as interest rate swaps in order to reduce the risk from exchange rate fluctuations. As of December 31, 2011, we had entered into swap agreements in the notional amount of US\$17 million in order to change the original interest rate of certain financing from an interest rate calculated based on the U.S. dollar variation to an interest rate calculated based on the Interbank Certificates of Deposit rate (*Certificado de Depósito Interbancário*), or CDI rate. See Notes 2.6(b), 19, 23, 28 and 29 to our consolidated financial statements.

**Year Ended December 31, 2011 Compared to Year Ended December 31, 2010***Net Operating Revenues*

Net operating revenues increased 14.2% from R\$13,846 million in 2010 to R\$15,814 million in 2011.

	2011 (in millions of R\$)	% of net operating revenues	2010 (in millions of R\$)	% of net operating revenues	2011 versus 2010 %
Electricity sales to final consumers	14,959	94.6	13,219	95.5	13.2
Revenue from wholesale supply to other concession holders	1,577	10.0	1,445	10.4	9.1
Other sales	305	1.9	157	1.1	94.3
Revenue from use of the basic electricity distribution system (TUSD)	1,974	12.5	1,658	12.0	19.1
Revenue from use of the transmission system	1,473	9.3	1,198	8.6	23.0
Construction revenues	1,533	9.7	1,341	9.7	14.3
Other operating revenues	990	6.3	924	6.7	7.1
Tax on revenues	(6,997)	(44.2)	(6,095)	(44.0)	14.8
Total net operating revenues	15,814	100.0	13,846	100.0	14.2

*Electricity sales to final consumers*

Revenue from electricity sales to final consumers (excluding CEMIG's own consumption) increased R\$1,740 million or 13.2% from R\$13,219 million in 2010 to R\$14,959 million in 2011.

This variation was primarily due to:

- an increase of 6.95% in the volume of electricity invoiced to final consumers (excluding internal consumption);
- tariff rate adjustments in Cemig Distribution concessions, which increased by an average rate of 1.67% on April 8, 2010 and increased by an average rate of 7.24% on April 8, 2011, respectively;
- tariff rate adjustments in Light SESA's concession, which increased by an average rate of 2.20% on November 7, 2010 and increased by an average rate of 7.82% on November 7, 2011, respectively;
- readjustments of the rates on contracts for sale of energy to free consumers, indexed mostly to the variation of IGP-M, that increased 5.1% in 2011.

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*Revenue from wholesale supply to other concession holders*

Revenue from wholesale supply to other concession holders increased by R\$132 million or 9.1% from R\$1,445 million in 2010 to R\$1,577 million in 2011. The volume of electricity sold to other concession holders increased 253,360 MWh, or 1.8%, from 14,204,530 MWh in 2010 to 14,457,890 MWh in 2011. The average price for these sales increased 7.2%, from R\$101.72/MWh in 2010 to R\$109.08/MWh in 2011.

*Other sales*

Other sales include transactions in energy on CCEE and sales under the Proinfa Program. Revenue from other sales increased R\$148 million, or 94.3%, from R\$157 million in 2010 to R\$305 million in 2011. The increase is due primarily to the increase in the average volume of energy settled in CCEE, R\$269 million in 2011 compared to R\$133 million in 2010. The price of energy in CCEE varies due mainly to the level of water in the reservoirs.

*Revenue from the use of the basic electricity distribution system (TUSD)*

Revenue from the use of the electricity distribution system (TUSD) increased R\$316 million, or 19.1%, from R\$1,658 million in 2010 to R\$1,974 million in 2011. This revenue comes from charges for energy sold to Free Consumers located in CEMIG's and Light's concession areas, and the increase in 2011 is due to rate adjustments and a higher volume of energy transported to Free Consumers by CEMIG, resulting from the recovery of industrial activity and the migration of captive consumers to the Free Market in 2011.

*Revenue from the use of the transmission system*

For concessions granted prior to 2000 or later, revenue Network Usage refers to the rate charged for electric sector agents, including Free Consumers connected at high voltage due to the use of our transmission network connected to the Brazilian interconnected transmission network.

For new concessions, granted in 2000 or later, the revenue represents the portion received from the power agents related to the operation and maintenance of transmission lines and also the monetary variation revenue on financial transmission assets recorded during the construction period of the transmission lines. The rates used for readjustment of such assets correspond to the remuneration of the capital invested in those projects, varying in accordance with the model of the enterprise and the cost of capital of the investor.

Revenue from the use of the basic transmission system increased R\$276 million, or 23.0%, from R\$1,198 million in 2010 to R\$1,473 million in 2011. This revenue is from the transmission capacity of Cemig Generation and Transmission made available to the national system, and also from the jointly-controlled transmission subsidiaries, particularly TBE and Taesa. This increase in 2011 resulted primarily from CEMIG

recording R\$178 million related to the monetary variation of TAESA's transmission assets recorded. This was due to readjustments in TAESA's rates as from July 2011 of 9.77%. For more information on rates updates see the section Rates for the Use of the Distribution and Transmission Systems .

*Construction revenues*

Construction revenues increased R\$192 million, from R\$1,341 million in 2010 to R\$1,533 million in 2011, due to greater investment in 2011 in concession assets. Those revenues represent the investments in concession assets and include in some cases the profit margin recorded in each operation. The major portion of construction revenues were offset by the construction costs See Note 24 to our consolidated financial statements.

*Other operating revenues*

The Company's other operating revenue increased by R\$66 million, or 7.1%, from R\$924 million in 2010 to R\$990 million in 2011. Our other operating revenues are: (in millions of reais)

	2011	2010
Supply of gas	579	398
Charged service	14	16
Telecom service	158	131
Other services provided	105	179
Low-income subsidy	56	133
Other	78	67
	990	924

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The increase in other operating revenues in 2011 compared to 2010 is largely due to the increase of revenues related to supply of gas by 45.5%, from R\$398 million in 2010 to R\$579 million in 2011. This increase was due to the expansion of our pipeline to Vale do Aço (Steel Valley) and to the south of Minas Gerais, allowing the Company to service large clients in those regions. The Vale do Aço (Steel Valley) pipeline started operations in September 2010.

*Tax on revenues*

Taxes on revenues increased R\$902 million, or 14.8%, from R\$6,095 million in 2010 to R\$6,997 million in 2011. Taxes on revenues consist of: (i) VAT, assessed at an average rate of 21% on electricity sales to final consumers; (ii) COFINS, assessed at a rate of 7.6%; and (iii) PASEP, assessed at a rate of 1.7%. See Note 24 to our consolidated financial statements.

*Operating Costs and Expenses*

Operating costs and expenses increased R\$1,201 million, or 12%, from R\$10,200 million in 2010 to R\$11,401 million in 2011. This increase was mainly due to electricity purchased for resale that increased R\$556 million, or 14.9%, from R\$3,722 million in 2010 to R\$4,278 million in 2011. For more information refer to note 25 to our consolidated financial statements.

	2011 (in millions of R\$)	% of net operating revenues	2010 (in millions of R\$)	% of net operating revenues	2011 versus 2010 %
Electricity purchased for resale	(4,278)	(27.1)	(3,722)	(26.9)	14.9
Use of basic transmission network	(830)	(5.2)	(729)	(5.3)	13.9
Depreciation and amortization	(939)	(5.9)	(896)	(6.5)	4.8
Personnel	(1,249)	(7.9)	(1,212)	(8.7)	3.1
Employees and managers profit sharing	(221)	(1.4)	(325)	(2.3)	(32.0)
Outsourced services	(1,031)	(6.5)	(923)	(6.7)	11.7
Employee post-retirement benefits	(124)	(0.8)	(107)	(0.8)	15.9
Materials and supplies	(98)	(0.6)	(134)	(1.0)	(26.9)
Royalties for use of water resources	(154)	(1.0)	(140)	(1.0)	10.0
Provisions (reversals) for operating losses	(257)	(1.6)	(138)	(1.0)	86.2
Gas purchased for resale	(329)	(2.1)	(225)	(1.6)	46.2

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Construction costs	(1,529)	(9.7)	(1,328)	(9.6)	15.1
Other	(362)	(2.3)	(321)	(2.3)	12.7
Total operating costs and expenses	(11,401)	(72.1)	(10,200)	(73.7)	11.8

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Electricity purchased for resale consists primarily of purchases from Itaipu through Eletrobrás and competitive biddings. We are required under applicable regulations to purchase part of Itaipu's capacity at U.S. dollar denominated prices. We also purchase electricity from the CCEE and through bilateral contracts. Electricity purchased for resale increased R\$556 million, or 14.9%, from R\$3,722 million in 2010 to R\$4,278 million in 2011. The increase in costs was primarily due to higher energy trading activity by Cemig Generation and Transmission and the increase in our interest in Light in 2011, resulting in the consolidation of a greater portion of this cost in our financial statements. This is a non-controllable cost and the difference between the amounts used as a reference for calculation of tariffs and the cost actually incurred is compensated for in the next tariff adjustment. For a breakdown of this expense, see Note 25 to our consolidated financial statements.

Charges for use of basic transmission network mainly correspond to the cost of transporting electricity in the Brazilian basic transmission network which is prorated among the Brazilian distribution companies, according to the Brazilian regulatory legislation. Charges for use of the transmission network, which are defined by Aneel, increased R\$101 million, or 13.9%, from R\$729 million in 2010 to R\$830 million in 2011. These charges, set by an Aneel resolution, are payable by electricity distribution and generation agents for use of the facilities that are components of the national grid. This is a non-controllable cost and the difference between the amounts used as a reference for the calculation of tariffs and the cost actually incurred is compensated for in the next tariff adjustment.

Depreciation and amortization expense increased R\$43 million, or 4.8%, from R\$896 million in 2010 to R\$939 million in 2011. This result is mainly due to the increase in our assets due to a higher investment in our distribution programs in 2011.

Personnel expenses increased R\$37 million, or 3.1%, from R\$1,212 million in 2010 to R\$1,249 million in 2011. This increase is due by the average salary increase of 7% and 8.2% agreed in November 2011, in the negotiations for the annual Collective Work Agreement for 2011-12, being partly offset by the reduction of our aggregate number of employees from 2010 to 2011.

Employees' and managers' profit sharing decreased R\$104 million, or 32.0%, from R\$325 million in 2010 to R\$221 million in 2011. This decrease is primarily the result of a labor agreement entered into between Cemig and the labor unions in November 2010 and 2011. In 2010 we also recognized an additional amount of R\$30 million related to the 2009 labor agreement.

Outsourced services increased R\$108 million, or 11.7%, from R\$923 million in 2010 to R\$1,031 million in 2011. This is primarily due to the higher amount of costs related to communication services, meter reading and delivery of electricity bills and consulting and readjustments in the contracts with the suppliers. The increases were primarily due to readjustments in the contracts with our suppliers. For a breakdown of the provisions see Note 25 to our consolidated financial statements.

Employee post-retirement benefits expenses increased R\$17 million, or 15.9%, from R\$107 million in 2010 to R\$124 million in 2011. These expenses primarily represent our actuarial obligations related to the net interest accruals in 2011. The increase in 2011 is mainly due to the increase in our interest in Light in 2011, resulting in the consolidation of a greater portion of this cost in our financial statements. For more information see Note 21 to our consolidated financial statements.

Provisions (reversals) for operating losses increased R\$119 million, or 86.2%, from R\$138 million in 2010 to R\$257 million in 2011. The components of this increase were as follows:



- increase of R\$58 million or 55.2% in the allowance for doubtful accounts from R\$105 million in 2010 to R\$163 million in 2011. This was mainly due to revaluations of the installments made for recovery of debts owed by many consumers;
- the constitution of a provision for allowance for administrative proceedings brought by Aneel of R\$4 million in 2011 compared to a reversion provision of R\$47 million in 2010 due to a process ended by Aneel related to low-income subsidies which ended in December 2010;
- the constitution of a provision for judicial contingencies in the amount of R\$48 million in 2011 compared to a reversion provision of R\$54 million in 2010, based on the opinion of legal counsel of the Company;
- partially offset by civil actions for tariffs which decreased R\$130 million, from R\$139 million recorded in 2010 to R\$9 million in 2011. The amount recorded in 2010 was the result of a substantial agreement concluded to end a lawsuit with respect to the industrial consumer tariff increase related to DNAEE Ministerial Order 045/86 .

Gas purchased for resale increased R\$104 million, or 46.2%, from R\$225 million in 2010 to R\$329 million in 2011. This is a result of the larger quantity of gas purchased by GASMIG in 2011 to service its industrial clients.

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As a result of the foregoing, we had an operating profit before financial expenses of R\$4,413 million in 2011 compared to an operating profit before financial expenses of R\$3,647 million in 2010.

*Financial Expenses, Net*

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

Net financial expenses increased R\$232 million, or 28.1%, from R\$825 million in 2010 to R\$1,057 million in 2011. The main factors that impacted our net financial expenses in 2011 were:

- Loans and financing expenses: increase of R\$236 million, or 21.9%, from R\$1,075 million in 2010 to R\$1,311 million in 2011. This increase was mainly due to greater variation in the CDI rate, the main index of our loans and financing contracts, reflecting the increasing in Brazilian benchmark rate (SELIC) in the first half of 2011.
- Monetary variation expense of post-employment obligations: increase of R\$21 million, or 14.8%, from R\$142 million in 2010 to R\$163 million in 2011. This increase was mainly due to greater variation in the IPCA, to which the contract between Cemig and Forluz is indexed.
- Monetary variation on advance for future capital increase in the amount of R\$66 million due to the readjustment of the balance that was reimbursed to the State Government .

Net financial expenses were partially offset by the following increases in financial income:

- Monetary variation on tax credit of a judicial deposit in the amount of R\$68 million based on a court decision made in 2011 in favor of CEMIG which deemed certain state inheritance and donation taxes (ITCD) to be refundable.
- Revenue from monetary variation on Finsocial Tax collected during the period between 1989 and 1991 in the amount of R\$67 million due to a favorable judicial outcome. This resulted from a judicial decision made which stated that there was no legal foundation requiring the Company to pay its federal tax obligations based on the tax rate increases established in tax code effective during the abovestated period. This amount has been updated by the interest earned through year-end.

For a breakdown of financial revenues and expenses, see Note 26 to our consolidated financial statements.

*Income Tax*

Income tax represented an expense of R\$941 million on pre-tax income of R\$3,356 million in 2011, or 28.0%, compared to an expense of R\$564 million on pre-tax income of R\$2,822 million in 2010, or 20.0%. We recognized tax credits in 2011 and 2010 in the amounts of R\$120 million and R\$281 million, respectively. These tax credits were not recognized in the financial statements due to uncertainty regarding their ultimate realization and were recorded based on projected profits that indicated the realization of such credits. The effective tax rates are reconciled with the nominal rates in Note 10 to our consolidated financial statements.

*Net Income*

As a result of the foregoing, we had net income of R\$2,415 million in 2011 compared to net income of R\$2,258 million in 2010.

**Year Ended December 31, 2010 Compared to Year Ended December 31, 2009**

*Net Operating Revenues*

Net operating revenues increased 13.9% from R\$12,158 million in 2009 to R\$13,847 million in 2010.

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	2010 (in millions of R\$)	% of net operating revenues	2009 (in millions of R\$)	% of net operating revenues	2010 versus 2009 %
Electricity sales to final consumers	13,219	95.5	12,968	96.4	1.9
Revenue from wholesale supply to other concession holders	1,445	10.4	1,634	12.1	(11.6)
Other sales	157	1.1	141	1.0	11.3
Revenue from use of the basic electricity distribution system (TUSD)	1,658	12.0	1,332	9.9	24.5
Revenue from use of the transmission system	1,198	8.7	903	6.7	32.7
Construction revenues	1,341	9.7	1,291	9.6	3.9
Other operating revenues	924	6.7	917	6.8	1.0
Tax on revenues	(6,095)	(44.0)	(5,737)	(42.7)	6.2
Total net operating revenues	13,847	100.0	13,449	100.0	3.0

*Electricity sales to final consumers*

Revenue from electricity sales to final consumers (excluding CEMIG's own consumption) increased by R\$251 million or 1.9% from R\$12,968 million in 2009 to R\$13,219 million in 2010.

This increase was primarily due to an increase of 6.1% in the volume of electricity invoiced to final consumers (excluding internal consumption). This increase was partially offset by a reduction of 3.35% in the average tariff in 2010, to R\$ 282.01/MWh from R\$ 291.79/MWh in 2009. The reduction in the average tariff in 2010 was due to more regulatory items included in the tariff adjustment in 2009, such as the Extraordinary Tariff Recomposition (RTE) and non-controllable costs of the distribution company (CVA), which were not included in the 2010 tariff adjustment.

*Revenue from wholesale supply to other concession holders*

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

*Other sales*

Other sales includes transactions in energy on CCEE and sales under the Proinfa Program. Revenue from other sales increased by R\$16 million, or 11.3%, from R\$141 million in 2009 to R\$157 million in 2010. The increase is due to higher energy trade by the wind power plants through the Proinfa Program in 2010 compared to 2009 (84,771 MWh in 2010 compared to 20,245 MWh in 2009) since the Morgado and Volta do Rio plants began operations in 2010.

Table of Contents*Revenue from the use of the basic electricity distribution system (TUSD)*

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

*Revenue from use of the transmission system*

Revenue from the use of the transmission system increased R\$295 million, or 32.7%, from R\$903 million in 2009 to R\$1,198 million in 2010. This revenue is from the transmission capacity of Cemig Generation and Transmission made available to the national grid, and also from the jointly-controlled transmission subsidiaries, particularly TBE and Taesa. The increase in 2010 is mainly due to additional revenue as a result of the acquisition of interests in Taesa in October, 2009 and in May 2010 through a public offer to acquire shares.

*Construction revenues*

Construction revenues increased R\$50 million, from R\$1,291 million in 2009 to R\$1,341 million in 2010. These revenues represent the investments in concession assets and include in some cases the profit margin recorded in each operation. The major portion of construction revenues were offset by the construction costs. See Note 24 to our consolidated financial statements.

*Other operating revenues*

Other operating revenues increased by R\$7 million, or 0.8%, from R\$917 million in 2009 to R\$924 million in 2010. The Company's other operating revenues are: (in millions of reais)

	2010	2009
Supply of gas	398	307
Charged service	16	17
Telecom service	1317	115
Other services provided	179	129
Low-income subsidy	133	265
Other	67	84
	924	917

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

consumers. The supply of gas increased from R\$307 million in 2009 to R\$398 million in 2010, primarily related to distribution services.

*Taxes on revenues*

Taxes on revenues increased R\$358 million, or 6.2%, from R\$5,737 million in 2009 to R\$6,095 million in 2010. Taxes on revenues consist of: (i) VAT, assessed at an average rate of 21% on electricity sales to final consumers, and VAT billed to consumers related to the deferred regulatory assets; (ii) COFINS, assessed at a rate of 7.6%; and (iii) PASEP, assessed at a rate of 1.7%. See Note 24 to our consolidated financial statements.

*Operating Costs and Expenses*

Operating costs and expenses increased R\$442 million, or 4.5%, from R9,758 million in 2009 to R\$10,200 million in 2010. This increase is mainly due to an increase in the non-controllable costs of energy bought for resale. For more information see Note 25 to our consolidated financial statements.

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	2010 (in millions of R\$)	% of net operating revenues	2009 (in millions of R\$)	% of net operating revenues	2010 versus 2009 %
Electricity purchased for resale	(3,722)	(26.9)	(3,199)	(23.8)	16.3
Use of basic transmission network	(729)	(5.3)	(853)	(6.3)	(14.5)
Depreciation and amortization	(896)	(6.5)	(895)	(6.7)	0.1
Personnel	(1,212)	(8.7)	(1,318)	(9.8)	(8.0)
Employees and managers profit sharing	(325)	(2.3)	(239)	(1.8)	36.0
Outsourced services	(923)	(6.7)	(819)	(6.1)	12.7
Employee post-retirement benefits	(107)	(0.8)	(150)	(1.1)	(28.7)
Materials and supplies	(134)	(1.0)	(114)	(0.8)	17.5
Royalties for use of water resources	(140)	(1.0)	(154)	(1.1)	(9.1)
Provisions (reversals) for operating losses	(138)	(1.0)	(124)	(0.9)	11.3
Gas purchased for resale	(225)	(1.6)	(167)	(1.2)	34.7
Construction costs	(1,328)	(9.5)	(1,410)	(10.5)	(5.8)
Other	(321)	(2.3)	(316)	(2.3)	1.6
Total operating costs and expenses	(10,200)	(73.7)	(9,758)	(72.6)	4.5

Electricity purchased for resale consists primarily of purchases from Itaipu through Eletrobrás and competitive biddings. We are required under applicable regulations to purchase part of Itaipu's capacity at U.S. dollar-denominated prices. We also purchase electricity from the CCEE and through bilateral contracts. Electricity purchased for resale increased R\$523 million, or 16.4%, from R\$3,199 million in 2009 to R\$3,722 million in 2010, due mainly to greater purchases of electricity by the distributors in the Regulated Market. This is a non-controllable cost, and the difference between the amounts used as a reference for calculation of tariffs and the cost actually incurred is compensated for in the next tariff adjustment. For a breakdown of this expense, see Note 25 to our consolidated financial statements.

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

Depreciation and amortization expense remained unchanged from 2009 to 2010, at R\$896 million in 2010 and R\$895 million in 2009.



Personnel expenses decreased R\$106 million, or 8.0%, from R\$1,318 million in 2009 to R\$1,212 million in 2010. This decrease is largely due to a much higher expense on the Temporary Voluntary Retirement Program (PDV) in 2009 (when it was put in place), with an expense in 2009 of R\$206 million, compared to R\$40 million in 2010 (related to an adjustment of the provision made in

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2009). Personnel expenses also decreased due to a reduction of our aggregate number of employees from 9,746 at the end of 2009 to 8,859 at the end of 2010.

Outsourced services increased R\$104 million, or 12.7%, from R\$819 million in 2009 to R\$923 million in 2010. The main variations were due to the higher amount of costs related to communication services, meter reading, delivery of electricity bills and maintenance of electrical facilities and equipment primarily due to readjustments in the contracts with the suppliers. For a breakdown of the provisions see Note 25 to our consolidated financial statements.

Employee post-retirement benefits expenses decreased R\$43 million, or 28.7%, from R\$150 million in 2009 to R\$107 million in 2010. These expenses primarily represent our actuarial obligations due to the net interest accruals. The decrease was primarily due to the higher return on the assets of the post-retirement benefits plan in 2010 compared to 2009. For more information see Note 21 to our consolidated financial statements.

Provisions (reversals) for operating losses increased R\$14 million, or 11.3%, from R\$124 million in 2009 to R\$138 million in 2010. This is mainly due to the settlement of a lawsuit brought by an industrial consumer questioning a tariff increase made in 1986 by the Federal Water Authority (by DNAEE Ministerial Order 045/86). An expense of R\$177 million was recorded in connection with this settlement in 2010. Its effect is partially offset by a reversal in the provision for retirement premiums, of R\$22 million, in 2010, compared to a provision of R\$41 million in 2009. For a breakdown of the provisions see Note 25 to our consolidated financial statements.

Gas purchased for resale increased R\$58 million, or 34.7%, from R\$167 million in 2009 to R\$225 million in 2010. This reflects the larger quantity of gas sold in 2010, due mainly to greater activity in the thermal generation plants that are consumers of Gasmig.

*Operating Income*

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

*Financial Expense, Net*

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

Net financial expense increased R\$470 million, or 132.4%, from R\$355 million in 2009 to R\$825 million in 2010. This increase is principally due to:

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

For a breakdown of financial revenues and expenses, see Note 26 to our consolidated financial statements.

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*Income Tax*

Income tax represented an expense of R\$564 million on pre-tax income of R\$2,822 million in 2010, or 20.0%, compared to an expense of R\$1,131 million on pre-tax income of R\$3,337 million in 2009, or 33.9%. The lower ratio of the income tax expense to pre-tax income in 2010 is due to tax losses that were recognized in 2010, in the amount of R\$288.5 million. The tax losses were not recognized in the financial statements due to uncertainty regarding their ultimate realization until 2010, when the corresponding tax benefit vested due to the materialization of related results projections. The effective tax rates are reconciled with the nominal rates in note 10 to our consolidated financial statements.

*Net Income*

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

**Liquidity and Capital Resources**

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

*Cash and Cash Equivalents*

Cash and cash equivalents as of December 31, 2011 were R\$2,862 million compared to R\$2,980 million as of December 31, 2010 and R\$4,425 million as of December 31, 2009. None of our cash or cash equivalents was held in currencies other than *reais* as of December 31, 2011. The reasons for this decrease are presented below.

*Cash Flow from Operating Activities*

Net cash provided by operating activities in 2011, 2010 and 2009 totaled R\$3,898 million, R\$3,376 million and R\$2,570 million, respectively. The increase in cash provided by operating activities in 2011 compared to 2010 was due mainly to increases in net income in 2011 compared to 2010, adjusted for the items that do not affect cash and cash equivalents. The increase in cash provided by operating activities in 2010 compared to 2009 was due mainly to increases in liabilities in 2010 compared to 2009, such as suppliers, accrued interest, employee post-retirement benefits and other, recognition of the effects of monetary variation and exchange rate variations and deferred income taxes.

*Cash Flow used in Investment Activities*

Net cash used in investing activities during 2011, 2010 and 2009 amounted to R\$4,017 million, R\$4,444 million and R\$3,699 million, respectively. The decrease in cash used in investing activities in 2011 compared to 2010 was due mainly to higher investments in power transmission assets in the previous year, with the investments in 2011 being mostly concentrated in the distribution business, such as Light, amounting R\$0.4 billion and related to the acquisition of transmission assets from Abengoa Group, amounting R\$0.7 billion. The increase in cash used in investing activities in 2010 compared to 2009 was due mainly to investments in intangible assets, which amounted to R\$2,298 million in 2010, compared to R\$1,607 million in 2009. Investments in intangible assets were related primarily to distribution and concession assets, which totaled R\$1,264 million in 2010 compared to R\$527 million in 2009.

*Cash Flow from/used in Financing Activities*

We are committed to lengthening our debt profile through long-term financing vehicles at low interest rates, the maturities and obligations of which are compatible with the nature of our business, which is capital-intensive. We seek to balance the proportions of short and long-term financings and not to increase our exposure to short-term rates, nor undergo any liquidity pressures. Through this policy, we have succeeded in improving our credit ratings, reducing our cost of capital and improving our debt profile. Our principal

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form of funding is through the issuance of debentures and the issuance of medium-term notes (known in Brazil as *commercial paper* ), the latter being mostly used to meet short-term obligations.

Net cash used in financing activities during 2011 was comprised of the repayment of R\$2,219 million of real and foreign currency denominated financings and the payment of R\$2,036 million in dividends and interest on capital, offset by the proceeds from financings in the amount of R\$4,255 million.

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

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

*Indebtedness*

Our indebtedness from loans, financings and debentures as of December 31, 2011 was R\$15,779 million, composed of R\$7,958 million of non-current debt and R\$7,821 million of current debt. This compares with indebtedness from loans, financings and debentures as of December 31, 2010 of R\$13,227 million, composed of R\$11,024 million of non-current debt and R\$2,203 million of current debt. Of our debt at December 31, 2011, R\$359 million was denominated in foreign currencies (R\$338 million of which was U.S. dollar-denominated) and R\$15,420 million was denominated in *reais*. See Note 19 to our consolidated financial statements.

Our main financial contracts, on a consolidated basis, as of December 31, 2011, are shown in the following table:

Amounts in thousands of *reais*:

Facility/Security	Maturity	Interest Rate (%)	Currency	Outstanding balance as of December 31, 2011
Foreign Currency				
ABN Amro Real S.A. (1)	2013	6	US\$	46,989
Banco do Brasil A Various bonds (2)	2024	Various	US\$	34,826
Brazilian National Treasury (3)	2024	Various	US\$	16,893
InterAmerican Development Bank (4)	2026	2.12	US\$	35,529
BNP 36MM Euros	2014	0.04	Eur	30,570
BID (17)	2022	Libor+ Spread 1.7 to 2.2	BID	52,902
BID (17)	2023	Libor+ Spread 1.5 to 1.88	BID	92,561

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Others	2012-2019	Various	Various	48,637
<b>Total debt in foreign currency</b>				<b>358,907</b>
<b>Brazilian currency</b>				
Banco do Brasil	2012	109.80 of CDI	R\$	591,951
Banco do Brasil	2013	CDI + 1.70	R\$	56,844
Banco do Brasil	2013	107.60 of CDI	R\$	136,566
Banco do Brasil	2014	104.10 of CDI	R\$	1,224,881
Banco do Brasil	2013	10.83	R\$	706,796
Banco do Brasil	2014	98.5% of CDI	R\$	436,637
Banco do Brasil	2012	106.00 of CDI	R\$	99,779
Banco Itaú BBA / Votorantim	2013-2014	CDI + 1.70	R\$	215,207
BNDES	2026	TJLP+2.34	R\$	111,678
Bradesco	2013	CDI + 1.70	R\$	198,181
Bradesco	2012	106 of CDI	R\$	990,142
Debentures (5)	2014	IGP-M + 10.50	R\$	372,697
Debentures Minas Gerais state government (5) (6)	2031	IGP-M inflation index	R\$	46,896
Debentures (5)	2017	IPCA+7.96	R\$	502,648
Debentures	2012	CDI + 0.90	R\$	1,754,714
Debentures	2015	IPCA+7.68	R\$	1,367,937
Eletrobrás	2023	Ufir + 6.00 to 8.00%	R\$	428,238
Santander	2013	CDI + 1.70	R\$	40,451
Unibanco (7)	2013	CDI + 1.70	R\$	201,357
Itaú and Bradesco (8)	2015	CDI + 1.70	R\$	819,996
Banco do Brasil / Unibanco (9)	2020	TJLP + 2.55	R\$	28,536
Debentures V (3)	2014	CDI + 1.50	R\$	241,759
Debentures VII (3)	2011	CDI + 1.35	R\$	214,400
Debentures LIGHT ENERGIA I (3) (5)	2016	CDI + 1.45	R\$	57,074
Debentures LIGHT ENERGIA II (3) (5)	2019	1,18% of CDI	R\$	137,487
CCB Bradesco (3)	2017	CDI + 0.85	R\$	149,820
BNDES Finem (3)	2019	TJLP	R\$	371,729
Debentures (11) (5)	2016	CDI+1.30%	R\$	268,464
BNDES (10)	2033	TJLP + 2.40	R\$	349,505
Debentures (10)	2013	IPCA inflation index	R\$	207,094
BNDES Onlending (10)	2033	TJLP	R\$	354,783
AMAZONIA - FNO	2031	10% p.y.	R\$	54,807
BNDES Principal Subcredit A/B/C/D (11)	2015	Various	R\$	66,932
BNDES (12)	2024	TJLP + 2.50	R\$	39,961
CEF (13)	2022	TJLP + 3.50	R\$	212,160
BNDES (14)	2019	Various	R\$	210,744
Debentures (14)	2017	Various	R\$	832,234
Commercial Papers (ITAU)	2012	Various	R\$	669,132
BNDES (15)	2016	TJLP + 3.12	R\$	131,225
BNDES (16)	2017	Various	R\$	51,972
BNDES	2028	URTJ+1.97	R\$	49,588
Others	2013-2025	Various	R\$	417,160
<b>Debt in Brazilian currency</b>				<b>15,420,162</b>
<b>Overall total, consolidated</b>				<b>15,779,069</b>

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- (1) Swap for exchange of rates were contracted: at CDI + 1.50% p.a.;
  - (2) Interest rates vary: from 2.00 to 8.00 % p.a.; Six-month Libor plus spread of 0.81 to 0.88% per year;
  - (3) Loans, financings and debentures of RME (Light);
  - (4) Financing of Transchile;
  - (5) Nominal, unsecured, book-entry debentures not convertible into shares, without preference;
  - (6) Contracts adjusted to present value, as per changes to the Corporate Law made by Law 11638/07;
  - (7) Loan of the holding company;
  - (8) Refers to the senior units of the credit rights funds;
  - (9) Financing of Cachoeirão;
  - (10) Loan contracted for the jointly-controlled subsidiary Madeira Energia;
  - (11) Consolidated loans and financings of the TBE group;
  - (12) Loan contracted for the jointly-controlled subsidiary Hidrelétrica Pipoca S.A.;
  - (13) Loan contracted for the jointly-controlled subsidiary Praia de Morgado S.A., Praia de Parajuru S.A. and VDR S.A.;
  - (14) Loan contracted for the jointly-controlled subsidiary Taesa;
  - (15) Loan and financing of Gasmig;
  - (16) Loan arranged by Cemig Telecom Ativas.

In 2012, we entered into the following financial agreements and made the following issuances:

On January 13, 2012, Cemig Generation and Transmission made its fourth issuance of commercial paper in the Brazilian market, in the total amount of R\$1 billion, with an interest of (i) 103% of the CDI rate per annum until the 60th day counted as from the issuance date; (ii) 104% of the CDI rate per annum from the 61st until the 120th day counted as from the issuance date; and (iii) 105% of



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the CDI rate per annum, from the 121st until the 180th day counted as from the issuance date, due on July 11, 2012. These commercial papers were paid in full in March 21, 2012 with the proceeds of the third issuance of debentures.

On February 15, 2012, Cemig Generation and Transmission made its third issuance of debentures in the Brazilian market, in the total amount of R\$1.35 billion, with an interest rate of: (i) the Interbank Deposit Rate plus 0.90% per annum for the debentures with maturity of 5 years; (ii) the IPCA rate plus 6.00% per annum for the debentures with maturity of 7 years; and (iii) the IPCA rate plus 6.20% per annum for the debentures with maturity of 10 years.

In 2011, we entered into the following financial agreements and made the following issuances:

On April 20, 2011 Cemig Distribution raised R\$410 million from Banco do Brasil with maturity dates in April 2013 and April 2014 and interest rate at 98.5% of the CDI rate per annum. The outstanding balance on December 31, 2011 was R\$ 437 million.

On December 28, 2011, Cemig Distribution made its fourth issuance of commercial paper in the Brazilian market, in the total amount of R\$100.0 million, with an interest rate of 106% of the CDI rate per annum, due on December 22, 2012. The outstanding balance on December 31, 2011 was R\$100 million.

On December 28, 2011, CEMIG made its fourth issuance of commercial paper in the Brazilian market, in the total amount of R\$1,000.0 million, with an interest rate of 106% of the CDI rate per annum, due on December 22, 2012. The outstanding balance on December 31, 2011 was R\$1.00 billion.

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

On March 10, 2010 Cemig Generation and Transmission issued 270,000 non-convertible, nominal, book-entry, unsecured debentures, in two series, comprising 156,600 Debentures of the First Series and 113,400 Debentures of the Second Series, of the Issuer's Second Issuance, in the aggregate amount of R\$2.7 billion. The proceeds were used to prepay the outstanding balance of the 3rd issuance of Promissory Notes of Cemig Generation and Transmission. The Debentures of the First Series, with an outstanding balance of R\$1,755 million as of December 31, 2011, accrue interest at accumulated variation of the average daily rate of the DI Interbank Deposit, plus a spread of 0.90% per year. The Debentures of the Second Series, with an outstanding balance of R\$1,368 million as of December 31, 2011, are adjusted from the Issue Date, by the variation in the Expanded Consumer Price Index IPCA and accrue interest corresponding to 7.6796% per year. These debentures are guaranteed by CEMIG.

On May 27, 2010 Cemig Distribution raised R\$600 million from Banco do Brasil with a maturity in May 2013. The outstanding balance as of December 31, 2011 was R\$ 707 million

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During the last quarter of 2010 Cemig Generation and Transmission and Cemig Distribution, amended several loan agreements entered into with Banco do Brasil S.A in order to (i) postpone the maturity date of the installments payable in 2010, in the total amount of R\$242.1 million and R\$48.9 million, respectively, and (ii) change the interest rate from 110.0% of the CDI rate per annum to 109.8% of the CDI rate per annum. CEMIG is a guarantor of these loans and the total outstanding balance of these agreements on December 31, 2011 was R\$99 million (as to Cemig Distribution) and R\$493 million (as to Cemig Generation and Transmission).

On December 23, 2010, CEMIG made its third issuance of Commercial Paper in the Brazilian market, in the total amount of R\$350.0 million, with an interest rate of 105.5% of the CDI rate per annum, due on December 18, 2011. The commercial papers were prepaid on August 4, 2011. In 2009, we entered into the following financial agreements and made the following issuances:

On March 9, 2009, Cemig Generation and Transmission entered into a financing agreement with BNDES, in the amount of R\$ 122 million, for the purpose of acquiring the Baguari Power Plant. This Loan bears interest at 2.34% per annum plus the variation of TJLP, that was paid quarterly until July, 2010 and monthly during the amortization period, and will amortize over 192 monthly installments, beginning in August of 2010. The loan matures in July 2026. The outstanding balance on December 31, 2011 was R\$112 million.

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

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

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

We are subject to financial covenants contained in some of our debt agreements that require us to maintain certain financial ratios. These ratios are computed based on our financial statements prepared in accordance with accounting practices adopted in Brazil. These and other covenants could limit our ability to support our liquidity and capital requirements. As of December 31, 2011, we were in non-compliance with some financial covenants provided in some of our debt agreements. In regard to such non-compliance, we obtained waivers from the respective creditors that they will not exercise their rights to demand immediate payment of the total amount due under the agreements until December 31, 2012. Such waivers were obtained on March 15, 2012. See Item 13. Defaults, Dividend Arrearages and Delinquencies

Given the current portion of our financings in the amount of R\$5,904 million, not considering the covenants reclassification, due in 2012, we need funds in the short term to pay and refinance these obligations.

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

We currently plan to make capital expenditures related to our property, plant, and equipment of approximately R\$2,162 million in 2012.. The principal uses of these capital expenditures are expected to be for expansion of our distribution infrastructure. We also have committed R\$486 million to invest in our subsidiaries during 2012, supporting their specific need of capital. In 2011, we funded our capital expenditures and investments in acquisitions and met our liquidity requirements through a combination of cash flow from operations and financings. We expect that we will fund our proposed capital expenditures and acquisitions and meet our other liquidity requirements in 2012 through a combination of cash flow from operations and financings. Because we rely primarily on cash generated from operations to fund our liquidity and capital requirements, factors that cause our revenues and net income to increase or decrease could have a corresponding effect on our access to sources of liquidity.

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

## Research and Development

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

In 2011, we spent R\$37 million with research and development and transferred R\$32 million to the Fundo Nacional de Desenvolvimento Científico e Tecnológico, or FNDCT, a federal research and development fund, and R\$16 million to Empresa de Pesquisa Energética, or EPE (the federal power planning company). In 2010, we spent R\$39 million with R&D. Additionally, R\$34 million have been transferred to FNDCT and R\$17 million to EPE. In 2009, we spent R\$31 million with R&D. Additionally, R\$30 million have been transferred to FNDCT and R\$16 million to EPE. We expect to spend a total of approximately R\$60 million on research and development in 2012. We conduct these efforts in accordance with Federal law, which requires Brazilian power utilities to

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spend at least 1% of their net revenue on research and development projects and energy efficiency programs (including transfers to FNDCT and EPE), as well as in accordance with our strategic corporate plans.

In accordance with Aneel instructions, we recorded a liability in 2011 for future expenditures on research and development programs and energy efficiency programs in the amount of R\$107,8 million relating to amounts that had already been included in the determination of our tariffs in 2011.

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

**Trends**

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

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

With respect to expansion, we believe that the extension of electricity services to all potential consumers represents a significant trend in our industry. Utilities are currently required to provide service to all potential consumers according to a schedule established by Aneel. Pursuant to Federal Law No. 10,438 of April 26, 2002, as amended, and the relevant Aneel resolution, financing for this extension of electricity services is to come from the funds of the Energy Development Account (Conta de Desenvolvimento Energético), or CDE, and the Global Reversion Fund (Reserva Global de Reversão), or RGR. As the Light for All Program, launched by the MME and Eletrobrás to promote extension of electricity services in rural areas, its second and third phases, has so far relied on R\$226 million of funds from the CDE, R\$192 million from the RGR, R\$50 million from the State Government and the remaining R\$693 from CEMIG. For further discussion of the Light for All program, see Item 4. Information on the Company Distribution and Purchase of Electric Power Expansion of Distribution Capacity.

In relation to the energy supply, under normal climate conditions, we expect the current capacity and favorable reservoir levels to prevail in the next few years. Although there was a reduction in the growth rate of the electricity market during the years 2009, 2010 and 2011, due to the world financial crisis, the present installed capacity and the capacity projected for the next few years are expected to fully satisfy the projected levels of consumption. Also, the Brazilian government has been successful in the auctions it has held for major hydroelectric projects, such as the Jirau and Santo Antônio plants on the Madeira river, and the Belo Monte plant on the Xingu river and the Teles Pires plant on the Teles Pires river..

**Commitments**

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

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

### **Contractual Obligations**

We have outstanding contractual obligations and commitments which include principal debt payment provisions, the obligation to purchase electricity for resale from Itaipu, the obligation to transfer and transport electric power from Itaipu as well as construction commitments. The following table provides information, as of December 31, 2011, about our contractual obligations and commitments in millions of *reais*.

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	2012	2013	2014	2015	2016	2017 and beyond	Total
Long-term debt (1)	5,904	3,051	2,503	1,596	786	1,939	15,779
Purchase of electricity from Itaipu (2)	742	751	606	629	603	27,933	31,264
Transportation of electric power from Itaipu (2)	75	79	63	66	66	1,959	2,308
Pension plan debt Forluz	74	48	51	55	59	560	847
Electricity power purchase (3)	2,260	2,119	1,889	2,314	2,440	79,292	90,314
Other electricity power purchase (4)	939	1,250	1,528	1,214	1,128	21,864	27,923
Total	10,140	7,152	6,640	5,874	5,082	133,547	168,435

(1) In the event of our non-compliance with certain covenants in our loan agreements, the total principal, future interest and any penalties due under these agreements may become immediately due and payable. See Item 13. Defaults, Dividend Arrears and Delinquencies. These amounts do not include interest payments on debt or payments under interest rate swap agreements. The Company expects to pay approximately R\$826.12 million in interest payments on debt in 2012. The Company does not believe projections of interest payments and payments under interest rate swap agreements would be meaningful.

(2) Contract with Furnas, denominated in U.S. dollars, to supply electric power purchased from Itaipu until May 2013. Amounts are calculated based on the U.S. dollar exchange rate as of December 31, 2011.

(3) Includes spot market purchases through auctions.

(4) Includes spot market purchases through bilateral agreements.

## Item 6. Directors, Senior Managers and Employees

### Directors and Senior Management

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

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

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

### **Board of Directors**

Our Board of Directors meets, ordinarily, once a month and, extraordinarily, whenever called by its Chairman, Vice-Chairman, one third (1/3) of its members or by our Board of Executive Officers. Its responsibilities include, among others, setting the corporate strategy, general orientation of our businesses and election, approval of several relevant transactions and dismissal and monitoring of our Chief Officers.

Each member of the Board of Directors, permanent or substitute is elected by the General Meeting of Shareholders. The substitute members shall replace their respective permanent members whenever there is a temporary absence of such permanent members, or whenever there is a vacancy on the Board of Directors, and shall remain in such position until the appointment of a permanent member to fill the vacancy. No member of the Board of Directors, permanent or substitute, has any employment contract with our Company or with any subsidiary that provides for any benefit in the event of termination of the employment contract.

According to our by-laws, the members of our Board of Directors are elected for a unified period of two years, and may be re-elected. Our Board of Directors is made up of 14 permanent members, and their respective substitutes, of whom eight are elected by



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the Minas Gerais State Government, five by AGC Energia S.A. ( AGC Energia ), and one by the holders of preferred shares. The period of office of the present members of our Board of Directors expires at the Ordinary General Shareholders Meeting to be held in April 2012. The names, positions and dates of original appointment of our present board members and their respective substitute members are as follows:

<b>Name</b>	<b>Position</b>	<b>Date of original appointment</b>
Dorothea Fonseca Furquim Werneck	Chairman	January 20, 2011
Paulo Sérgio Machado Ribeiro	Substitute Member	April 25, 2008
Djalma Bastos de Moraes	Vice-Chairman	January 14, 1999
Lauro Sérgio Vasconcelos David	Substitute Member	April 28, 2006
Arcângelo Eustáquio Torres Queiroz	Board Member	December 10, 2009
Franklin Moreira Gonçalves	Substitute Member	February 27, 2003
Antônio Adriano Silva	Board Member	January 14, 1999
Marco Antonio Rodrigues da Cunha	Substitute Member	February 27, 2003
Joaquim Francisco de Castro Neto	Board Member	December 21, 2011
Adriano Magalhães Chaves	Substitute Member	December 10, 2009
Francelino Pereira dos Santos	Board Member	February 27, 2003
Leonardo Maurício Colombini Lima	Substitute Member	May 12, 2011
Maria Estela Kubitschek Lopes	Board Member	February 27, 2003
Fernando Henrique Schüffner Neto	Substitute Member	June 22, 2007
João Camilo Penna	Board Member	April 25, 2008
Guilherme Horta Gonçalves Junior	Substitute Member	February 27, 2003
Eduardo Borges de Andrade (1)	Board Member	August 4, 2010
Tarcísio Augusto Carneiro (1)	Substitute Member	August 4, 2010
Otávio Marques de Azevedo (1)	Board Member	August 4, 2010
Paulo Márcio de Oliveira Monteiro (1)	Substitute Member	August 4, 2010
Paulo Roberto Reckziegel Guedes (1)	Board Member	August 4, 2010
Bruno Magalhães Menicucci (1)	Substitute Member	December 21, 2011
Ricardo Coutinho de Sena (1)	Board Member	August 4, 2010
Newton Brandão Ferraz Ramos (1)	Substitute Member	August 4, 2010
Saulo Alves Pereira Junior (1)	Board Member	August 4, 2010
José Augusto Gomes Campos (1)	Substitute Member	December 21, 2011
Guy Maria Villela Paschoal (2)	Board Member	April 25, 2008
Cezar Manoel de Medeiros (2)	Substitute Member	April 29, 2009

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(1) Elected by AGC Energia.

(2) Elected by the preferred shareholders.

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

*Antônio Adriano Silva* - Mr. Silva holds a bachelor degree in Business with a specialization in marketing. He has worked for several private entities such as Mesbla S.A., Empresa Brasileira de Varejo S.A. Embrava, Asa Criação de Publicidade, Companhia de Tecidos Norte de Minas COTEMINAS, and also in the Minas Gerais Commerce Association (Associação Comercial de Minas). From 1989 to 2002 Mr. Sliva was Federal Senate's technical advisor and from 2003 to 2010, he was the chief of the Brazilian Vice President's office. Since 1999 he is a regular member of our Board of Directors and, since 2004, of Cemig Distribution's and Cemig Generation and Transmission's Boards of Directors.

*Arcângelo Eustáquio Torres Queiroz* - Mr. Queiroz graduated with a degree in History from the University Center of Belo Horizonte - UNIBH. Since 1988 he has worked for the Cemig Group, first at CEMIG, and then, at Cemig Distribuição S.A., where he currently occupies the position of Technical Administrator. From 2006 to 2010, he was a regular member of the Committee of Prosaúde Forluminas Social Security - Forluz, pension fund of some of the Cemig Group's companies. Currently, he is Director of the Intermunicipal Union of Industrial Energy Workers of Minas Gerais and Fuel Gas Industry Workers of the State of Minas Gerais - SINDIELETRO/MG. Mr. Queiroz is a member of our Career and Compensation Committee and, since 2009, has been an effective member of our Board of Directors and also the Board of Directors of Cemig Distribution and Cemig Generation and Transmission.

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*Djalma Bastos de Morais* - Mr. Morais holds a bachelor's degree in engineering from the Military Institute of Engineering and has completed post-graduate studies in telephony and computers at the same institute. From 1995 to 1998, Mr. Morais was the Vice-President of Petrobras Distribuidora S.A. and, from 1993 to 1994, he served as Brazilian Minister of Communications. He has also held various other positions, such as Chief Executive Officer of Telecomunicações de Minas Gerais S.A. - Telemig; manager of Telecomunicações Brasileiras S.A. - Telebrás; Chief Operating Officer of Telecomunicações de Mato Grosso - Telemat; Chief Operating Officer of Telecomunicações do Amazonas - Telemazon; and manager of Telefônica Municipal S.A. - Telemusa. Mr. Morais is an executive officer and a member of the Board of Directors of several companies of the Cemig Group and, since 1999, he has been our Chief Executive Officer and Vice President of our Board of Directors. Since 2004 he has been the Chief Executive Officer and Vice-Chairman of Cemig Distribution and Cemig Generation and Transmission. Since 2006, he has been a member of Light S.A. and Light Serviços de Eletricidade S.A.'s Board of Directors and, since 2009, President of Transmissora Aliança de Energia Elétrica S.A. - TAESA's Board of Directors.

*Dorothea Fonseca Furquim Werneck* - Ms. Werneck holds a bachelor degree in Economics and completed the Master's Degree from the Postgraduate School of the Getúlio Vargas Foundation in Rio de Janeiro, and a Doctorate Course from the Boston College. She was Brazil's Minister of Industry, Trade and Tourism from 1995 to 1996, and Employment Minister from 1989 to 1990. She was a Senior Manager of the Export Promotion Agency - Apex from 1990 to 1992, Executive Secretary of the Finance Ministry in 1992, National Economy Secretary from 1991 to 1992, Economic and Social Planning Secretary from 1988 to 1989, Employment and Salaries Secretary from 1985 to 1988; and a member of the technical staff of IPEA from 1975 to 2003. Among other positions, she has also been Director of the National Quality Awards Foundation (from 1993 to 1994 and from 1998 to 1999); and a member of the Councils of Funcex and AEB, from 1999 to 2005. Since 2011 she has been secretary of Development for the State of Minas Gerais and Chairwoman of our Board of Directors and also of Cemig Distribution and Cemig Generation and Transmission.

*Eduardo Borges de Andrade* - Mr. Andrade has a degree in civil engineering from Minas Gerais Federal University, and completed postgraduate studies in financial administration at the Getúlio Vargas Foundation in São Paulo. He began his career at Construtora Andrade Gutierrez S.A. in 1961, where he occupied several positions such as Buildings Chief Officer and Operations Chief Officer and, from 1978 to 2001, as Chief Executive Officer. Currently, Mr. Andrade is a regular member of the Board of Directors of Andrade Gutierrez S.A. and Companhia de Concessões Rodoviárias S.A. - CCR, and Chief Officer of AGC Participações Ltda. He is also a member of the Board of Trustees of the Dom Cabral Foundation. Since 2010, Mr. Andrade is a regular member of our Board of Directors, and that of Cemig Distribution's and Cemig Generation and Transmission's Boards of Directors.

*Francelino Pereira dos Santos* - Mr. Santos has a law degree from Federal University of Minas Gerais. He was the Senator for Minas Gerais from 1995 to 2002 and Governor of Minas Gerais from 1979 to 1983. He also was a congressman for four consecutive terms from 1963 to 1979 and alderman of the city of Belo Horizonte from 1951 to 1954. From 1961 to 1966 he was the Chief of Cabinet of the Minas Gerais State Secretary of Internal Affairs and Justice, Chief of the Minas Gerais State General Management Department and Chief Counsel of Municipalities Affairs of the Cabinet of the Governor. From 1985 to 1990, he was the Vice-President of Management of Banco do Brasil S.A. and the Chief Executive Officer of Acesita from 1983 to 1984. He is a member of the Brazilian Academy of Letters (Academia Brasileira de Letras) and also a regular member of the National Academy of Agriculture (Academia Nacional de Agricultura). Since 2003, Mr. Santos is a regular member of our Board of Directors and, since 2004, is member of Cemig Distribution's and Cemig Generation and Transmission's Boards of Directors.

*Guy Maria Villela Paschoal* - Mr. Paschoal holds a degree in mechanical and electrical engineering from the Federal University of Minas Gerais and has completed courses in Electricity Sector Law at the Law School of Belo Horizonte, and in Management for Electric Utility Executives, at Rensselaer Polytechnic Institute in Troy, New York, USA. Mr. Paschoal joined the Company in 1984, and reached several positions including Chief Executive Director, Vice President, Chief Executive Officer and Chairman of the Board of directors. He has served as consultant and advisor to the Executive Board of Eletrobrás, and as a member of the Board of Directors of Itaipu Binacional. As Secretary-General of the Ministry of Mines and Energy, he was on several occasions Acting Minister of Mines and Energy. From 2003 to 2008 he was a member of the Infrastructure Chamber of the Minas Gerais Industries Federation (FIEMG). He served as consultant in Furnas Centrais Elétricas, involved in the Rio Madeira's hydroelectric projects. In the same period, he worked in Eletrobras, as the Presidency's Consultant and as a member of the Directory Using the Belo Monte Hydroelectric Plant. In the period 2008/2012, he was the Chairman and Director of the Brazilian Association of

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the Electricity Distributors - ABRADÉE. Since 2008, is an effective member of our Board of Directors and the Board of Cemig Distribution and Cemig Generation and Transmission. Currently, is a member of the Advisory Board of the Memory of Electricity in Brazil (Rio de Janeiro) and the Superior Council of the Foundation Selice Rosso (Hospital Felício Rocho).

*João Camilo Penna* - Mr. Penna earned his degree in engineering in 1948 from Minas Gerais Federal University. He served as Finance Secretary of Minas Gerais State from 1975 to 1979, as Brazil's Trade and Industry Minister from 1979 to 1984, and was CEO of Furnas Centrais Elétricas from 1985 to 1989. He was interim Administration Secretary of Minas Gerais State, a Member of the National Monetary Council (CMN), member of the Board of Directors of Eletrobras, Vice-President of the Brazilian Technical

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Standards Association, Director of the Large Dams Committee, and of the Brazilian Group for the World Energy Conference. He was a member of the President of Republic's Ethics Committee, from 2000 to 2005, and from 2004 to 2005 was a member of the Public Ethics Committee of the Minas Gerais State Government. Since 2008, he is a regular member of our Board of Directors and of the Cemig Distribution's and of Cemig Generation and Transmission's Boards of Directors.

*Joaquim Francisco de Castro Neto* - Mr. Castro Neto earned his degree in Business from the Getulio Vargas Foundation and completed a specialization course in Selling Business, Marketing and New Product Development from the IMEDE in Lausanne, Switzerland. Since 2008, Mr. Castro Neto is member of the Board of Directors of ABodyTech and of Magazine Luiza, having been its Chairman from the last one, from 2008 to 2010 he was the Redecard Chief Executive Officer. He was CEO of Unibanco - União de Bancos Brasileiros S.A from 1974 to 2004. Since 2011, he is a member of the Board of Directors of Jereissati Participações S.A., and he is a regular member of our Board of Directors and also of Cemig Distribution and Cemig Generation and Transmission.

*Maria Estela Kubitschek Lopes* - Mrs. Lopes holds a degree in Architecture and is an interior designer and entrepreneur. She is a quotaholder and Chief Officer of DF Consultores Ltda. and of Santa Júlia Importação, Exportação e Participações. Mrs. Lopes is also an adviser to the Chairman of Fundação Municipal de Teatro da Cidade do Rio de Janeiro and of Amigos do Estado do Rio de Janeiro - AME-RIO. Mrs. Lopes is also the Vice President of the Board of Casa Santa Ignez and co-founder and CEO of Memorial JK, an organization founded in the memory of Juscelino Kubitschek de Oliveira (former President of Brazil). Mrs. Lopes was also CEO of the Board of Instituto Cultural Cesgranrio, Vice Chairwoman of Banco da Mulher, and member of the Board and President of several charitable and cultural institutions of the State of Rio de Janeiro. Since 2003, Ms. Lopes is an effective member of our Board of Directors and since 2004 a member of the Board of Directors of Cemig Distribution and Cemig Generation and Transmission.

*Otávio Marques de Azevedo* - Mr. Azevedo has a degree in Electrical Engineering from Pontifical Catholic University of Minas Gerais (PUC-MG), having completed postgraduate studies in Economic Engineering at the Federal University of Minas Gerais, and in Strategic Planning at Getúlio Vargas Foundation in Rio de Janeiro. Mr. Azevedo was Vice President of Telebras from 1991 to 1993, CEO of Tele Norte Leste Participacoes SA, from 1998 to 1999, and Chairman of its Board of Directors from 2003 to 2004. He was Chairman of the Anatel (National Telecommunication Agency) from 2001 to 2002 and since 1993 is Executive Chairman of Andrade Gutierrez SA and Andrade Gutierrez Telecomunicações Ltda.. Mr. Azevedo is also a member of the Board of Directors of several companies of this group, having held the chair of several of these Councils. Mr. Azevedo was also a member of the Strategic Council of the Federation of Industries of Minas Gerais - Fiemg, Council of the Commercial Association of Rio de Janeiro - ACRJ and the Board of Directors of the Federation of Industries of São Paulo (Fiesp). Since 2010, Mr. Azevedo is an effective member of our Board of Directors and also of Cemig Distribution and Cemig Generation and Transmission.

*Paulo Roberto Reckziegel Guedes* - Mr. Guedes has a degree in Civil Engineering from Universidade Federal do Rio Grande do Sul, having completed the Corporate MBA at Fundação Dom Cabral. Mr. Guedes joined Andrade Gutierrez Group in 1993 as assistant engineer, then supervisory engineer, general manager of operations and project manager, and since 2000, he is the Chief Officer of Andrade Gutierrez S.A Concessões, a listed company of concessions of public works and services, representing also the Andrade Gutierrez S.A Concessões on the Board of Directors of several subsidiaries of the group. Since 2010, Mr. Guedes is an effective member of our Board of Directors and also of Cemig Distribution and Cemig Generation and Transmission. He is also a member of the Board of Directors of Light S.A and Light Electrical Services S.A.

*Ricardo Coutinho de Sena* - Mr. Sena has a degree in Civil Engineering from Universidade Federal de Minas Gerais, and completed his postgraduate studies in Financial Administration at the Getulio Vargas Foundation in Rio de Janeiro. Mr. Sena worked in M. Roscoe, a construction company, between 1972 and 1981, joining Andrade Gutierrez in 1981, as Head of Budgets and, since 1993, the General Manager of

New Business Unit. Since 2000 he is the CEO of Andrade Gutierrez and a member of its Board of Directors. He represents Andrade Gutierrez S.A Concessões on the Board of Directors of several of its subsidiaries. Since 2010, Mr. Sena is an effective member of our Board of Directors and the Board of Cemig Distribution and Cemig Generation and Transmission.

*Saulo Alves Pereira Junior* - Mr. Pereira Junior has a degree in Electrical Engineering from Pontifical Catholic University of Minas Gerais (PUC-MG), post-graduate degree in Works and Services Budget Planning from Instituto de Educação Continuada of PUC MG and Business Administration from the Federal University of Bahia. He also concluded a Corporate MBA from Dom Cabral Foundation. Mr. Pereira began his career in 1993 as an intern in our Operations Center. In 1995 he joined Construtel Projetos e Construções Ltda, as an engineer in planning and budget coordination, and in 1998 he became General Manager of that company's Business Unit in Bahia. In 2000, he joined Andrade Gutierrez Group, and since 2004 he is Commercial Officer of Construtora Andrade Gutierrez S.A. Since 2007 he has been working in Andrade Gutierrez Concessões S.A., actively participating in the group's consolidation in the electricity sector. Since 2010, Mr. Pereira Junior is a member of our Board of Directors, and also of Cemig Distribution and of Cemig Generation and Transmission.

Table of Contents**Board of Executive Officers**

Our Executive Board, made up of eleven Executive Officers is responsible for putting into effect the decisions of our Board of Directors and for day-to-day management. The members of the Executive Board, the Chief Officers, have individual responsibilities established in our by-laws and hold their positions for a period of office of three years. The period of office of the present Chief Officers expires at the first Meeting of the Board of Directors following the Ordinary General Shareholders Meeting to be held in April 2012. The Chief Officers are elected by our Board of Directors. Usually, ordinary meetings are held at least twice per month, with extraordinary meetings held whenever called by the Chief Executive Officer, or CEO, or by two Chief Officers other than the CEO.

The Executive Officers shall exercise their positions as full-time occupations in exclusive dedication to the service of the Company. They may at the same time exercise non-remunerated positions in the management of the Company's wholly-owned or other subsidiaries or affiliated companies, at the option of the Board of Directors. They shall, however, obligatorily hold and exercise the corresponding positions in the wholly-owned subsidiaries Cemig Distribuição S.A. and Cemig Geração e Transmissão S.A.

The Executive Board is responsible for the current management of the Company's business, subject to the obligation to obey the Long-Term Strategic Plan, the Multi-year Strategic Implementation Plan and the Annual Budget. Some decisions, as outlined in section 4, clause 21, of our by-laws require approval of our Executive Board.

In the event of absence, leave, resignation or vacancy of the post of the Chief Executive Officer, the Deputy Chief Executive Officer shall exercise the duties of the Chief Executive Officer, for whatever period the absence or leave may last, and, in the event of vacancy or impediment or resignation, until the post is filled by the Board of Directors. In the event of absence, leave, resignation or vacancy of the post of any of the other members of the Executive Board, the Executive Board may, by approval of a majority of its members, attribute the exercise of the respective functions to another Executive Officer, for as long as the period of absence or leave or, in the event of vacancy, the impediment or resignation lasts, until the post is filled by the Board of Directors. The Chief Executive Officer or a member of the Executive Board elected in the way described above shall hold the position for the period of time remaining in the substituted officer's term.

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

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

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

*Arlindo Porto Neto* - Mr. Porto Neto has a degree in business administration and accounting from the Federal University of Uberlândia. He served as Senator for the State of Minas Gerais from 1995 to 2003, and was Brazil's Minister of Agriculture and Supply from 1996 to 1998. From 1991 to 1994 he was Deputy Governor of the State of Minas Gerais. From 1983 to 1988 he was Mayor of Patos de Minas. Since 2004 he is Vice-President of the Minas Gerais Development Company (Companhia de Desenvolvimento de Minas Gerais - Codemig). Since 2009, he serves as Deputy CEO of CEMIG and of Cemig Distribution and Cemig Generation and Transmission.

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

*Fernando Henrique Schuffner Neto* - Mr. Schuffner Neto holds a degree in Electrical Engineering from Pontifical Catholic University of Minas Gerais, and also master degree in Automation and Control from Unicamp and a MBA from Ibmecc. Mr. Schuffner



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Neto has been working for CEMIG since 1985, holding varied positions as of General Manager of Coordination, Planning and Expansion of Distribution, General Manager of Executive Coordination of the Luz para Todos Program including as our Generation and Transmission Officer and as our Energy Distribution and Commercialization Officer. Mr. Schufnner Neto is also a professor and researcher. He is a substitute member of our Board of Directors (BOD) and of the BOD of Cemig Telecomunicações S.A., Cemig Distribution and Cemig Generation and Transmission, Light S.A. and Light Serviços de Eletricidade S.A.. Since 2010, he is Business Development Officer of CEMIG, of Cemig Distribution and of Cemig Generation and Transmission.

*Frederico Pacheco de Medeiros* Mr. Medeiros has a law degree from the Federal University of Minas Gerais. He acted as Legal Advisor to the Minas Gerais State Court of Appeal from 1989 to 1998, and was Parliamentary Secretary of the House of Representatives of the Brazilian Congress from 1993 to 2002. He was Deputy Secretary of State of Minas Gerais from 2003 to 2008, and General Secretary to the Governor of Minas Gerais in 2008 - 2010. Since 2011 he is the Chief Corporate Management Officer of CEMIG, of Cemig Distribution and of Cemig Generation and Transmission.

*Fuad Jorge Noman Filho* Mr. Noman Filho has a degree in economics by the Unified Teaching Center of Brasilia (CEUB) and has completed a postgraduate degree in Economic Programming and Budget Execution by the University of Brasília (UnB). He was executive secretary and deputy secretary of Assets and Risks of the National Treasury Secretariat, in the Ministry of Finance; Executive Secretary of the Presidency of the Republic of Consultant International Monetary Fund (IMF), when provided advice to the Government of the Republic of Cape Verde. He was also Secretary for Finance of Minas Gerais - (2003 - 2007) and Secretary for Transport and Public Works of Minas Gerais (2007 - 2010). Between 2007 and 2011, he was a member of the Board of Directors of Minas Gerais State Development Bank (Banco de Desenvolvimento do Estado de Minas Gerais S.A. - BDMG). Since 2008, he is a member of the Board of Directors of Marcopolo S.A., a publicly-held company which main activity is the bus manufacture and development and implementation of solutions for public transportation. Since 2011, he is the CEO and member of the Board of Directors of Gasmig, and the Gas Officer of CEMIG, of Cemig Distribution and of Cemig Generation and Transmission.

*José Carlos de Mattos* - Mr. Mattos received a degree in literature from Uni-BH (Belo Horizonte Central University). Mr. Mattos was a superintendent of the Federal Savings Bank (Caixa Econômica Federal) where he was the Financial Director from 1992 to 1994. At the same period he was Chief Officer of BIAPE - the Inter-American Savings and Loan Bank. From 1995 to 1996 he was Deputy CEO of Bemge - the State Bank of Minas Gerais and between 2003 and 2005 he was the financial director of Codemig, the Minas Gerais Development Company. From 2005 to 2006 he was Director-President of Previminas, the Minas Gerais Social Security Foundation. Between 2007 and 2009, he was the CEO of Companhia de Gás do Estado de Minas Gerais - Gasmig. From 2007 to 2010, he was our New Business Development Officer. Since 2011, he is our Chief Energy Distribution and Commercialization Officer and also of Cemig Distribution. He is also the Chief Officer of Cemig Generation and Transmission.

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

*Luiz Fernando Rolla* - Mr. Rolla holds a degree in Electrical Engineering from Minas Gerais Federal University and has completed specialization in engineering economics and data processing. He joined us in 1974 in the coordination of the electrical system planning and, later, in the coordination of projects funding by World Bank, Inter-American Development Bank, Kreditanstalt für Wiederaufbau banking group

and Eletrobras. He also participated in the process of raising funds in international markets with emphasis on the placement of Eurobonds and blocktrade stock. In 1987 he became our Investor Relations Manager being responsible for the formulation and implementation of our investor relations strategy including the structuring of the Level I and II ADR programs, implementation of Corporate Governance Level 1 in BM&FBOVESPA, and listing in Latibex, Madri Stock Exchange. Since 2009 he is the Chairman of the Brazilian Institute of Investors Relation (Instituto Brasileiro de Relações com Investidores - IBRI). Mr. Rolla is an executive officer and director of several companies of our group and, since 2007, he is our Finance and Investors Relations Officer and also of Cemig Distribution and Cemig Generation and Transmission. He is a member of the Board of Directors of Light SA and Light SESA.

*Luiz Henrique de Castro Carvalho* - Mr. Carvalho has a degree in electrical engineering from Minas Gerais Federal University, having completed a postgraduate degree from the same institution in Systems Analysis with emphasis on Mainframe Support and an international executive MBA in business administration and information technology management from the Getúlio Vargas Foundation. Mr. Carvalho joined us in 1984 as a support analyst in the Software and Support Group. Since then he has

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occupied several positions as of Manager in the Personal IT Terminal Users Support Division, Superintendent of Telecommunications and IT, and as Superintendent for Material, Logistics and Services. He is Chief Officer and member of the Board of Directors of several companies of our group. Since 2008, Mr. Carvalho is our Generation and Transmission Officer and also of Cemig Generation and Transmissions, and also Chief Officer of Cemig Distribution.

*Luiz Henrique Michalick* - Mr. Michalick has a degree in journalism from the Pontifical University of Minas Gerais. In his career in the press, he was a journalist in the Belo Horizonte office of the Folha de São Paulo newspaper, from 1979 to 1985, and economics editor in the Estado de Minas newspaper, from 1986 to 1987. He joined the Company in 1985, working as a journalist and as General Manager for Press, Public Relations and Advertising, before becoming General Manager for Corporate Communications, a position he held from 2003 to 2011. Since 2011, Mr. Michalick has been our Institutional Relations and Communications Officer, and also, the Institutional Relations and Communications Officer of Cemig Distribution and of Cemig Generation and Transmission.

*Maria Celeste Moraes Guimarães* - Mrs. Guimarães has a degree in accounting and business administration from the Pontifical Catholic University of Minas Gerais and a law degree from the Law Faculty of the Universidade Federal de Minas Gerais, having completed a specialization in commercial law and a master's and doctorate from the same university. She was Auditor-General of the State of Minas Gerais from 2003 to 2010 and Chairwoman of Magistrates Council of Executive State Entities (Conselho de Corregedores dos Órgãos e Entidades do Poder Executivo Estadual - CONREGE) from 2004 to 2010. Between 2005 and 2010, she was a member of the College of Social Defense Organizations, and between 2007 and 2009 of the National Council of the Entities of Internal Control of the Brazilian states and Federal District (Conselho Nacional dos Órgãos de Controle Interno dos Estados Brasileiros e do Distrito Federal - CONACI). From 2007 to 2010, Mrs. Guimarães was a member of Board of General Coordination, Planning, Management and Finance of the Minas Gerais State and, from 2008 to 2010, of the Corporate Governance Committee of the Minas Gerais State. She also was a member of Energy Rights Commission and Corporate Lawyer Commission of the Brazilian Bar Association (Ordem dos Advogados do Brasil - OAB-MG) and since 2011, she has been our Legal Officer, and also, the Legal Office of Cemig Distribution and Cemig Generation and Transmission.

**Compensation of Directors and Executive Officers**

The global amount of the remuneration of the Executive Board and the Members of Board of Directors and Fiscal Council, including benefits of any type, shall be fixed by the General Meeting of Stockholders, in accordance with the legislation from time to time in force.

In the year ended December 31, 2011 the total compensation paid to our directors and officers and the directors and officers of Cemig Distribution and Cemig Generation and Transmission, including health insurance, paid leave, bonuses, post-employment and other benefits, amounted to approximately R\$10.89 million.

The following chart shows the compensation paid to our Board Directors, Executive Officers, Fiscal Council and Support Committee members in 2011:

**Compensation in the year ended December 31, 2011 (in Thousands of Reais)**

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	Board of Directors	Support Committee(1)	Executive Officers	Fiscal Council	Fiscal Council (2) Substitute Members
<b>Number of members (3)</b>	12.83	6	11	5	5
<b>Total compensation</b>	1,221.99	493.98	8,801.10	237.59	137.01

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

(2) The Substitute Members of the Fiscal Council start being paid monthly since may 2011, in accordance with the decision of the 2011 Ordinary General Meeting of Stockholders.

(3) The number of members corresponds to the average monthly number of members, divided by twelve (12).

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

Table of Contents**Fiscal Council**

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

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

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

(1) Elected by AGC Energia.

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

**Below is a brief biographical information about each member of our Fiscal Council:**

*Aristóteles Luiz Menezes Vasconcellos Drummond* Mr. Drummond is a professional who acts in the journalistic, public relations and business administration area. Since 1973, he has been a chief officer of Irad Assessoria e Consultoria Ltda., a company dedicated to assisting large companies with the management of their marketing budgets. Mr Drummond is a certified member of fiscal councils according to the Brazilian Institute of Corporate Governance (Instituto Brasileiro de Governança Corporativa - IBGC). Between 1987 and 1996, Mr. Drummond was a management Chief Office of Light. He was the CEO of COGE - Comitê de Gestão Empresarial no Setor de Energia Elétrica (Business

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Management Committee of Electricity Industry).between 1994 and 1996. Between 1996 and 2003, Mr. Drummond was a member of the Eletronorte's Board of Directors. Since 2006, Mr. Drummond has been a member of the Fiscal Council of Light S.A. and a member of CEMAT's Board of Directors. Since 1999, Mr. Drummond has been a member of our Fiscal Council and, since 2004, he has also been a member of Cemig Distribution's and Cemig Generation and Transmission's Fiscal Councils.

*Helton da Silva Soares* Mr. Soares holds an accounting degree and a Law degree from the Pontifical Catholic University of Minas Gerais (PUC-MG) and completed his MBA in Finance from the IBMEC (Belo Horizonte). Mr. Soares joined the Andrade Gutierrez Group in 1998, and since 2008, he has worked as an executive at Construtora Andrade Gutierrez S.A. Since 2010, Mr. Soares has been a member of our Fiscal Council and also a member of Cemig Distribution's and Cemig Generation and Transmission's Fiscal Council.

*Luiz Guaritá Neto* Mr. Guaritá Neto holds a degree in Civil Engineering from Faculdades Integradas de Uberaba in 1978, having completed the basic courses of Business Administration, O&M and Marketing from Getúlio Vargas Foundation in Rio de Janeiro. He was the Major of Uberaba from 1993 to 1996. From 2003 to 2010, Mr. Guaritá Neto served as the first substitute to Senator Eduardo Brandão de Azeredo. Mr. Guaritá Neto is a shareholder and chief officer of several companies. Since 2003 Mr. Guaritá Neto

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has been a member of our Fiscal Council and, since 2004, he has also been a member of Cemig Distribution's and Cemig Generation and Transmission's Fiscal Council.

*Thales de Souza Ramos Filho* Mr. Ramos Filho holds a degree in Medicine from the Federal University of Juiz de Fora (UFMG) and a Business Administration degree from Machado Sobrinho College, of Juiz de Fora. He is a chief officer of Hospital Dr. João Felício, a hospital located in the city of Juiz de Fora, in the state of Minas Gerais. He is also a shareholder and chief officer of Zenite Empreendimentos Imobiliários. Mr. Ramos Filho was a member of Furnas' Board of Directors between 1990 and 1996. Since 2003, Mr. Ramos Filho has been a member of our Fiscal Council and, since 2004, he is also a member of Cemig Distribution's and Cemig Generation and Transmission's Fiscal Council.

*Vicente de Paulo Barros Pegoraro* Mr. Pegoraro holds a Business Administration degree and Accounting degree from Brasília University (UnB) and a Law degree from the Federal University of Paraná. Mr. Pegoraro was a member of the Fiscal Council of Banco do Brasil S.A. from 2001 to 2003 and a member of the Fiscal Council and an Audit Committee member of Telecom Italia Mobile (Tim Participações S.A.) - TIM. Since 2009, Mr. Pegoraro has been a member of our Fiscal Council and of the Fiscal Council of Cemig Distribution and Cemig Generation and Transmission.

**Consumer Council**

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

**Audit Committee**

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

**Employees**

As of December 31, 2011, we had 8,706 employees at CEMIG, Cemig Distribution and Cemig Generation and Transmission, of which 238 were at management level, and we had an average of 350 temporary employees in 2011. As of December 31, 2010, we had 8,859 employees, of which 239 were at management level, and we had an average of 452 temporary employees in 2010. As of December 31, 2009, we had 9,746 employees, of which 248 were at management level, and we had an average of 356 temporary employees in 2009. This table shows the breakdown of our employees by type on those dates:

	December 31, 2011	Number of Employees at December 31, 2010	December 31, 2009
Managers	238	239	248
Professional staff	1,249	1,281	1,500
Operational technical staff and office employees	7,219	7,339	7,998
Total	8,706(1)	8,859(1)	9,746(1)

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

In 2011, five employees were hired and 159 employees left our Company.

#### *Unions*

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

In December 2011, after negotiations with the unions, the Collective Work Agreement was signed with 13 union entities, comprising a salary adjustment of 8.2%, benefits, rights and duties, valid for the period between November 1, 2011 to October 31,



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2012. In addition, a specific collective agreement governing profit sharing ( PLR ) was also signed for the payment of Sharing in Profit and Results (PLR), valid for two years, obeying the targets agreed between us and our employees, as detailed below.

In 2011, during the negotiations to reach agreement on the Collective Work Agreement and the specific collective agreement, there were five intermittent days of stoppages by the employees. The Operational Emergency Committee, created for the basic purpose of establishing a Contingency Plan for maintaining the Company s essential services in the event of strikes, was activated and there were no adverse events.

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

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

For 2009, the collective agreement established an extraordinary one-time distribution in the amount of 200% of each employee s monthly remuneration. In relation to profit sharing, the collective agreement established an extraordinary one-time distribution equivalent to 70% of the monthly remuneration of each employee in the event that the IGPRa indicator reached 50%, paid in 2010. The IGPRa is an indicator used to determine a part of the income of the employees of CEMIG paid in the form of distribution of profits, and is based on the frequency rate of accidents involving CEMIG s own employees, the quality of services provided to consumers, and reduction of costs.

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

*Remuneration*

The Careers and Remuneration Plan (PCR) was put in place in 2004, aiming to provide us with instruments of remuneration deemed necessary for maintaining an equitable and competitive payment structure and establishing criteria for promotions. An internal committee, with representatives of both our Company and the unions, was created for the implementation of such plan. The criteria for concession of career advancement include the employee s performance, among other factors. In the 2010-11 cycle of Performance Management, 1,440 employees or 16% of all the employees evaluated benefited from individual salary alterations.

Remuneration surveys are carried out annually to adapt the salaries of the employees to the market context. The results of the most recent survey, held in May 2011, indicated that approximately 94% of the employees are remunerated above the market average.

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This table shows the average of Base Salary and of Remuneration, per month, by functional category:

	Average Base Salary as of December 31, 2011		Average Remuneration as of December 31, 2011	
Managers	R\$	12,908.91	R\$	21,133.56
Professional staff	R\$	6,813.34	R\$	9,519.03
Operational technical staff and office employees	R\$	3,098.67	R\$	5,012.96

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

With respect to the results for 2011, the amount to be received by our employees as profit sharing can vary between 70% and 120% of the remuneration multiple attributed to their work category, depending on the extent the targets established by us are being

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met. No profit sharing payment will, however, be made to any employee who does not reach the minimum level of 70% of the established targets.

In 2011 the payment of profit shares to the employees, including the obligatory charges and payments based on payroll, totaled approximately R\$221 million, with 70%, or R\$155 million, being paid in December 2011 and the remaining 30%, or R\$66 million, scheduled to be paid in April 2012. In 2010, the payment of employees' profit shares, including the obligatory charges and payments based on payroll, totaled R\$325 million, and the payment was made in December 2010 and in March 2011. In 2009, it totaled R\$ 238 million and was paid in December 2009 and March 2010.

*Benefits*

As of January 1, 2003, we implemented changes to our existing employee health care plans. The changes are a result of an agreement we entered into with our employees' labor unions, most of which are represented by Sindieletro. The changes modified the contributions that we, our employees and our retirees are responsible for and the types of benefits covered by each plan. In 2011, a total of R\$199 million was paid in benefits to employees, consisting of R\$ 73.5 million in pension plan contributions and R\$ 125.5 million in assistance benefits.

*Voluntary Retirement Program*

In March 2008, CEMIG implemented a Voluntary Retirement Program, which sets the rules and conditions applicable to free and voluntary rescissions of employment contracts by employees, and also criteria applicable to specific situations of employees who meet certain requirements for retirement. Employees who opt for the Voluntary Retirement Program receive a payment equal to three times their monthly salary, provided they leave the Company a maximum of 90 days after opting for the program. In 2011, 49 employees accepted the terms of our Voluntary Retirement Program compared to 11 employees in 2010 and 193 employees in 2009.

*Voluntary Dismissal Program*

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

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

*Health and Safety*

In 2011, the number of work accidents resulting in loss of one or more days work of CEMIG employees and outsourced workers (by the ABNT standard) was 17.67% higher than in 2010. The main reason for this increase can be identified as traffic accidents, faulty physical packaging, and preliminary risk assessment incomplete. As control measures, specific actions were implemented to prevent further occurrences.

*Share Ownership*

Each of our directors and executive officers beneficially owns less than 0.001% of our preferred shares and less than 0.003% of our common shares.

Table of Contents**Item 7. Major Shareholders and Related Party Transactions****Principal Shareholders**

As of December 31, 2011, the State Government owned, directly or indirectly, 152,033,489 common shares, or 50.97% of our outstanding voting stock, and 7,057,472 preferred shares, or approximately 1.84% of those outstanding. As of the same date, AGC Energia, our second largest shareholder, owned 98,321,592 common shares, or approximately 32.96% of those outstanding. AGC Energia is a subsidiary of Andrade Gutierrez Concessões S.A. ( AGC ), an AG Group affiliated. AG Group is one of the largest private groups in Latin America, with a presence in the engineering, construction, telecommunications, energy and public grants sectors. Our principal shareholders do not have different voting rights with respect to the shares they own.

The following table sets forth certain information regarding the ownership of our outstanding common shares and preferred shares at December 31, 2011.

Shareholder	Common Shares	% of Class	Preferred Shares	% of Class
State Government (1)	152,033,489	50.97%	7,057,472	1.84%
AGC Energia S.A.	98,321,592	32.96%		
All directors and executive officers as a group	6,732		1885	
Other	47,907,855	16.06%	376,794,637	98.09%
Total of outstanding shares	298,269,668	100%	383,853,994	99.92%
Treasury shares			290,920	0.08%
Total of authorized and issued shares	298,269,668	100%	384,144,914	100%

(1) The shares in this line item attributed to the State Government include shares held by MGI, other State Government agencies and state-controlled companies.

Since our incorporation, our operations have been influenced by the fact that the State Government controls us. Our operations have had and will continue to have an important impact on the development of business and industry in Minas Gerais and on social conditions in the state. The State Government has from time to time in the past directed us to engage in certain activities and make certain expenditures designed primarily to promote the social, political or economic goals of the State Government and not necessarily designed with a view to our profitability, and it may direct us to do so in the future. See, Item 3. Key Information Risk Factors Risks Relating to CEMIG We are controlled by the State Government.

As of December 31, 2011, we had 42 common shareholders of record in the United States, holding a total of 7,836,061 common shares. We also had 315 preferred shareholders of record in the United States, holding a total of 222,533,764 preferred shares. These numbers do not include the 183,612,259 preferred shares and 878,614 common shares converted into ADRs.

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Although our by-laws do not provide any restrictions concerning a change in our control, a state law authorizing a change of control would be required for a change of control to take place. Because we are a state-controlled company, the sale of more than 50% of the voting stock of CEMIG by the State Government (or any other transaction that may transfer the control of the company, either totally or partially) requires the passage of specific authorizing legislation by the legislature of Minas Gerais, approved by at least 60% of the members of the State Assembly. The aforementioned authorization must also be approved by local citizens in a referendum.

On December 17, 2009, BlackRock, Inc., as investment manager on behalf of some of its consumers, notified that as a result of the merger between BlackRock and Barclays Global Investors, on December 1, 2009, it has achieved the total of 12,410,905 preferred shares and 20,411,225 American Depositary Receipts ( ADRs ) for preferred shares, representing a total of approximately 9.39% of the total preferred shares in CEMIG. Blackrock Inc. has notified that the objective of the above-mentioned stockholdings is strictly for investment purposes, and it has no intention of altering the stockholding control or management structure of the Company. In addition, it has also notified that it holds no debentures issued by CEMIG that are convertible into shares, and that no agreements have been entered into by BlackRock that regulate the exercise of the right to vote or the purchase or sale of securities issued by CEMIG.

On April 15, 2010, Lazard Asset Management LLC notified us that it has acquired 17,497,213 shares, or 5.01% of the total of the shares issued by CEMIG. On February 4, 2011, Lazard Asset Management LLC notified us that it increased its interest in CEMIG to 7.46%, representing a total of 28,673,232 shares.

On June 18, 2010, AGC Energia notified that a share transfer occurred pursuant to a share purchase and sale agreement signed between Southern and AGC Energia, with AGC as the consenting party, dated November 12, 2009. AGC Energia acquired from

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Southern 98,321,592 common shares of CEMIG, representing 32.96% of the voting stock and 14.41% of the total capital. AGC Energia emphasizes that such transaction does not change the structure of the stockholding control, nor the management structure, of CEMIG.

On January 20, 2012 Lazard Asset Management LLC notified us that it holds 28,266,233 shares, or 4.14% of our outstanding shares.

We are not aware of any other significant changes in the percentage ownership of any shareholders that held 5% or more of our outstanding voting shares during the past three years.

**Related Party Transactions**

We are party to the following related-party transactions:

- Our agreement with the State Government with respect to the CRC Account and related financial income and provision for loss and VAT advance payments, expenses, assets and liabilities;
- Our agreement with Forluz, the entity responsible for managing our employee pension fund, pertaining to the fund and related balances; and
- Our agreement with COPASA, a Minas Gerais state-controlled company, related to accounts receivable from energy sales.

For a more detailed discussion of these and other related party transactions, see Notes 9, 12, 18, 19, 21, 24 and 25 to our consolidated financial statements.

**Item 8. Financial Information**

**Consolidated Financial Statements and Other Financial Information**

Please refer to our financial statements that appear beginning on page F-1 of this document as well as Item 3. Key Information Selected Consolidated Financial Data.

## Legal Proceedings

We are a party to certain administrative and court proceedings involving tax, regulatory, consumer, administrative, environmental and liability relating to our business. In accordance with the IFRS, we recorded and disclose the aggregate amounts of the proceedings that we have determined a loss to be probable (i.e. on the date of the financial statements an obligation was assessed as being more likely than not), and disclose the aggregate amounts of the proceedings that we have determined a loss to be possible (i.e. on the date of the financial statements an obligation is assessed as being more unlikely than likely and not assessed as remote); in both cases, to the extent these amounts can be reasonably estimated. For more information regarding such contingencies, see Notes 11 and 22 to our consolidated financial statements.

## *Regulatory Matters*

Prior to 1993 Brazilian electricity concession holders were guaranteed, by law, a rate of return on investment in assets used in the provision of electricity services to clients. Rates charged to users were uniform all over the country, and the profits generated by the more profitable concession holders were reallocated to less profitable concession holders, in such a way that the rate of return of all the companies was equal to the national average. The deficits which the majority of the Brazilian electricity concession holders suffered were accounted in the CRC Account of each company. When the CRC Account and the guaranteed-return concept were abolished, Cemig used its positive balances in the CRC Account to offset its liabilities to the Federal Government.

Aneel filed an administrative action against the Company, contesting a credit relating to those positive balances and on October 31, 2002, issued a final administrative decision. On January 9, 2004, the Office of the National Treasury issued a collection notice in the amount of R\$516.2 million, to be settled by the company on or before January 30, 2004. Cemig filed a writ for an order of mandamus to suspend inclusion of the credit in the register of debtors delinquent on credits to the federal government (Cadin). Although the mandamus was denied by the lower court, an appeal was made to the Federal Court of the First Region, which granted



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Cemig a temporary injunction suspending inclusion in the Cadin. On December 31, 2011, the amount involved in this action was, approximately, R\$1.02 billion, and the Company has assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely).

CEMIG is defendant in several public class actions challenging the clause in the Electricity Supply Contracts for public illumination, signed between the Company and the various municipalities of its concession area, and restitution by the Company of the difference representing the amounts charged in the last 20 years, in the event that the courts recognize that these amounts were unduly charged. The actions are grounded on a supposed mistake by CEMIG in the estimate of time used for the calculation of the consumption of electricity by public illumination paid for by the Public Illumination Contribution (CIP). On December 31, 2011, the amount involved in this action was, approximately, R\$1.2 billion, and the Company has assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely).

Cemig Generation and Transmission filed an application for an order of mandamus to include it as a defendant party in an lawsuit brought by AES Sul against Aneel, seeking annulment of Aneel Dispatch 288/2002 which set the guidelines for interpretation of Aneel Resolution 290/2000, and thus change the situation of AES Sul Distribuidora, from creditor to debtor of Mercado Atacadista de Energia (MAE), predecessor of Câmara de Comercialização de Energia Elétrica (CCEE). CEMIG's application to be a party on the defendant side was based on the fact that if AES Sul were to be successful in this lawsuit and were found to be a creditor of CCEE, the Company will have to pay the amount applied for by AES Sul. We obtained an interim remedy to suspend the deposit that had been ordered in the process of financial settlement, for the historic amount, and was also admitted as a defendant party. As of December 31, 2011, the amount involved in this action was, approximately, R\$124 million, and we have assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely).

*Rate Increases*

We are the defendant in several lawsuits brought by industrial consumers alleging that were illegal the increases in electricity rates, determined by DNAEE, predecessor of Aneel, by Ministerial Order 045/86, during a price freeze imposed by the Federal Government from March through November 1986, known as the Cruzado Plan (*Plano Cruzado*). Some of the plaintiffs further allege that all rates after the Cruzado Plan period were illegal, in part because they included the Cruzado Plan period increases in the amounts that served as the basis for calculating the further increases. Some of these claims have been decided at the trial court level in our favor, whereas others have been decided in favor of the plaintiffs. All of the cases that have been decided at the trial court level have been appealed to the Superior Court of Justice (*Superior Tribunal de Justiça*), which ruled, in most of the cases, that the plaintiffs were entitled only to reimbursement for rate increases introduced during the Cruzado Plan. We are actively contesting all of the aforementioned rate increase claims. On December 31, 2011, proceedings where we assessed the chances of loss as probable - i.e. for which on the date of the financial statements an obligation were assessed as being more likely than not totaled, approximately, R\$37 million, and proceedings where we assessed the chances of loss as possible, i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely totaled, approximately, R\$9 million.

Cemig Distribution is a party, together with Aneel, in a civil public action brought by the Public Attorneys' Office seeking to prevent the exclusion of consumers from the Low Income Residential Tariff's subclass frame and also to require Cemig Distribution to pay double the amount overpaid by the low income consumers. The lower court found in favor of the Public Attorneys' Office, and Cemig Distribution and Aneel appealed to the Regional Federal Appeals Court (*Tribunal Regional Federal*). The decision of the appeals court on the proceeding has been pending since March 2008. On December 31, 2011, the amount involved in this action was, approximately, R\$123 million, and the Company has assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely).

Cemig Distribution is a defendant in a public civil action brought by the Municipal Association for Protection of the Consumer and the Environment (Associação Municipal de Proteção ao Consumidor e ao Meio Ambiente - Amprocom), which is challenging the tariff readjustment applied after 2002 and its methodology and seeking the restitution, to all consumers who were damaged in the processes of periodic review and annual adjustment of electricity tariffs in the period from 2002 to 2009, of the amounts that were allegedly unduly charged. On December 31, 2011, the amount involved in this action was, approximately, R\$1.06 billion, and the Company has assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely). Since the outcome of this matter will have an impact on all of the distribution concession holders in Brazil, it is our view that, in the event of a loss, CEMIG will not have to disburse the full amount involved, because we believe that a new Electricity Sector Agreement will likely be entered into, providing for discounts on the electricity tariff in order to reimburse consumers for any excess amounts that are ruled to have been paid. In December 2010, Aneel, who was ultimately responsible for the calculation of the readjustment of the electricity tariffs from 2002 to 2009, issued regulations safeguarding distribution concession holders from liability concerning this matter. A bill was proposed in the Brazilian Congress to annul these Aneel regulations, and is currently under

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review by the House of Representatives. If passed, the bill would cancel the effects of these Aneel regulations, which could affect adversely our chances of loss in the civil public action described above.

*Taxes and Other Contributions*

CEMIG and its subsidiaries are parties in several administrative and judicial tax-related proceedings concerning the imposition of state sales tax (Imposto Sobre a Circulação de Mercadorias e Serviços, or ICMS), rural real estate ownership tax (Imposto Sobre a Propriedade Territorial Rural, or ITR), contribution for social integration (Programa de Integração Social, or PIS), PASEP and COFINS (which are taxes on gross sales revenue), the Social Contribution on Net Profit (Contribuição Social Sobre o Lucro Líquido, or CSLL), and federal income tax (Imposto de Renda da Pessoa Jurídica, or IRPJ), among others.

In 2006, CEMIG, Cemig Generation and Transmission and Cemig Distribution advanced funds to some of their employees in exchange for their rights to future payments, referred to as the Anuênio. No income tax or social security contributions were collected in connection with those payments, since it is our opinion that they are not applicable. The Brazilian Federal Revenue Service, however, has initiated an administrative proceeding seeking to levy taxes on such payments. In order to avoid the risk of imposition of penalties, we filed two writs of mandamus which were decided unfavorably to us in the lower court. We filed the appropriate appeals and are still waiting for resolution from the upper court. On December 31, 2011, the amount involved in these actions was, approximately, R\$192 million, and the Company has assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely), in view of the indemnity nature of the advance payments made to the employees and the absence of specific case law in the upper court. We emphasize that, in relation to Income Tax, both the Superior Court of Justice ( STJ ) and the Regional Federal Court ( TRF ) adopt the position that there is tax levied on payments arising from the suppression of employees' collective bargaining rights when agreed through a collective agreement, since such amounts are considered indemnities.

The INSS initiated an administrative proceeding against the Company in 2006 alleging non-payment of the social security contribution on the amounts paid to the Company's employees as profit shares in the period 2000 to 2004. In 2007, we filed a writ of mandamus seeking declaration that such profit-sharing payments were not subject to social security contributions. We received a partially favorable decision in 2008, which we have appealed and on we are waiting for the upper court to decide. On December 31, 2011, the amount involved in this action was, approximately, R\$141 million, and the Company has assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely).

We are party in some proceeding in connection with PIS and COFINS contributions. On December 31, 2011, proceedings where we assessed the chances of loss as possible, i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely totaled, approximately, R\$1.1 billion, of which (i) R\$991 million are related to proceeding where CEMIG is a creditor. (ii) R\$55 million are related to an assessment of Brazilian Federal Revenue Service alleging underpayment of PIS and Cofins taxes, on the allegation of undue exclusion, from the taxable amount, of financial expenses arising from negative monetary variations. Cemig filed an Action for Provisional Remedy against the Federal Government, in which it obtained an interim order suspending collection of Cofins tax in the period from November 30, 2001 through January 31, 2004, until final judgment of an Ordinary Action also filed by Cemig for a declaration that there is no legal relationship that obliges it to pay PIS and Cofins taxes on amounts that are not invoiced revenue and (iii) R\$45 million are related to proceedings in which plaintiffs demand suspension of pass-through of the PIS and COFINS contributions, on the grounds that the imposition of such contributions in the context of electricity invoices is illegal. Plaintiffs allege that they are entitled to the reimbursement of all such amounts, plus interest and restatement for inflation. Some of these legal proceedings seek reimbursement of 200% of the amount charged.

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The Brazilian Federal Revenue Service has initiated 44 administrative proceedings against CEMIG, Cemig Generation and Transmission and Cemig Distribution, in relation to the social security contributions allegedly owed in connection with employee profit share payments, the Workers Food Program (PAT), the auxiliary contribution for education, overtime payments, risk exposure compensation payments, Sest/Senat, and compensation penalty payments. The Company has presented defenses and awaits judgment. On December 31, 2011, proceedings where we assessed the chances of loss as possible, i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely totaled approximately R\$782 million.

CEMIG is a defendant in various administrative and judicial proceedings filed by the State Tax Department of Minas Gerais, jointly with various consumers, in connection with charging ICMS matters. On December 31, 2011, proceedings where we assessed the chances of loss as possible, i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely totaled, approximately R\$500 million, as described in the next 3 paragraphs.

Some of the issues discussed in these proceedings are related to non-applicability of ICMS over unused portions of hired electricity availability. CEMIG has requested exclusion from these proceedings, as it won't be affected by the final decision, since it is

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not CEMIG who has the alleged obligation to pay the ICMS in these cases; CEMIG has been excluded from some of these proceedings. CEMIG is also a defendant in cases that discuss the impact of ICMS on TUSD since the amount of the tax applicable has been divided in compliance with preliminary injunctions granted under writ of mandamus issued by those consumers. Final adverse decisions in administrative proceedings may be challenged judicially under Brazilian law. Company has assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely).

CEMIG is a defendant, jointly with various consumers, in various administrative and court proceedings brought by the State Tax Department of Minas Gerais, claiming ICMS tax on the transfer of excess electricity in the period of rationing of electricity. Although CEMIG is only secondarily liable for such charges, unfavorable administrative decisions were rendered, considering the imposition of such tax as valid. The State of Minas Gerais has been carrying out tax foreclosures in relation to these charges, usually against the primary debtors. However, because these claims might be an obstacle for certification of CEMIG's tax clearance, CEMIG has filed lawsuits seeking preliminary injunctions to suspend these collection proceedings. Company has assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely).

CEMIG is a defendant in a Public Consumer Action brought by the Minas Gerais Consumer Defense Institute (Instituto Mineiro de Defesa do Consumidor, or Imidec) applying for a declaration that there is no legal relationship that obliges consumers to pay the rate of ICMS tax on electricity bills in the manner in which it is currently calculated. The Company has presented defense and awaits judgment. Company has assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely).

The Federal government filed an action for rescission against CEMIG on June 17, 2011, applying for rescission of the appeal court judgment given in an action for rescission previously brought by Cemig on the subject of the Finsocial tax, on the argument that that action was filed after the period of limitation of two years and was therefore out of time. On December 31, 2011, the amount involved in this action was approximately R\$67 million, and the Company has assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely).

CEMIG is defendant in 113 administrative proceedings the final decisions in which have refused offsetting of credits of IRPJ, CSLL, PIS and COFINS. CEMIG is contesting the related tax postings made by the federal tax authority. On December 31, 2011, the amount involved in these proceeding was, approximately, R\$424 million, CEMIG will file actions seeking the annulment of such tax credits, and the Company has assessed the chances of loss in the judiciary as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely).

CEMIG was party in administrative proceedings concerning applications for restitution and offsetting of tax credits indicated in the corporate tax returns for 1997 to 2000, and overpayments shown in the corresponding tax receipts and tax returns filed. On December 31, 2011, the amount involved in these proceeding was approximately R\$296 million, and the Company has assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely). In March 2012 two postings were added, relating to tax credits of corporate income tax and Social Contribution tax calculated in calendar year 1999, in which credits from undue payments of income tax and Social Contribution tax made during 1997 were unduly omitted. This change altered the value of the contingency to R\$ 397 million. The assessment of likelihood of loss continues to be probable (i.e. on the date of the financial statements an obligation was assessed as being more likely than not).

Additionally, our subsidiary Light SESA is party in several administrative and judicial tax-related proceedings concerning the imposition of state sales tax (Imposto Sobre a Circulação de Mercadorias e Serviços, or ICMS), the Social Contribution on Net Profit (Contribuição Social Sobre o Lucro Líquido, or CSLL), and federal income tax (Imposto de Renda da Pessoa Jurídica, or IRPJ), among others. On December 31, 2011, proceedings with chances of loss assessed as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely) totaled, approximately, R\$860 million (proportionally to the percentage share of the capital of Light owned by CEMIG).

#### *Labor Obligations*

We are defendants in several claims filed by employees and outsourced workers. Most of these claims relate to overtime and compensation for occupational hazards. In addition to these actions, there are others relating to outsourcing of labor, readjustment of retirement pension payments by Forluz, and salary adjustments. Under Brazilian employment laws, claimants must file any claim for unpaid services until two years after the termination of the contract (limited to rights which arose no more than five years prior to the claim). On December 31, 2011, proceedings where we assessed the chances of loss as probable - i.e. for which on the date of the financial statements an obligation were assessed as being more likely than not totaled, approximately, R\$143 million, and proceedings where we assessed the chances of loss as possible, i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely totaled, approximately, R\$337million.

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Moreover, in June 2007 a judgment was rendered against Cemig in a public civil action, brought by the Public Attorneys Office for Employment Matters in early 2003, to prevent the Company from using outsourced labor for its end-activities. The judgment gave the Company nine months to cease to contract employees through outsourced companies as intermediaries. In March 2008 the Higher Appeal Court gave an interim decision suspending the effects of the previous judgment until a final decision had been given against which there was no further appeal. However, since the issue involves interpretation on the constitutionality of an article of the Concessions Law (Law 8987/95) there is a possibility of reversal of the decision in the Federal Supreme Court. On December 31, 2011, the amount involved in this action, in case CEMIG does not comply with the order for specific performance, moral damages and fees was, approximately, R\$51 million and the Company has assessed the chances of loss as probable (i.e. on the date of the financial statements an obligation was assessed as being more likely than not). It should be added that the amount stated will be payable only if the Company does not comply with the order to replace outsourced labor within the specified period, of nine months. Additionally, there is a possibility of extension of that period, as requested in the appeal for review. On this aspect, although it is probable that an order for specific performance may be rendered against CEMIG, we believe it is unlikely that any payment obligations will be imposed.

*Environmental Matters*

We are party to a number of administrative and judicial proceedings and claims involving environmental matters, regarding certain protected areas, environmental licenses and remediation of environmental damages, among others. On December 31, 2011, the amount involved in these proceedings where we assessed the chances of loss as probable - i.e. for which on the date of the financial statements an obligation was assessed as being more likely than not totaled, approximately, R\$4 million, and where we assessed the chances of loss as possible (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely) totaled, approximately, R\$61 millions.

CEMIG, Southern Electric and FEAM are defendants in a public civil action filed on February 5, 2007 by the Regional Environmental Association of Patrocínio, which involves a claim for indemnifying and redressing environmental damages caused by the Nova Ponte Hydroelectric Power Plant. This public civil action is awaiting judgment. As of December 31, 2011, the amount involved in this action was R\$1.5 billion, and in 2011 we re-assessed the chance of loss as remote .

The Minas Gerais Public Attorney filed seven class actions against CEMIG seeking an order against CEMIG to invest at least 0.5% of its total operational revenue per year on the protection and environmental preservation of the water tables of the municipalities in which CEMIG's generation plants are located since 1997. In two of these actions, judgment was granted partly in favor of the Public Attorneys Office of Minas Gerais, with CEMIG being ordered to invest 0.5% of the gross operational revenue on measures for environmental preservation and protection of the water tables in Ouro Preto, Uberaba, Água Comprida, Campo Florido, Delta e Veríssimo. CEMIG has filed an appeal with the State Appeals Court of Minas Gerais. On December 31, 2011, the amount involved in these actions was R\$14 million, and we assessed the chances of loss as possible, (i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely). In March 2012 we re-assessed the amount involved in these lawsuits to R\$61 million, and the chance of loss in these proceedings as probable (i.e. on the date of the financial statements an obligation was assessed as being more likely than not). CEMIG and its wholly owned subsidiaries are defendants in several others public civil actions in which the amounts involved cannot be precisely assessed, in our view, most of these lawsuits are related to alleged environmental damages and require indemnity, remediation of damaged areas and compensation measures that will be defined in the course of the proceedings, often requiring the expertise to carry out verification of the values involved. Also, class actions may benefit third parties not originally involved in these proceedings, who may be entitled to further reparations or indemnity.

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*Legal actions for indemnity*

Cemig is a defendant in several legal actions in which the plaintiffs seek indemnity for pain and suffering and property damages, specifically for actions that relate to the accident that took place on February 27, 2011, in the town of Bandeira do Sul, which resulted from coiled metal carnival decorations being thrown over electricity distribution cables, causing a short-circuit which severed medium-voltage cables and resulted, when the cables hit the ground, in the death of 16 people, with dozens of other people injured. By the end of 2011, two actions for damages arising from the accident had been filed, involving 29 family members of 14 of the people who died. In spite of the fact that the accident did not arise from any action or position taken by the Company, we have assessed the chances of loss as probable (i.e. on the date of the financial statements an obligation was assessed as being more likely than not). It is estimated that the total amount involved in these two actions could be as much as approximately R\$ 4.5 million (in currency of February 2012). The greater significance of these actions for CEMIG is not related to their financial impacts, but to the negative exposure of the Company's image, since the accident was widely publicized by the media.

*Claims in the Ordinary Course of Business*

Additionally, CEMIG and its subsidiaries Cemig Generation and Transmission and Cemig Distribution are party in several administrative and judicial proceedings and claims, mainly as a defendant, relating to (i) indemnification due to accidents taking place in the ordinary course of the business; (ii) consumer claims; (iii) real property (iv) contractual obligations; (v) property and other obligations. On December 31, 2011, the amount involved in these proceedings where we assessed the chances of loss as probable - i.e. for which on the date of the financial statements an obligation was assessed as being more likely than not totaled approximately R\$110 million, and where we assessed the chances of loss as possible, i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely totaled, approximately, R\$230 million.

Finally, Light is party in several administrative and judicial proceedings and claims, mainly as a defendant, relating to the ordinary course of the business. On December 31, 2011, the amount involved in these proceedings where the chances of loss were assessed as possible, i.e. on the date of the financial statements an obligation was assessed as being more unlikely than likely, totaled, approximately, R\$127 million (proportionally to the percentage share of the capital of Light owned by CEMIG).

Dividend Policy and Payments

*Obligatory Dividend Priority and Amount of Dividends*

Under our by-laws, we are required to pay to our shareholders, as obligatory dividends, 50% of the net income of each fiscal year ending December 31, determined in accordance with IFRS. Our preferred shares have priority in the allocation of the obligatory dividend for the period in question. The order of priority of the dividends distribution is as follows:

- The annual minimum dividend for the preferred shares: These have preference in the event of reimbursement of shares, and have an annual minimum dividend equal to the greater of the following:



- 10% of their par value; or
- 3% of the shareholders' equity associated with it.
- The dividends on the common shares, up to the minimum percentage for the preferred shares.

If a portion of the obligatory dividend remains after the payment of the common dividend, the remaining funds are to be distributed on an equal, *pro rata* basis with respect to all preferred shares and common shares.

Without prejudice to the obligatory dividend, beginning in fiscal year 2005, every two years, or shorter period if the Company's cash position permits, we will distribute extraordinary dividends, up to the limit of the cash available, as determined by the Board of Directors, under the Company's Strategic Guidelines Plan and the dividend policy specified in that plan.

The annual dividends declared shall be paid in two equal installments, the first by June 30 and the second by December 30 of each year. The extraordinary dividends shall be paid as decided by the Board of Directors.

Under the Brazilian Corporate Law, the Board of Directors may declare interim dividends, in the form of interest on capital, to be paid from retained earnings, income reserves or income reported in semi-annual or quarterly financial statements. Any interim

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dividends paid shall be calculated based on the dividend to be paid in the fiscal year in which the interim dividend was declared. Our by-laws authorize our Board of Directors to declare interim dividends. Any interim dividend paid may be set off against the amount of the obligatory dividend payable for the fiscal year in which the interim dividend was paid.

In the fiscal years in which we do not have sufficient income to pay dividends to our preferred and common shareholders, the State of Minas Gerais guarantees a minimum dividend of 6% of the par value of the preferred or common shares, respectively, per year to all shares of the Company issued up to August 5, 2004 and held by individuals.

*Amounts Available for Distribution*

The amount available for distribution is calculated on the basis of the financial statements prepared in accordance with accounting practices adopted in Brazil and the procedures described below.

The obligatory dividend is calculated on the basis of *adjusted net income*, defined as net income after addition or subtraction of: (a) amounts allocated to the legal reserve, (b) amounts allocated to the formation of the contingency reserves and reversal of these reserves formed in previous fiscal years, and (c) any unrealized income transferred to the unrealized income reserve account, and any amounts previously posted to this reserve account which have been realized in the fiscal year and used to offset losses.

We are obliged to maintain a legal reserve, to which 5% of the net income of each fiscal year must be allocated until the reserve's total value is equal to 20% of the Company's total paid-in capital. However, we are not obliged to make any allocation to the legal reserve in relation to any fiscal year in which the sum of the legal reserve and the other established capital reserves exceeds 30% of the Company's total paid-in capital. Any net losses may be charged against the legal reserve.

Under the Brazilian Corporate Law, income in subsidiaries or affiliated companies reported by the equity method, and income on term sales, realizable after the end of the next fiscal year, are also considered to be unrealized income.

The total of income reserves (with the exception of the reserve for contingencies relating to expected losses and the unrealized income reserve), the legal reserve, the special reserves, the reserve for investment projects, and retained earnings may not be greater than the Company's registered capital. The amount in excess of our registered capital must be used to increase our registered capital or be distributed as cash dividends.

Under the Brazilian Corporate Law and our by-laws, dividends not claimed within three years from the date on which they are distributed revert to us.

*Interest on Capital*

Under Brazilian law we may pay interest on capital as an alternative for the distribution of funds to shareholders. Funds distributed as interest on equity qualify within the calculation of minimum dividend established in the by-laws. These amounts may be paid in cash; and the Company may treat them as an expense for purposes of the calculation of the income tax and social contribution. The total amount paid in interest on capital is limited to the result of application to the Company's shareholders' equity of the Long Term Interest Rate (TJLP), published by BNDES and may not exceed the greater of (i) 50% of the net income (before taxes for social contribution on net profits, income tax, and the deduction of the interest attributable to shareholders' equity) for the period in respect of which the payment is made or (ii) 50% of retained earnings as of the date of the beginning of the period in respect of which the payment is made. Shareholders who are not resident in Brazil must register with the Brazilian Central Bank so that the foreign currency proceeds of their dividend payments, or of sale or other amounts relating to their shares, may be remitted to them outside Brazil. The preferred shares underlying our Preferred ADSs and the common shares underlying our Common ADSs are held in Brazil by the custodian bank, as agent for the depositary bank, which is the registered owner of the shares.

#### *Currency Exchange*

Payments of cash dividends and distributions, if any, will be made in *reais* to the custodian on behalf of the depositary bank, which will then convert such proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the depositary bank for distribution to holders of ADRs. In the event that the custodian is unable to immediately convert the *reais* received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by devaluations of the *real* that occur before such dividends are converted and remitted. The *real* depreciated approximately 12% relative to the U.S. dollar in 2011. See Item 3. Key Information Risk Factors Risks Relating to Brazil The Federal Government exercises significant influence on the Brazilian economy. Political and economic conditions can have a direct impact on our business.

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Dividends in respect of the preferred shares and common shares paid to holders who are not Brazilian residents, including holders of Preferred ADSs and Common ADSs, are generally not subject to Brazilian withholding tax, although in general payments of interest on capital are subject to withholding tax. See Item 10. Additional Information Taxation Brazilian Tax Considerations Taxation of Dividends and U.S. Tax Considerations Taxation of Distributions. There is no specific record date upon which the depositary bank will determine the exchange rate to be used in connection with converting cash dividends or other cash distributions. Pursuant to the Deposit Agreements, the depositary bank will arrange for the funds to be converted into U.S. dollars upon receipt of notice of cash dividends or other cash distributions.

*History of Dividend Payments*

The following table sets forth the recent history of declarations of dividends and interest on capital on our common shares and preferred shares. For each year in the table, the payment of the dividends occurred during the year following declaration. For the periods indicated, the dividends paid per common share and per preferred share were the same. See Item 3. Key Information Selected Consolidated Financial Data.

**Declaration History of Dividends and Interest on Capital (1)**

Dividend Year	Common Shares		Preferred Shares	
	(R\$)(2)	(US\$)(3)	(R\$)(2)	(US\$)(3)
2009	406,964,431	235,171,586	523,737,206	302,650,798
2010	493,480,655	313,659,604	635,507,345	403,932,718
2011 (4)	894,679,142	491,096,246	1,151,394,858	632,009,473

(1) In accordance with the accounting practices adopted in Brazil, dividends and interest on capital are accounted for as having been paid in the dividend year in which they are proposed, even if such dividends or interest on capital were formally approved by a shareholders meeting in the following year.

(2) Real amounts are expressed in nominal *reais*.

(3) U.S. dollar amounts are calculated by dividing the amount of dividends paid, expressed in nominal *reais*, by the Federal Reserve Board's rate on respective Record Dates (April 29, 2010, April 29, 2011 and April 27, 2012).

(4) The 2011 dividends were approved at the ordinary and special general shareholders meetings held on April 27, 2012. The 2011 dividends will be paid in two equal installments in June 2012 and December 2012.

**Significant Changes**

Subsequent events:

3rd Issue Debentures Cemig GT:

On January 13, 2012, Cemig Generation and Transmission made its fourth issuance of commercial paper in the Brazilian market, in the total amount of R\$1 billion, with an interest of (i) 103% of the CDI rate per annum until the 60th day counted as from the issuance date; (ii) 104% of the CDI rate per annum from the 61st until the 120th day counted as from the issuance date; and (iii) 105% of the CDI rate per annum, from the 121st until the 180th day counted as from the issuance date, due on July 11, 2012. These commercial papers were paid in full in March 21, 2012 with the proceeds of the third issuance of debentures.

On February 15, 2012 Cemig Generation and Transmission issued 1,350,000 non-convertible, nominal, book-entry, unsecured debentures, in three series, comprising 480,000 debentures of the first series, 200,000 debentures of the second series and 670,000 debentures of the third series, of the issuer's third issue, in the aggregate amount of R\$1.35 billion. The proceeds were used to prepay the outstanding balance of the fourth issuance of promissory notes of Cemig Generation and Transmission and to serve as working capital. The debentures of the first series accrue interest at accumulated variation of the average daily rate of the Interbank Deposit Rate, plus a spread of 0.90% per year and are due in 2017. The debentures of the second series are adjusted from the issue date, by the variation in the IPCA and accrue interest corresponding to 6% per year and are due in 2018 and 2019. The debentures of the third series are adjusted from the issue date, by the variation in the IPCA and accrue interest corresponding to 6.2% per year and are due in 2020, 2021 and 2022. These debentures are guaranteed by CEMIG.

Our annual shareholders' meeting will be held on April 27, 2012, at which our shareholders are expected to vote on, among other things, our annual dividend, a stock dividend of approximately 25% on our common and preferred shares and the election of members to our Board of Directors.

**Item 9. The Offer and Listing**

**Trading Market**

The principal trading market for our preferred shares is the BM&FBovespa. Our Preferred ADSs, each representing one preferred share as of December 31, 2011, have traded on the NYSE under the symbol CIG since September 18, 2001. Prior to that date, our Preferred ADSs were traded in the over-the-counter, or OTC, market in the United States. The Preferred ADSs are evidenced by Preferred ADRs issued by Citibank, N.A., as depositary, pursuant to a Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, as amended on June 11, 2007, by and among us, the depositary and the holders and beneficial owners of Preferred

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ADSs evidenced by Preferred ADRs issued thereunder. As of December 31, 2011, there were approximately 183,612,259 Preferred ADSs outstanding (each representing one preferred share), representing approximately 48,73% of our 376,794,637 outstanding preferred shares (Free Float).

The principal trading market for our common shares is the BM&FBovespa. Our Common ADSs, each representing one common share as of December 31, 2011, have traded on the NYSE under the symbol CIG.C since June 12, 2007, when we established an American Depositary Shares program for our common shares. The Common ADSs are evidenced by Common ADRs issued by Citibank, N.A., as depositary, pursuant to a Deposit Agreement, dated as of June 12, 2007, by and among us, the depositary and the holders and beneficial owners of Common ADSs evidenced by Common ADRs issued thereunder. As of December 31, 2011, there were approximately 878,614 Common ADSs outstanding (each representing one common share), representing 0,6% of our 146.233.847 outstanding common shares (Free Float).

On April 5, 2012, the closing price per preferred share on the BM&FBovespa was R\$45.75 and the closing price per Preferred ADS on the NYSE was US\$25.03.

On April 5, 2012, the closing price per common share on the BM&FBovespa was R\$39.90 and the closing price per Common ADS on the NYSE was US\$21.80.

The following table sets forth the reported high and low closing sale prices for the preferred and common shares on the BM&FBovespa and the Preferred and common ADSs on the NYSE for the periods indicated.

Period	Common Shares (1) Price in Nominal R\$		Common ADSs (1) Price in US\$		Preferred Shares(2) Price in Nominal R\$		Preferred ADSs (2) Price in US\$	
	High	Low	High	Low	High	Low	High	Low
2007	25.93	15.95	14.50	10.38	26.14	18.39	17.49	11.53
2008	21.80	13.68	13.66	6.41	27.04	17.07	21.82	10.68
2009	22.40	14.41	12.90	6.22	29.78	20.35	17.12	10.39
2010	19.99	15.78	13.78	10.00	27.52	21.58	18.10	12.84
2011	27.30	18.62	17.79	9.94	33.48	24.65	20.76	14.46
2010								
1Q	18.61	16.50	12.58	10.02	25.01	22.13	15.83	12.99
2Q	19.16	15.78	12.85	10.00	25.72	21.58	16.32	12.84
3Q	18.85	16.32	12.69	10.27	26.17	22.28	16.44	13.74
4Q	19.99	17.40	13.78	11.88	27.52	24.48	18.10	15.43
2011								
1Q	22.72	18.62	15.23	11.86	29.49	24.39	18.85	15.29
2Q	24.72	22.32	16.50	14.56	31.92	28.75	20.53	18.61
3Q	24.37	20.46	16.51	10.34	30.42	25.62	20.76	14.76
4Q	27.30	20.35	17.79	9.94	33.48	24.65	18.09	14.46
2012								
1Q	37.86	26.30	20.67	15.32	44.10	32.11	24.29	18.77

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November 2011	24.99	23.45	14.00	12.89	31.02	28.60	17.23	15.77
December 2011	27.28	23.96	14.42	13.73	33.48	29.37	18.09	16.53
January 2012	29.48	26.30	18.45	15.32	35.37	32.11	20.17	18.77
February 2012	33.50	29.49	19.75	16.77	39.60	35.25	23.22	20.53
March 2012	37.86	34.10	20.67	19.49	44.10	39.18	24.29	22.20
April 2012 (3)	39.90	39.00	21.84	20.78	45.75	44.80	25.03	24.47

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(1) On May 3, 2007, a 50% stock dividend was paid on the common shares, resulting in an adjustment to the price per common share. The last day of trading of the common shares in lots of 1,000 shares was June 1, 2007. A reverse stock split of the common shares was effected in the form of a share consolidation on June 4, 2007 whereby every 500 common shares, par value of R\$0.01, were consolidated into one common share with a par value of R\$5.00. The price per common share was adjusted accordingly. In addition, On May 2, 2008, a 2.02% stock dividend was paid on the common shares, resulting in an adjustment to the price per common share. On May 8, 2008, a corresponding adjustment was made to the Common ADSs

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through the issuance of additional Common ADSs, resulting in an adjustment to the price per Common ADS. On April 29, 2009, a 25.000000151% stock dividend was paid on the common shares, resulting in an adjustment to the price per common share. On May 14, 2009, a corresponding adjustment was made to the Common ADSs through the issuance of additional Common ADS, resulting in an adjustment to the price per Common ADS. On April 29, 2010, a 10.000000128% stock dividend was paid on the common shares, resulting in an adjustment to the price per common share. On May 10, 2010, a corresponding adjustment was made to the Common ADSs through the issuance of additional Common ADS, resulting in an adjustment to the price per Common ADS. The common share prices and Common ADS prices have been adjusted to reflect all of the above items.

(2) On May 3, 2007, a 50% stock dividend was paid on the preferred shares, resulting in an adjustment to the price per preferred share. On May 7, 2007, a corresponding adjustment was made to the ADSs through the issuance of one additional ADS for every two ADSs, resulting in an adjustment to the price per ADS. The last day of trading of the preferred shares in lots of 1,000 shares was June 1, 2007. A reverse stock split of the preferred shares was effected in the form of a share consolidation on June 4, 2007 whereby every 500 preferred shares, par value of R\$0.01, were consolidated into one preferred share with a par value of R\$5.00. In addition, a 100% forward split of the ADSs was effected on June 11, 2007. The price per preferred share and Preferred ADS were adjusted accordingly. In addition, on May 2, 2008, a 2.02% stock dividend was paid on the preferred shares, resulting in an adjustment to the price per preferred share. On May 8, 2008, a corresponding adjustment was made to the Preferred ADSs through the issuance of additional Preferred ADS, resulting in an adjustment to the price per Preferred ADS. On April 29, 2009, a 25.000000151% stock dividend was paid on the preferred shares, resulting in an adjustment to the price per preferred share. On May 14, 2009, a corresponding adjustment was made to the Preferred ADSs through the issuance of additional Preferred ADS, resulting in an adjustment to the price per Preferred ADS. On April 29, 2010, a 10.000000128% stock dividend was paid on the preferred shares, resulting in an adjustment to the price per preferred share. On May 10, 2010, a corresponding adjustment was made to the Preferred ADSs through the issuance of additional Common ADS, resulting in an adjustment to the price per Common ADS. The preferred share prices and Preferred ADS prices have been adjusted to reflect all of the above items.

(3) Through April 5, 2012.

Since July 12, 2002, our depositary receipts have been traded on the LATIBEX, under the ticker symbol XCMIG. The LATIBEX is an electronic trading market created in 1999 by the Madrid Stock Exchange in order to facilitate the trading market of Latin American Securities in Euros.

**Trading on the BM&FBovespa**

The preferred shares and common shares are traded on the BM&FBovespa, the only Brazilian stock exchange that trades shares. Trading on the BM&FBovespa is limited to brokerage firms and a limited number of authorized entities. The CVM and BM&FBovespa have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances.

If you were to trade in the preferred shares or common shares on the BM&FBovespa, your trade would settle in three business days after the trade date. Delivery of and payment for shares is made through the facilities of a separate clearinghouse, which maintains accounts for brokerage firms. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. The clearinghouse for the BM&FBovespa is Companhia Brasileira de Liquidação e Custódia (CBLIC).



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In order to better control volatility, the BM&FBovespa has adopted a circuit breaker system pursuant to which trading sessions may be suspended (i) for a period of 30 minutes whenever the index of this stock exchange falls more than 10% from the index registered for the previous day; (ii) for one hour if the index of this stock exchange falls 15% or more from the index registered for the previous day, after the reopening of trading; and (iii) for a certain period of time to be defined by the BM&FBovespa, if the index of this stock exchange falls 20% or more from the index registered for the previous day, after the reopening of trading.

The BM&FBovespa is less liquid than the NYSE and other major exchanges in the world. As of December 31, 2011, the aggregate market capitalization of the 182 companies listed on the BM&FBovespa was equivalent to approximately R\$2.4 trillion and the 10 largest companies listed on the BM&FBovespa represented approximately 50% of the total market capitalization of all listed companies. Although any of the outstanding shares of a listed company may be traded on a Brazilian stock exchange, in most cases fewer than half of the listed shares are actually available for trading by the public. The remainder of these shares is held by small groups of controlling persons, governmental entities or one principal shareholder.

Our preferred shares and common shares have daily liquidity on the BM&FBovespa and have had no suspension of trading in the past five years other than due to BM&FBovespa utilizing circuit breakers on a few occasions in 2008 with respect to the trading of all shares on the BM&FBovespa.

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We have been a member of Special Corporate Governance Level 1 of the BM&FBovespa since October 2001. The rules regarding such corporate governance segment are comprised by the Special Corporate Governance Level 1 Regulations ( *Regulamento do Nível 1 de Governança Corporativa* ), which were amended on March 21, 2011 by BM&FBovespa and approved by the CVM. Such revised set of rules became effective on May 10, 2011. Among the obligations that are contemplated by such regulations, we are required to:

- present our consolidated statements of financial position, Standardized Financial Statements- DFP, consolidated income statement, quarterly financial statements ITR, and the Reference Form (Formulário de Referência);
- include, in the notes to our quarterly financial statements, a note regarding related party transactions, containing the disclosure provided in the applicable accounting rules to annual financial statements;
- disclose in the Reference Form, any direct or indirect ownership interest per type and class exceeding 5% of each type and class of the Company's capital stock, to the level of individual shareholders, once the Company has been provided with such information;
- disclose the amount of free float shares and their respective percentage in relation to total shares outstanding, which shall be of at least 25% of shares representing our capital stock;
- disclose, by December 10th of each year, an annual timetable of corporate events, containing, at a minimum, the date of (a) acts and corporate events, (b) public meetings with analysts and other applicable parties, and (c) disclosure of financial information scheduled for the next fiscal year. Any changes in scheduled events must be informed to the BM&FBovespa and to the public at least 5 days in advance;
- hold at least one annual meeting with market analysts and any other applicable parties; and
- adopt mechanisms that provide for capital dispersion in any public share offerings.

In addition to the obligations listed above, as per the revised set of rules applicable to the Special Corporate Governance Level 1, the companies that already had their shares listed on such corporate level on May 10, 2011, such as CEMIG, shall also:

- include in its by-laws the mandatory provisions required by the BM&FBovespa by May 10, 2014;

- prepare, disclose and submit to the BM&FBovespa, a securities trading policy and a code of conduct establishing the values and principles that guide the company by May 10, 2012;
- conform its corporate structure, by May 10, 2014, in order to prevent that the positions of chairman of the board of directors and chief executive officer or main executive officer of the company shall be held by the same person; and
- establish by May 10, 2014, that the term of office of its board of directors shall not exceed two years, with reelection being permitted.

*Disclosure of Trading by Insiders*

Brazilian securities regulations require our controlling shareholders, management, members of our Fiscal Council and any other technical or advisory body to disclose to us, the CVM and the BM&FBovespa the number and types of securities issued by us, our subsidiaries and our controlling companies that are held by them or by persons closely related to them and any changes in their respective ownership positions during the preceding 12 months. The information regarding the trading of such securities (amount, price and date of acquisition) must be provided to the CVM and the BM&FBovespa by the Company within 10 days of the end of the month in which they have occurred or of the month in which the managers of the Company were empowered.

*Disclosure of Material Developments*

Under Brazilian securities regulations, we must disclose any material development related to our business to the CVM and the BM&FBovespa. We are also required to publish a notice of those material developments. A development is deemed material if it has a material impact on: the price of our securities, the decision of investors to trade in our securities or the decision of investors to exercise

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any rights as holders of any of our securities. Under special circumstances, we may submit to the CVM a request for confidential treatment for certain material developments.

Trading on Brazilian stock exchanges by non-residents of Brazil is subject to limitations under Brazilian foreign investment legislation. See Item 10. Additional Information Exchange Controls.

**Regulation of Brazilian Securities Markets**

The Brazilian securities markets are principally governed by Law No. 6,385, dated December 7, 1976, and the Brazilian Corporate Law, each as amended and supplemented, and by regulations issued by the CVM, the CMN, and the Central Bank, which has, among other powers, licensing authority over brokerage firms, and which regulates foreign investments and foreign exchange transactions.

Under the Brazilian Corporate Law, a corporation is either publicly owned, such as we are, or closely held (*companhia fechada*). All publicly owned companies, including us, are registered with the CVM and are subject to reporting requirements. Our shares are traded on the BM&FBovespa, but may be traded privately subject to certain limitations. The Brazilian OTC market consists of direct trades and trades between individuals in which a financial institution registered with the CVM serves as intermediary.

We have the option to ask that trading in our securities on the BM&FBovespa be suspended in anticipation of a material announcement. Trading may also be suspended on the initiative of the BM&FBovespa or the CVM based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the stock exchange.

Brazilian law provides general restrictions on unfair trading practices and market manipulation, although in Brazil there may be fewer instances of enforcement actions and judicial precedent is less well defined than in certain other countries.

Trading on the BM&FBovespa by non-residents of Brazil is subject to limitations under Brazilian foreign investment and tax legislation. The Brazilian custodian for the preferred shares or the common shares must obtain registration from the Central Bank of Brazil to be eligible to remit for the remittance of funds U.S. dollars abroad for payments of dividends, any other cash disbursements, or upon the disposition of the shares and sales proceeds thereof. In the event that a holder of Preferred ADSs exchanges its Preferred ADSs for preferred shares or a holder of Common ADSs exchanges its Common ADSs for common shares, the holder will be entitled to continue to rely on the depository bank's certificate of registration for five business days after the exchange. Thereafter, the holder may not be able to obtain and remit U.S. dollars abroad upon the disposition of the preferred shares or common shares, or distributions relating to the preferred shares or common shares, unless the holder qualifies for and obtains a new certificate of registration. See Item 10. Additional Information Exchange Controls.

**Item 10. Additional Information**

**Memorandum and Articles of Association**

*By-laws*

We are a state-controlled company registered under the laws of Brazil. The registration number given to us by the Board of Trade of Minas Gerais (*Junta Comercial do Estado de Minas Gerais*) is 31300040127. Set forth below is a brief summary of certain significant provisions of (i) our by-laws, as amended by our general and special shareholders meeting on December 21, 2011 and (ii) Brazilian Corporate Law. The description of our by-laws contained herein does not purport to be complete and is qualified by reference to our by-laws, which have been filed as an exhibit to this annual report.

*Object and Purpose*

As described in Article 1 of our by-laws, we have four main purposes: (i) to construct operate and explore electric power generation, transmission and distribution system and to trade electric power and related services; (ii) to develop commercial activities in the energy field; (iii) to render consulting services to companies in Brazil and abroad related to our industry; and (iv) to perform activities directly or indirectly relating to our corporate purposes, including the development of telecommunication and information systems.

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*Preferred Shares*

Holders of preferred shares have the right to receive annual minimum dividends in an amount equal to the greater of 10% of the par value of each preferred share or 3% of the net worth value associated with each preferred share. Holders of our preferred shares also will have priority over any other class of shares if we decide to redeem shares. A preferred share does not entitle its owner to vote at the general shareholders meetings.

*Share Subscription*

Shares purchased by the State Government, which must constitute at all times the majority of our voting shares, are paid for in accordance with the Brazilian Corporate Law. Shares purchased by other shareholders (whether natural persons or companies) shall be paid for in accordance with the decision resulting from the general meeting of shareholders that addresses the matter.

Article 171 of the Brazilian Corporate Law provides that each shareholder has a general preemptive right to subscribe for new shares or convertible securities issued in any capital increase, in proportion to that shareholder's shareholding, except in the event of the exercise of any option to acquire shares of our capital stock. Shareholders must exercise their preemptive rights within 30 days after the publication of the notice of capital increase.

In the event of a capital increase, holders of Preferred ADSs, which represent preferred shares, and holders of Common ADSs, which represent common shares, would have preemptive rights to subscribe only to newly issued preferred shares or common shares, as the case may be, in proportion to their shareholdings but may not be able to exercise these rights because of U.S. securities law limitations. See Item 3. Risk Factors Risks Relating to the Preferred Shares, Preferred ADSs, Common shares and Common ADSs You may not be able to exercise preemptive rights with respect to our securities.

*Non-controlling Shareholders*

Our by-laws provide that the preferred and minority common shareholders are entitled to elect one member and an alternate to the Board of Directors, respectively, in a separate voting, as more fully described in Rights of Shareholders Rights of Minority Shareholders.

*Dividends*

For a discussion of our dividend policy, see Item 8. Financial Information Dividend Policy and Payments.

*General Meetings*

General meetings of shareholders are held for any legal purpose, as provided by the Brazilian Corporate Law. Ordinary general meetings of shareholders are held within the first four months of the fiscal year and are called upon 15 days prior notice. The Brazilian Corporate Law also provides that the following actions may only be taken at a shareholders' meeting:

- amendment of our by-laws;
  
- increases or decreases to our issued capital stock or subscription of new shares;
  
- election of members to our Board of Directors and Fiscal Council;
  
- authorization of the issuance of debentures or any convertible securities;
  
- suspension of the rights of a shareholder who has violated Brazilian Corporation Law or our by-laws;
  
- approval of any merger (*fusão*) or consolidation (*incorporação*) with another company in which we are not the surviving company or a spin-off (*cisão*);
  
- acceptance or rejection of the valuation of in-kind contributions offered by a shareholder in consideration for the issuance of shares of our capital stock;

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- approval of our transformation into a limited liability company (*sociedade empresária limitada*) or any other corporate form;
- approval of any dissolution or liquidation, the appointment and dismissal of the respective liquidator and review of the reports prepared by him or her;
- any action regarding an application for bankruptcy or compulsory rescheduling of our debts;
- approval of the financial statements on an annual basis; and
- cancellation of registration with the CVM as a publicly-held company or delisting of our common shares from the BM&FBovespa, except in the case of a privatization tender offer.

As a general rule, the affirmative vote of shareholders representing at least the majority of our issued and outstanding common shares present in person or represented by proxy at a shareholders meeting is required to approve or ratify any proposed action, and abstentions are not taken into account. However, the affirmative vote of shareholders representing one half of our issued and outstanding voting capital is required to:

- create preferred shares or to increase disproportionately an existing class of preferred shares relative to the other classes of shares, unless such action is provided for or authorized by our by-laws;
- modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or to create a new class with greater privileges than the existing classes of preferred shares;
- reduce the percentage of mandatory dividends;
- change our corporate purpose;
- merge us with another company if we are not the surviving company or consolidate us with another company;



- spin off a portion of our assets or liabilities;
- approve our participation in a group of companies;
- apply for cancellation of liquidation status;
- approve our dissolution; and
- approve the compulsory transfer of all of our shares to another company in order to make us a wholly-owned subsidiary of that other company (*incorporação de ações*).

Shareholders may be represented at a shareholders meeting by an attorney-in-fact appointed no more than one year prior to the meeting date. To be eligible to represent a shareholder in a shareholders meeting, the attorney-in-fact must be a shareholder, one of our executive officers or directors or an attorney-at-law. In a publicly held corporation, such as ours, the attorney-in-fact may also be a financial institution.

Subject to the provisions of the Brazilian Corporate Law and our by-laws, our Board of Directors may ordinarily call our shareholders meetings. These meetings may also be called by:

- the Fiscal Council, if the Board of Directors fails to call a general shareholders meeting within one calendar month after the date it was required to do so under applicable laws or a special shareholders meeting in the case of serious and urgent matters affecting us; any shareholder, whenever the executive officers fail to call the meeting of shareholders within 60 days of being required to do so by the Brazilian Corporate Law or by our by-laws; and

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- shareholders holding at least five percent of our capital stock, if our Board of Directors fails to call a meeting within eight days after receipt of a request from that shareholder to call the meeting that indicates the issues to be discussed or calls for the creation of the Fiscal Council.

*Board of Directors*

Our by-laws mandate that our Board of Directors shall be comprised of 14 directors and 14 alternates. One director is designated a chairman and another director is designated the vice-chairman.

Our Board of Directors is responsible for, among other things:

- establishing the general direction of our business;
- electing and dismissing executive officers;
- approving the sale or pledge of our fixed assets, or the granting of guarantees to third parties, with a value of at least R\$14 million;
- approving, upon proposal by the Board of Executive Officers, the sale or the creation of any in rem guarantees with respect to our permanent assets and the granting by us of any personal guarantee to any third party in an amount exceeding R\$14 million;
- approving, upon a proposal by the Board of Executive Officers, loans, financings, agreements and any actions which would bind us in an amount exceeding R\$14 million;
- calling the general meetings of shareholders;
- supervising the management of the Board of Executive Officers, reviewing our books and documents and requesting information regarding executed and soon-to-be executed contracts, as well as other items of interest;

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- previously manifestation regarding the management report and the accountability of the Board of Directors, to be submitted for the Annual Shareholders Meeting approval;
- approving our annual and interim financial statements;
- appointing and dismissing independent auditors;
- approving, upon proposal by the Board of Executive Officers, the commencement or waiver of bidding proceedings for the purchase of goods or services with a value of at least R\$14 million;
- authorizing, upon proposal by the Board of Executive Officers, legal and administrative action to be taken on our behalf and the settlement of judicial and extra judicial matters in which we are involved with a value of at least R\$14 million;
- approving the issuance of securities (debentures, commercial papers, notas promissórias, among others) in the local and international capital markets;
- delegating to Board of Executive Officers the power to authorize signature contracts of commercialization of electric energy or rendering distribution and transmission services, in terms of legislation;
- approving CEMIG's long-term strategic plan, the multi-year strategic implementation plan, and the annual budget, and any alterations or revisions thereto;
- annually, setting the directives and establish the limits, including financial limits, for spending on personnel, including concession of benefits and collective work agreements, subject to the competency of the shareholders meeting and in obedience to the annual budget approved;

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- authorizing the exercise of the right of preference under Shareholders' agreements or to vote in wholly-owned subsidiaries, jointly-controlled companies, affiliated companies and the consortia in which CEMIG participates, except in the case of Cemig Distribution and Cemig Generation and Transmission, for which the competency to decide on these matters shall be that of the shareholders meeting; and
- approving the declarations of vote in the shareholders meetings and the orientations for voting in the meetings of the boards of directors of the wholly-owned subsidiaries, jointly-controlled companies, affiliated companies and the consortia in which CEMIG participates, when participation in the capital of other companies or consortia is involved, and the decisions must, in any event and not only in matters relating to participation in the capital of other companies or consortia, obey the provisions of the by-laws, the long-term strategic plan and the multi-year strategic implementation plan.

Under the Brazilian Corporate Law, directors of a corporation generally have certain duties equivalent to those imposed under the laws of most states of the United States, including a duty of loyalty to the corporation, a duty to refrain from self dealing and a duty to use reasonable care in the management of the corporation's affairs. Our directors and officers may be held liable for breaches of duty to us and our shareholders and may be subject to judicial actions in proceedings brought by government agencies or our shareholders.

There are no provisions in our by-laws with respect to (i) a director's power to vote on proposals or contracts in which such director is materially interested, (ii) borrowing powers exercisable by the directors, (iii) age limits for retirement of board members, and (iv) number of shares required for director qualification.

The chairman and vice-chairman of our Board of Directors are chosen by our Board of Directors at its first meeting following the election of the board members. The vice chairman of our Board of Directors will act as a temporary replacement for our chairman when the chairman is absent or impeded from exercising his functions.

Our shareholders have the responsibility of setting the remuneration of the board members at the General Meeting of Shareholders at which the board members are elected.

**Rights of Shareholders**

We extend to our shareholders all of the rights that are provided under Brazilian law. Our by-laws are in compliance with the Brazilian Corporate Law.

*Essential Rights*

Article 109 of the Brazilian Corporate Law provides that a corporation may not deny certain rights to its shareholders under any circumstances. These shareholders' rights include:

- the right to have a share of the corporation's earnings;
- the right to have a share of the corporation's assets, in the event of liquidation thereof;
- the right to supervise our management according to the Brazilian Corporate Law;
- preemptive rights to subscribe new shares or securities convertible into shares, except for exceptions provided by the Brazilian Corporate Law and our by-laws; and
- the right to withdraw from the company under certain circumstances provided in the Brazilian Corporate Law.

#### *Voting Rights*

As a general rule, only our common shares are entitled to vote and each common share corresponds to one vote. Holders of preferred shares acquire voting rights if, during three consecutive fiscal years, we fail to pay a fixed or minimum dividend to which the preferred shares are entitled. If a holder of preferred shares acquires voting rights in this manner, such rights will be identical to the voting rights of a holder of common shares and will continue until the dividend is paid. No restrictions exist on the right of a holder of common shares or preferred shares to exercise voting rights with respect to such shares by virtue of such holder being a non-resident of Brazil or a citizen of a country other than Brazil. However, holders of Preferred ADSs may only vote the underlying preferred shares through the depositary according to the terms of the Second Amended and Restated Deposit Agreement, and holders of Common ADSs

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may only vote the underlying common shares through the depositary according to the terms of the Common ADS Deposit Agreement. In any circumstance in which holders of preferred shares are entitled to vote, each preferred share will entitle its holder to one vote.

*Redemption Rights*

Our common shares and preferred shares are not redeemable, except that a dissenting shareholder is entitled under Brazilian Corporate Law to obtain redemption upon a decision made at a shareholders meeting by shareholders representing at least 50% of the voting shares:

- to create a new class of preferred shares or to disproportionately increase an existing class of preferred shares relative to the other classes of shares (unless such actions are provided for or authorized by the by-laws);
  
- to modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or to create a new class with greater privileges than the existing classes of preferred shares;
  
- to reduce the mandatory distribution of dividends;
  
- to change our corporate purposes;
  
- to merge us with another company or consolidate us;
  
- to transfer all of our shares to another company in order to make us a wholly-owned subsidiary of such company;
  
- to approve the acquisition of control of another company at a price that exceeds certain limits set forth in Brazilian Corporate Law;
  
- to approve our participation in a centralized group of companies as defined under Brazilian Corporate Law; or
  
- in the event that the entity resulting from (a) a merger, (b) a transfer of shares as described in clause (6) above or (c) a spin-off that we conduct fails to become a listed company within 120 days of the shareholders meeting at which such decision was taken.

Only holders of shares adversely affected by the changes mentioned in items (1) and (2) above may require us to redeem their shares. The right of redemption mentioned in items (5), (6) and (8) above may only be exercised if our shares do not satisfy certain tests of liquidity at the time of the shareholder resolution. The right of redemption lapses 30 days after publication of the minutes of the relevant shareholders' meeting, unless, in the case of items (1) and (2) above, the resolution is subject to confirmation by the preferred shareholders (which must be made at a special meeting to be held within one year), in which case the 30-day term is counted from the publication of the minutes of the special meeting.

We would be entitled to reconsider any action giving rise to redemption rights within 10 days following the expiration of such rights if the redemption of shares of dissenting shareholders would jeopardize our financial stability. Law No. 9,457 dated May 5, 1997, which amended Brazilian Corporate Law, contains provisions which, among other provisions, restrict redemption rights in certain cases and allow companies to redeem their shares at their economic value, subject to certain requirements. Our by-laws currently do not provide that our capital stock will be redeemable at its economic value and, consequently, any redemption pursuant to Brazilian Corporate Law would be made at no less than the book value per share, determined on the basis of the last balance sheet approved by the shareholders; provided that if the general shareholders meeting giving rise to redemption rights occurred more than 60 days after the date of the last approved balance sheet, a shareholder would be entitled to demand that his or her shares be valued on the basis of a new balance sheet dated within 60 days of such general shareholders meeting.

#### *Rights of Non-controlling Shareholders*

The Brazilian Corporate Law provides that shareholders who own at least 5% of the capital stock of a corporation are afforded the following rights, among others:

- the right to require that the books of the corporation be made available for review, whenever these shareholders become suspicious that Brazilian law or the corporation's by-laws have been violated, or that irregularities have been committed by the management of the corporation;

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- the right to call a general meeting of shareholders, under certain circumstances, whenever the corporation's directors or officers, as the case may be, fail to do so; and
- the right to file an action for indemnification by directors or officers, as the case may be, for damages caused to the assets of the corporation, whenever it is determined at the general meeting of shareholders that such a claim shall not be filed.

Non-controlling shareholders that own, individually or in the aggregate, our outstanding common shares (since at least 10% of our outstanding common shares are held by non-controlling shareholders), and also holders of our preferred shares, have the right to appoint one member of the Fiscal Council and an alternate. All shareholders have the right to attend general meetings of shareholders.

The Brazilian Corporate Law also provides that minority shareholders that hold either (i) preferred shares representing at least 10% of the total share capital of a company or (ii) common shares representing at least 15% of the voting capital of a company, have the right to appoint one member and an alternate to the Board of Directors. If no common or preferred shareholder meets these thresholds, shareholders holding preferred shares or common shares representing at least 10% of the total share capital of the company are entitled to combine their holdings to appoint one member and an alternate to the Board of Directors.

*Changes in Rights of Shareholders*

Any change with respect to the rights of holders of our common shares or preferred shares requires a shareholders' meeting. Under the Brazilian Corporate Law, the proposed changes must be approved by a majority of the affected class. Certain changes with respect to the rights of non-voting shares, including preferred shares, such as a change in payment or voting rights, may give rise to the exercise of redemption rights by the holders of the affected shares.

*Going Private Transactions and Delisting from the BM&FBovespa*

Our delisting, as a public company, must be preceded by a tender offer by our controlling shareholders or ourselves for the acquisition of all our then outstanding shares, subject to the conditions below:

- the price offered for the shares under the public offering must be the fair value of those shares, as established in Brazilian Corporate Law; and
- shareholders holding more than two thirds of our float shares shall have expressly agreed to our decision to become a private company or accepted the offer.



According to Brazilian Corporate Law, a fair price shall be at least be equal to our valuation, as determined by one or more of the following valuation methods: book value, net book value assessed by market price, discounted cash flow, multiples, price of our shares in the market or any other valuation method accepted by the CVM. This price of the offer may be revised if challenged within 15 days of its publication by holders of at least 10% of our outstanding shares, by means of a request sent to our management that a special shareholders` meeting be called to decide on whether to request a new valuations under the same or different valuation method. Our shareholders that request a new valuation and those who approve such request shall reimburse us for incurred costs if the new valuation is lower than the challenged valuation. However, if the second valuation is higher, the offeror will have the option to continue the offer with the new price or quit the offer.

#### **Arbitration**

Pursuant to the Brazilian Corporate Law and related regulations, if provided for in a company s by-laws, disputes among shareholders will be subject to arbitration. Our by-laws currently do not provide for arbitration.

#### **Material Contracts**

For information concerning our material contracts, see Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects.

#### **Exchange Controls**

There are no restrictions on the ownership of preferred shares or common shares of non-financial institutions by legal entities domiciled outside Brazil. However, your right to convert dividend payments and proceeds from the sale of preferred shares or common

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shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that you register the relevant investment with the Central Bank and the CVM.

Investments in the preferred shares through the holding of Preferred ADSs, or in the common shares through the holding of Common ADSs, must be made pursuant to Annex V to CMN Resolution No. 1,289, as amended by CMN Resolution No. 1,927 also known as the Annex V Regulations. Direct investments in the preferred shares upon the cancellation of the Preferred ADSs, or in the common shares upon the cancellation of the Common ADSs, may be held by foreign investors under Law No. 4,131 of September 3, 1962 or CMN Resolution No. 2,689 of January 26, 2000, both of which effectively allow registered foreign investors to invest substantially in any capital market instrument in Brazil and extend a favorable tax treatment to all foreign investors registered and qualified under CMN Resolution No. 2,689, who are not resident in a tax haven, as defined by Brazilian tax laws.

Under CMN Resolution No. 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with CMN Resolution No. 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities that are domiciled or headquartered abroad.

Securities and other financial assets held by CMN Resolution No. 2,689 investors must be registered or maintained in deposit accounts or in the custody of an entity duly licensed by the Central Bank or the CVM. In addition, any transfer of a security that is held pursuant to CMN Resolution No. 2,689 must be made through the stock exchanges or organized OTC markets licensed by the CVM, except for a transfer resulting from a corporate reorganization outside of Brazil or occurring upon the death of a foreign investor by operation of law or will.

Holders of Preferred ADSs or Common ADSs who have not registered their investment with the Central Bank could be adversely affected by delays in, or refusals to grant, any required government approval for conversions of payments made in *reais* and remittances abroad of these converted amounts.

The Annex V Regulations provide for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. The Preferred ADSs have been approved under the Annex V Regulations by the Central Bank and the CVM, and the Common ADSs have been approved by the CVM (since authorization from the Central Bank is no longer necessary).

Electronic certificates of registration have been issued in the name of Citibank, N.A., the depositary bank, with respect to the Preferred ADSs and the Common ADSs, and are maintained by Citibank Distribuidora de Títulos e Valores Mobiliários S.A., the Brazilian custodian for the preferred shares and the common shares, on behalf of the depositary bank. These electronic certificates of registration are registered through the Central Bank Information System. Pursuant to the certificates of registration, the custodian and the depositary bank are able to convert dividends and other distributions or sales proceeds with respect to the preferred shares represented by Preferred ADSs and the common shares represented by the Common ADSs into foreign currency and remit the proceeds outside Brazil.

In the event that a holder of Preferred ADSs exchanges such Preferred ADSs for preferred shares, or a holder of Common ADSs exchanges such Common ADSs for common shares, such holder will be entitled to continue to rely on the depositary bank's certificate of registration for five business days after the exchange. Thereafter, the holder may not be able to convert into foreign currency and remit outside Brazil the proceeds

from the disposition of, or distributions with respect to, the preferred shares or the common shares, unless the holder is a duly qualified investor under Resolution No. 2,689 by registering with the CVM and the Central Bank and appointing a representative in Brazil. If not so registered, the holder will be subject to less favorable Brazilian tax treatment than a holder of Preferred ADSs or Common ADSs. Regardless of qualification under Resolution No. 2,689, residents in tax havens are subject to less favorable tax treatment than other foreign investors. See

Taxation Brazilian Tax Considerations.

Under current Brazilian legislation, the Federal Government may impose temporary restrictions of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments. For approximately nine months in 1989 and early 1990, the Federal Government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors, in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with Federal Government directives. We cannot assure you that the Federal Government will not impose similar restrictions on foreign reparations in the future.

## **Taxation**

The following summary contains a description of the material Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposition of preferred shares, common shares, Preferred ADSs or Common ADSs by a United States person,

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as defined in section 7701(a)(30) of the Internal Revenue Code of 1986, or the Code, or a holder that otherwise will be subject to U.S. federal income tax on a net income basis in respect of preferred shares, common shares, Preferred ADSs or Common ADSs, which we refer to as a U.S. holder, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase preferred shares, common shares, Preferred ADSs or Common ADSs. In particular this summary deals only with U.S. holders that will hold preferred shares, common shares, Preferred ADSs or Common ADSs as capital assets and does not address the tax treatment of U.S. holders that own or are treated as owning 10% or more of the voting shares of the Company or that may be subject to special tax rules, such as banks or other financial institutions, insurance companies, regulated investment companies, dealers in securities or currencies, traders in securities that elect to mark to market, pass-through entities such as partnerships or persons that will hold preferred shares, common shares, Preferred ADSs or Common ADSs as part of a hedging transaction, constructive sale transaction, position in a straddle or a conversion transaction for tax purposes, and persons that have a functional currency other than the U.S. dollar. Moreover, this summary does not describe any implications under U.S. state or local law or the federal estate tax, gift tax or Medicare tax on net investment income. U.S. shareholders should consult their own tax advisors regarding such matters.

The summary is based upon tax laws of Brazil and the United States as in effect on the date hereof which are subject to change possibly with retroactive effect. Prospective purchasers of Preferred ADSs or Common ADSs are encouraged to consult their own tax advisors as to the Brazilian, U.S. or other tax consequences of the purchase, ownership and disposition of preferred shares, common shares, Preferred ADSs or Common ADSs, including, in particular, the effect of any foreign, state or local tax laws.

Although there is currently no income tax treaty in force between Brazil and the United States, the tax authorities of both countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of preferred shares, common shares, Preferred ADSs or Common ADSs.

*Brazilian Tax Considerations*

*General* The following discussion summarizes the main Brazilian material tax consequences of the acquisition, ownership and disposal of preferred shares, common shares, Preferred ADSs or Common ADSs, as the case may be, by a holder that is not domiciled in Brazil, which we refer to as a non-Brazilian holder for purposes of Brazilian taxation. In the case of a holder of preferred shares or common shares, we assume the investment is registered with the Central Bank. The following discussion does not address all of the Brazilian tax considerations applicable to any particular non-Brazilian holder. Therefore, each non-Brazilian holder should consult his or her own tax adviser concerning the Brazilian tax consequences of an investment in our preferred shares, common shares, Preferred ADSs or Common ADSs.

*Taxation of Dividends* Dividends paid by us, including stock dividends and other dividends paid in property to the depositary in respect of the preferred shares or common shares, or to a non-Brazilian holder in respect of the preferred shares or common shares, are currently exempted from withholding tax in Brazil to the extent that the dividends are paid out of profits generated as of January 1, 1996. Dividends relating to profits generated prior to January 1, 1996 may be subject to Brazilian withholding tax at varying rates, depending on the year the profits were generated.

*Payments of Interest on Capital* Law No. 9,249, dated as of December 26, 1995, as amended, permits Brazilian corporations to make distributions to shareholders of interest on capital, or interest attributed to shareholders' equity. These distributions may be paid in cash. Such payments represent a deductible expense from the payor's income tax and social contribution tax basis. This interest is limited to the daily *pro rata* variation of the Federal Government's long-term interest rate, as determined by the Central Bank from time to time, and cannot exceed the greater of:

- 50% of net income (after the social contribution on net profits and before the provision for corporate income tax, and the amounts attributable to shareholders as interest on net equity) for the period in respect of which the payment is made; or
- 50% of the sum of retained earnings and earnings reserves as of the date of the beginning of the period in respect of which the payment is made.

Any payment of interest on capital to shareholders (including holders of Preferred ADSs in respect of preferred shares and Common ADSs in respect of common shares) is subject to a withholding tax at a rate of 15%, or 25% if the non-Brazilian holder is domiciled in a jurisdiction that does not impose income tax or where the maximum income tax rate is lower than 20% or where the local legislation imposes restrictions on disclosing the shareholding composition or the ownership of the investment, or a Tax Haven Holder. These payments may be included, at their net value, as part of any mandatory dividend.

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On June 24, 2008, Law No. 11,727 was enacted, which established the concept of privileged tax regime. Under this new law, a privileged tax regime is considered to apply to a jurisdiction that meets any of the following requirements: (1) does not tax income or taxes income at a maximum rate lower than 20%; (2) grants tax advantages to a non-resident entity or individual (a) without requiring substantial economic activity in the jurisdiction of such non-resident entity or individual or (b) to the extent such non-resident entity or individual does not conduct substantial economic activity in the jurisdiction of such non-resident entity or individual; (3) does not tax income generated abroad, or imposes tax on income generated abroad at a maximum rate lower than 20%, or (4) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about the execution of economic transactions.

Although the interpretation of the current Brazilian tax legislation could lead to the conclusion that the concept of privileged tax regime should apply only for the purposes of Brazilian transfer pricing rules, it is unclear whether such concept would also apply to investments carried out in the Brazilian financial and capital markets for purposes of this law. There is no judicial guidance as to the application of Law No. 11,727 of June 24, 2008 and, accordingly, we are unable to predict whether the Brazilian Internal Revenue Service or the Brazilian courts would decide that the privileged tax regime concept shall be applicable to deem a Non-Resident Holder as a Tax Haven Resident when carrying out investments in the Brazilian financial and capital markets. However, in the event that the privileged tax regime concept is interpreted to be applicable to transactions carried out in the Brazilian financial and capital markets, this tax law would accordingly result in the imposition of taxation to a Non-Resident Holder that meets the privileged tax regime requirements in the same way applicable to a Tax Haven Resident.

To the extent that payments of interest on capital are included as part of a mandatory dividend, we are required to distribute an additional amount to ensure that the net amount received by shareholders, after payment of the applicable withholding tax is at least equal to the mandatory dividend.

Distributions of interest on net equity to foreign holders may be converted into U.S. dollars and remitted outside Brazil, subject to applicable exchange controls, to the extent that the investment is registered with the Brazilian Central Bank.

We cannot assure you that our Board of Directors will not determine that future distributions should be made by means of dividends or interest on net equity.

**Taxation of Gains** According to Law No. 10,833/03, the gains recognized on a disposal of assets located in Brazil, such as our shares, by a non-Brazilian holder, are subject to withholding income tax in Brazil. This rule is applicable regardless of whether the disposal is conducted in Brazil or abroad and/or if the disposal is made or not to an individual or entity resident or domiciled in Brazil.

As a general rule, capital gains realized as a result of a disposal transaction are the positive difference between the amount realized on the disposal of the asset and the respective acquisition cost.

Capital gains realized by non-Brazilian holders on the disposal of shares sold on the Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market):

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- are subject to the withholding income tax at a zero percent rate, when realized by a non-Brazilian holder that (i) has registered its investment in Brazil before the Central Bank under the rules of the Brazilian Monetary Counsel, or a Registered Holder, and (ii) is not a Tax Haven Holder; and
- are subject to income tax at a rate of 15% with respect to gains realized by a non-Brazilian holder that is not a Registered Holder (including a non-Brazilian holder who qualifies under Law No. 4,131/62) and gains earned by Tax Haven Holders that are Registered Holders. In this case, a withholding income tax of 0.005% shall be applicable and can be offset against any income tax due on the capital gain.

Any other gains realized on the disposal of shares that are sold on the Brazilian stock exchange:

- are subject to income tax at a rate of 15% when realized by any non-Brazilian holder that is not a Tax Haven Holder, no matter if a Registered Holder or not; and
- are subject to income tax at a rate of 25% when realized by a Tax Haven Holder, no matter if a Registered Holder or not.

In the cases above, if the gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against any income tax due on the capital gain.

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Any exercise of preemptive rights relating to shares will not be subject to Brazilian income tax. Gains realized by a non-Brazilian holder on the disposal of preemptive rights will be subject to Brazilian income tax according to the same rules applicable to disposal of shares.

There can be no assurance that the current favorable tax treatment of Registered Holders will continue in the future.

*Sale of Preferred ADSs and Common ADSs by U.S. Holders to Other Non-Residents in Brazil* Pursuant to Section 26 of Law No. 10,833, published on December 29, 2003, the sale of property located in Brazil involving non-resident investors is subject to Brazilian income tax as of February 1, 2004. Our understanding is that ADSs do not qualify as property located in Brazil and, thus, should not be subject to the Brazilian withholding tax. Insofar as the regulatory norm referred to is generic and has not been tested through the administrative or judicial courts, we are unable to assure the final outcome of such discussion.

If such argument does not prevail, it is important to mention that with respect to the cost of acquisition to be adopted for calculating such gains, Brazilian law has conflicting provisions regarding the currency in which such amount must be determined. CEMIG's Brazilian counsel's view is that the capital gains should be based on the positive difference between the cost of acquisition of the preferred shares or common shares registered with the Brazilian Central Bank in foreign currency and the value of disposal of those preferred shares or common shares in the same foreign currency. This view has been supported by a precedent issued by the Brazilian administrative court. However, considering that tax authorities are not bound by such precedent, assessments have been issued adopting the cost of acquisition in Brazilian currency.

*Gains on the Exchange of Preferred ADSs for Preferred Shares or the Exchange of Common ADSs for Common Shares* Although there is no clear regulatory guidance, the exchange of ADSs for shares should not be subject to Brazilian tax. Non-Brazilian holders may exchange Preferred ADSs for the underlying preferred shares or Common ADSs for the underlying common shares, sell the preferred shares or common shares on a Brazilian stock exchange and remit abroad the proceeds of the sale within five business days from the date of exchange (in reliance on the depositary's electronic registration), with no tax consequences. Although there is no clear regulatory guidance, the exchange of ADSs for shares should not be subject to Brazilian withholding income tax.

Upon receipt of the underlying preferred shares in exchange for Preferred ADSs or the underlying common shares in exchange for Common ADSs, non-Brazilian holders may also elect to register with the Central Bank the U.S. dollar value of such preferred shares or common shares as a foreign portfolio investment under Resolution No. 2689/00, which will entitle them to the tax treatment referred above in connection with U.S. market investors.

Alternatively, the non-Brazilian holder is also entitled to register with the Central Bank the U.S. dollar value of such preferred shares or common shares as a foreign direct investment under Law 4,131/62, in which case the respective sale would be subject to the tax treatment referred in the section Taxation of Gains.

*Gains on the Exchange of Preferred Shares for Preferred ADSs or Common Shares for Common ADSs* The deposit of preferred shares in exchange for the Preferred ADSs or common shares in exchange for the Common ADSs may be subject to Brazilian income tax on capital gains if the amount previously registered with the Central Bank as a foreign investment in preferred shares or common shares or, in the case of other market investors under Resolution No. 2,689, the acquisition cost of the preferred shares or common shares, as the case may be, is lower than:



- the average price per preferred share or common share on the Brazilian stock exchange on which the greatest number of such preferred shares or common shares were sold on the day of deposit; or
- if no preferred shares or common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred shares or common shares were sold during the 15 preceding trading sessions.

The difference between the amount previously registered, or the acquisition cost, as the case may be, and the average price of the preferred shares or common shares, calculated as set forth above, is considered a capital gain subject to income tax at a rate of 15% or 25% for Tax Haven Holders. Although there is no clear regulatory guidance, such taxation should not apply in case of Non-Resident Holders registered under Resolution No. 2,689/00, other than Tax Haven Residents.

*Taxation of Foreign Exchange Transactions* Brazilian law imposes Taxation on Foreign Exchange Transactions (conversion of reais into foreign currency or vice-versa), through the IOF tax (Imposto sobre Operações Financeiras Tax on Financial Transactions). Under Decree 7683/2012, the rate of IOF tax on all settlements of foreign exchange transactions, including simultaneous transactions, for foreign loans entering Brazil contracted on or after March 1, 2012, that require registry with the Brazilian Central

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Bank, contracted directly or through the issuance of securities in the international market with average minimum maturity of up to three years, is 6%. Remittances of funds related to investments in the Brazilian financial and capital markets made by non-resident investors, and the remittance of dividends and Interest on Equity, are subject to IOF foreign exchange tax, at the rate of 0%. Although there is no clear regulatory instruction, conversion of reais to dollars for payment of dividends to holders of ADSs is also expected to benefit from IOF foreign exchange tax at the rate of 0%.

*Tax on Transactions Involving Bonds and Securities* Brazilian law imposes a Tax on Transactions Involving Bonds and Securities, or IOF/Bonds Tax, including those carried out on a Brazilian stock exchange. The rate of IOF applicable to transactions involving stocks (such as our preferred shares, Preferred ADSs, common shares and Common ADSs) is currently zero, although the Minister of Finance is permitted to increase such rate at any time up to 1.5% per day, but only in respect to future transactions.

*Other Brazilian Taxes* Some Brazilian states impose gift and inheritance tax on gifts or bequests made by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such states. There are no Brazilian stamps, issues, registrations, or similar taxes or duties payable by holders of preferred shares, common shares, Preferred ADSs or Common ADSs.

*U.S. Tax Considerations*

In general, for U.S. federal income tax purposes, holders of ADRs evidencing ADSs will be treated as the beneficial owners of the common shares or preferred shares represented by those ADSs.

*Taxation of Distributions* Distributions with respect to the shares or the ADSs (other than distributions in redemption of the shares subject to Section 302(b) of the Code or in a liquidation of the Company) will, to the extent made from current or accumulated earnings and profits of the Company as determined under U.S. federal income tax principles, constitute dividends. Whether such current or accumulated earnings and profits will be sufficient for all such distributions on the shares or ADSs to qualify as dividends for U.S. federal income tax purposes depends on the future profitability of the Company and other factors, many of which are beyond the control of the Company. To the extent that such a distribution exceeds the amount of the Company's earnings and profits, it will be treated as a non-taxable return of capital to the extent of the U.S. holder's basis in the shares or ADSs, and thereafter as capital gain (provided that the shares or ADSs are held as capital assets). As used below, the term dividend means a distribution that constitutes a dividend for U.S. federal income tax purposes. Cash dividends (including amounts withheld in respect of Brazilian taxes) paid with respect to (i) the shares generally will be includible in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the U.S. holder or (ii) the shares represented by ADSs generally will be includible in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the depositary bank and, in either case, will not be eligible for the dividends received deduction allowed to corporations. Dividends paid in reais will be includible in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day they are received by the U.S. holder, in the case of shares, or the depositary bank, in the case of shares represented by ADSs.

If dividends paid in reais are converted into U.S. dollars on the day they are received by the U.S. holder or the depositary bank, as the case may be, U.S. holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss if any reais received by the U.S. holder or the depositary bank are not converted into U.S. dollars on the date of receipt, as well as the tax consequences of the receipt of any additional reais from the custodian on account of Brazilian inflation.

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Dividends generally will constitute foreign source income and generally will constitute passive category income or, in the case of certain U.S. holders, general category income, for foreign tax credit purposes. In the event Brazilian withholding taxes are imposed on such dividends, such taxes may be treated as a foreign income tax eligible, subject to generally applicable limitations and conditions under U.S. federal income tax law, for credit against a U.S. holder's U.S. federal income tax liability (or at a U.S. holder's election, may be deducted in computing taxable income). The calculation and availability of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions, involves the application of rules that depend on a U.S. holder's particular circumstances. In the event Brazilian withholding taxes are imposed, U.S. holders should consult their own tax advisors regarding the availability of foreign tax credits with respect to Brazilian withholding taxes.

Distributions to U.S. holders of additional shares of common stock or preemptive rights relating to such common stock with respect to their common shares or Common ADSs that are made as part of a *pro rata* distribution to all shareholders of the Company generally will not be treated as dividend income for U.S. federal income tax purposes, but could result in additional U.S.-source taxable gain upon the sale of such additional shares or preemptive rights. Non-*pro rata* distributions of such shares or rights generally would be includible in the U.S. holder's gross income to the same extent and in the same manner as distributions payable in cash. In that event, the amount of such distribution (and the basis of the new shares or preemptive rights so received) generally will

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equal the fair market value of the shares or preemptive rights on the date of distribution. It is not entirely clear whether the preferred shares will be treated as preferred stock or common stock for this purpose. If the preferred shares are treated as common stock for this purpose the treatment above would apply to distributions of shares or preemptive rights with respect to preferred shares or Preferred ADSs. On the other hand, if the preferred shares are treated as preferred stock a distribution of additional shares or preemptive rights would be includible in gross income to the same extent as a cash distribution whether or not such distribution is considered a *pro rata* distribution.

A holder of shares or ADSs that is not a U.S. holder generally will not be subject to U.S. federal income or withholding tax on dividends received on shares or ADSs, unless such income is effectively connected with the conduct by the holder of a trade or business in the United States.

*Qualified Dividend Income* Notwithstanding the foregoing, certain dividends received by individual U.S. holders that constitute qualified dividend income currently may be subject to a reduced maximum marginal U.S. federal income tax rate. Qualified dividend income generally includes, among other dividends, dividends received during the taxable year from qualified foreign corporations. In general, a foreign corporation is treated as a qualified foreign corporation with respect to any dividend paid by the corporation with respect to stock of the corporation that is readily tradable on an established securities market in the United States. For this purpose, a share is treated as readily tradable on an established securities market in the United States if an ADR backed by such share is so traded.

Notwithstanding this previous rule, dividends received from a foreign corporation that is a passive foreign investment company (as defined in section 1297 of the Code), or in either the taxable year of the corporation in which the dividend was paid or the preceding taxable year will not constitute qualified dividend income. In addition, the term qualified dividend income will not include, among other dividends, any (i) dividends on any share or ADS which is held by a taxpayer for 60 days or less during the 120-day period beginning on the date which is 60 days before the date on which such share or the shares backing the ADS become ex-dividend with respect to such dividends (as measured under section 246(c) of the Code) or (ii) dividends to the extent that the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respects to positions in substantially similar or related property. Moreover, special rules apply in determining a taxpayer's foreign tax credit limitation under section 904 of the Code in the case of qualified dividend income.

Individual U.S. holders should consult their own tax advisors to determine whether or not amounts received as dividends from us will constitute qualified dividend income subject to a reduced maximum marginal U.S. federal income tax rate and, in such case, the effect, if any, on the individual U.S. holder's foreign tax credit.

*Taxation of Capital Gains* Deposits and withdrawals of shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Gain or loss realized by a U.S. holder on the sale, redemption or other disposition of shares or ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between such U.S. holder's basis in the shares or the ADSs and the amount realized on the disposition. Gain realized by a U.S. holder on a sale, redemption or other disposition of shares or ADSs, including gain that arises because the U.S. holder's basis in the shares or ADSs has been reduced because a distribution is treated as a return of capital rather than as a dividend, generally will be treated as U.S. source income for U.S. foreign tax credit purposes.

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If a Brazilian withholding tax or income tax is imposed on the sale or disposition of shares or ADSs as described in Taxation Brazilian Tax Considerations, the amount realized by a U.S. holder will include the gross amount of the proceeds of such sale or disposition before deduction of the Brazilian withholding tax or income tax if applicable. The availability of U.S. foreign tax credits for these Brazilian taxes and any Brazilian taxes imposed on distributions that do not constitute dividends for U.S. tax purposes is subject to certain limitations and involves the application of rules that depend on a U.S. holder's particular circumstances. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, shares or ADSs.

A holder of shares or ADSs that is not a U.S. holder will not be subject to U.S. federal income or withholding tax on gain realized on the sale of shares or ADSs, unless (i) such gain is effectively connected with the conduct by the holder of a trade or business in the United States or (ii) in the case of gain realized by an individual holder, the holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

*Information Reporting and Backup Withholding* Information reporting requirements will generally apply to U.S. holders of ADSs and U.S. holders will be required to comply with applicable certification procedures to establish that they are not subject to back

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up withholding. Investors who are individuals and fail to report required information could be subject to substantial penalties. A holder of ADSs that is not a U.S. holder may be required to comply with applicable certification procedures to establish that they are not United States persons in order to avoid the application of U.S. information reporting requirements and backup withholding tax. Investors should consult their own tax advisors regarding these requirements.

**Dividends and Paying Agents**

We pay dividends on preferred shares and common shares in the amounts and in the manner set forth under Item 8. Financial Information Dividend Policy and Payments. We will pay dividends in respect of preferred shares represented by Preferred ADSs or common shares represented by Common ADSs to the custodian for the depository bank, as record owner of the preferred shares represented by Preferred ADSs or the common shares represented by Common ADSs. As promptly as practicable after receipt of the dividends we pay through Citibank N.A. to the custodian, it will convert these payments into U.S. dollars and remit such amounts to the depository bank for payment to the holders of Preferred ADSs or Common ADSs in proportion to individual ownership.

**Documents on Display**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this annual report and the accompanying exhibits, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of the materials may be obtained from the SEC's Public Reference Room at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. In addition, copies of the exhibits that accompany this annual report may be inspected at our principal executive offices located at Avenida Barbacena, 1200, 30190-131 Belo Horizonte, Minas Gerais, Brazil.

**Insurance**

We have insurance policies to cover damages to our headquarters building and to the turbines, generators and transformers of our major power plants and substations caused by fire and risks such as equipment failures. We also have insurance policies to cover damages to and by our aircrafts used in connection to our operations. We do not have general third party liability insurance covering accidents and have not solicited bids related to this type of insurance. However, we may contract for this type of insurance in the future. In addition, we have not solicited bids for, nor do we carry, insurance coverage for major catastrophes affecting our facilities such as earthquakes and floods or for operating system failures. We do not have insurance coverage for business interruption risk, which means damages we suffer and consequential damages suffered by our consumers resulting from an interruption in power distribution are generally not covered by our insurance and we may be subject to significant related losses. See Item 3. Key Information Risk Factors Risks Relating to CEMIG We operate without general third party liability and catastrophe insurance policies.

We believe that, since we have contracted for fire and operational risk insurance, our insurance coverage will be at a level that is customary in Brazil for the type of businesses in which we are engaged.

**Difficulties of Enforcing Civil Liabilities Against Non-U.S. Persons**

We are a state-controlled mixed capital company established under the laws of Brazil. All of our executive officers and directors presently reside in Brazil. In addition, substantially all of our assets are located in Brazil. As a result, it will be necessary for holders of Preferred ADSs or Common ADSs to comply with Brazilian law in order to obtain an enforceable judgment against our executive officers or directors or our assets. It may not be possible for holders of Preferred ADSs or Common ADSs to effect service of process within the United States upon our executive officers and directors, or to realize in the United States upon judgments against these persons obtained in U.S. courts based upon civil liabilities of these persons, including any judgments based upon U.S. federal securities laws, to the extent these judgments exceed these persons' U.S. assets. We have been advised by Brazilian counsel, Souza, Cescon, Barriau & Flesch Advogados, that judgments of U.S. courts for civil liabilities based upon the federal securities laws of the United States may be, subject to the requirements described below, enforced in Brazil to the extent Brazilian courts may have jurisdiction. A judgment against us, or the persons described above obtained outside Brazil without reconsideration of the merits, is subject to confirmation by the Brazilian Superior Court of Justice. That confirmation will occur if the foreign judgment:

- fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted;
- is issued by a competent court after proper service of process is made in accordance with Brazilian law, or after sufficient evidence of the parties' absence has been given, as established pursuant to applicable Law;

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- is not subject to appeal;
- is for the payment of a sum certain;
- is authenticated by a Brazilian consular officer in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty, public policy or public morality.

We cannot assure you the confirmation process described above will be conducted in a timely manner or that Brazilian courts would enforce a monetary judgment for violation of the United States securities laws with respect to the Preferred ADSs and the preferred shares represented by the Preferred ADSs or the Common ADSs and the common shares represented by the Common ADSs.

We were further advised by respective Brazilian counsel that:

- original actions based on the federal securities laws of the United States may be brought in Brazilian courts and that, subject to Brazilian public policy and national sovereignty, Brazilian courts will enforce liabilities in such actions against us and our officers; and
- the ability of a judgment creditor or the other persons named above to satisfy a judgment by attaching our assets or those of the selling shareholders is limited by provisions of Brazilian law.

A plaintiff (whether Brazilian or non-Brazilian) residing outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that could secure such payment. The bond must have a value sufficient to satisfy the payment of court fees and defendant's attorney fees, as determined by a judge in Brazil. This requirement does not apply to a proceeding to enforce a foreign judgment which has been confirmed by the Brazilian Superior Court of Justice.

**Item 11. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risk from changes in foreign currency exchange rates and interest rates.



We are exposed to foreign exchange risk because certain of our loans and financings are denominated in currencies (primarily the U.S. dollar) other than the currency in which we earn revenues (the real). See Item 5. Operating and Financial Review and Prospects Critical Accounting Estimates.

### **Exchange Rate Risk**

At December 31, 2011, approximately 2.28% of our outstanding indebtedness, or R\$359 million, was denominated in foreign currencies, of which approximately 88.9%, or R\$319 million, was denominated in U.S. dollars. We do not have substantial revenues denominated in any foreign currencies and, due to regulations that require us to keep excess cash on deposit in real-denominated accounts at Brazilian banks, we do not have monetary assets denominated in foreign currencies.

In 2011, we used financial instruments such as interest rate swaps to manage risk and hedge our foreign exchange rate exposure. The purpose of the swaps was to reduce our exposure on the original interest rate of certain financing from an interest rate calculated based on the U.S. dollar/*real* exchange rate to an interest rate calculated based on the CDI rate. See Notes 2.6 (b), 19, 26, 27 and 28 to our consolidated financial statements.

In 2012, the potential loss we would experience in the event of a hypothetical 25% and 50% depreciation of the real against the U.S. dollar and other foreign currencies would be approximately R\$85 million and R\$167 million, respectively related primarily due to an increase in our *real*-denominated interest expense. In 2012, a hypothetical 25% and 50% depreciation of the real against the U.S. dollar would result in an additional annual cash outflow of approximately R\$13 million and R\$27 million, respectively, reflecting the increased cost in *reais* of foreign currency-denominated indebtedness from loans, financings and debentures with maturity dates in 2011. This sensitivity analysis assumes a simultaneous unfavorable 25% and 50% fluctuation in each of the exchange rates affecting the foreign currencies in which our indebtedness is denominated.

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The tables below provide summary information regarding our exposure to exchange rate risk as of December 31, 2011:

	R\$ (Million)
<b>U.S. Dollar</b>	
Financing	319
Less Contracted derivative instruments	(32)
	287
<b>Other Currencies</b>	
Financing	37
Other	3
Net liabilities exposed to exchange rate risk	327

**Interest Rate Risk**

At December 31, 2011, we had R\$15,779 million in loans and financing outstanding, of which approximately R\$14,460 million bore interest at floating rates. Of this R\$14,460 million, R\$14,253 million bear interest at rates tied to inflation indexes and the SELIC rate and R\$207 million is subject principally to LIBOR.

At December 31, 2011, we had liabilities, net of other assets that bore interest at floating rates in the amount of R\$9,598 million. These assets consisted mainly of cash and cash equivalents and our account receivable from the State Government, bearing interest at rates tied to IGP-DI and SELIC, respectively, as summarized in the tables below. A hypothetical, instantaneous and unfavorable change of 100 basis points in interest rates applicable to floating rate financial assets and liabilities held at December 31, 2011 would result in a potential loss of R\$95.98 million to be recorded as a financial expense in our consolidated financial statements.

**Total Debt Portfolio**

	R\$ (Million)
<b>Floating rate debt:</b>	
Real-denominated	14,253
Foreign currency-denominated	207
	14,460
<b>Fixed rate debt:</b>	
Foreign currency-denominated	152
Total	14,612

	<b>Total Portfolio Floating Rate (R\$ million)</b>
<b>Assets:</b>	
Cash and cash equivalents	2,705

Securities cash investments	359
Account receivable from State Government	1,830
Total	4,894
Liabilities:	
Financings (Floating Rate)	(14,460)
Derivative instruments (1)	(32)
Total liabilities	(14,492)
Total	(9,598)

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(1) Swaps to reduce our exposure on the original interest rate of certain financing from an interest rate calculated based on the U.S. dollar/real exchange rate to an interest rate calculated based on the CDI rate.

Table of Contents**Item 12. Description of Securities Other than Equity Securities****American Depositary Shares**

Citibank, N.A. serves as the depositary (the *Depositary*) for both our Common ADSs and Preferred ADSs. Holders of ADSs, any person or entity having a beneficial interest deriving from the ownership of the ADSs, and persons depositing shares or surrendering ADSs for cancellation and withdrawal of Deposited Securities (as defined in the Deposit Agreements) are required to pay to the Depositary certain fees and related charges as identified below.

The fees associated with our Common ADSs are as follows:

<b>Service</b>	<b>Rate</b>	<b>By Whom Paid</b>
(1) Issuance of Common ADSs upon deposit of common shares (excluding issuances as a result of distributions described in paragraph (4) below).	Up to \$5.00 per 100 Common ADSs (or fraction thereof) issued.	Person depositing common shares or person receiving Common ADSs.
(2) Delivery of Deposited Securities, property and cash against surrender of Common ADSs.	Up to \$5.00 per 100 Common ADSs (or fraction thereof) surrendered.	Person surrendering Common ADSs for purpose of withdrawal of Deposited Securities or person to whom Deposited Securities are delivered.
(3) Distribution of cash dividend or other cash distributions ( <i>i.e.</i> sale of rights and other entitlements).	Up to \$2.00 per 100 Common ADSs (or fraction thereof) held.	Person to whom distribution is made.
(4) Distribution of Common ADSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional Common ADSs.	Up to \$5.00 per 100 Common ADSs (or fraction thereof) issued.	Person to whom distribution is made.
(5) Distribution of securities other than Common ADSs or rights to purchase additional Common ADSs ( <i>i.e.</i> spin off shares).	Up to \$5.00 per 100 Common ADSs (or fraction thereof) issued.	Person to whom distribution is made.
(6) Transfer of ADRs.	\$1.50 per certificate presented for transfer.	Person presenting certificate for transfer.

The fees associated with our Preferred ADSs are as follows:

<b>Service</b>	<b>Rate</b>	<b>By Whom Paid</b>
(1) Issuance of Preferred ADSs upon deposit of preferred shares (excluding issuances contemplated by paragraphs (3)(b) and (5) below).	Up to \$5.00 per 100 Preferred ADSs (or fraction thereof) issued.	Person for whom deposits are made or person receiving Preferred ADSs.
(2) Delivery of Deposited Securities, property and cash against surrender of Preferred ADSs.	Up to \$5.00 per 100 Preferred ADSs (or fraction thereof) surrendered.	Person surrendering Preferred ADSs or making withdrawal.
(3) Distribution of (a) cash dividend or (b) Preferred ADSs pursuant to stock dividends (or	No fee, so long as prohibited by the exchange upon which the Preferred	Person to whom distribution is made.

other free distribution of stock).

ADSs are listed. If the charging of such fee is not prohibited, the fees specified in (1) above shall be payable in respect of a distribution of Preferred ADSs pursuant to stock dividends (or other free distribution of stock) and the fees specified in (4) below shall be

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	payable in respect of distributions of cash.	
(4) Distribution of cash proceeds (i.e., upon sale of rights and other entitlements).	Up to \$2.00 per 100 Preferred ADSs (or fraction thereof) held.	Person to whom distribution is made.
(5) Distribution of Preferred ADSs pursuant to exercise of rights.	Up to \$5.00 per 100 Preferred ADSs (or fraction thereof) issued.	Person to whom distribution is made.

**Direct and indirect depositary payments**

We have an agreement with the Depositary to reimburse us, up to a limited amount, for certain expenses in connection with our ADR programs, including listing fees, legal and accounting expenses, proxy distribution costs and investor relation related expenses. These reimbursements for the year ended December 31, 2011 totaled a net amount of approximately US\$3.967 million, after deduction of applicable US taxes, in the amount of US\$1.693million.

**PART II****Item 13. Defaults, Dividend Arrearages and Delinquencies**

Certain of CEMIG's loans and financing agreements contain covenants that require us to maintain financial ratios, calculated in accordance with Brazilian Corporate Law. As of December 31, 2011, we were not in compliance with the following covenants:

- the Debt / EBITDA ratio, contained in a credit instrument among Cemig Distribution and Santander (originally ABN Amro Bank). Such ratio is required to be less than or equal to 2.5, and, as of December 31, 2011, the ratio was 2.8 for CEMIG (as guarantor). CEMIG has obtained a waiver from Santander, which is valid until December of 2012.
- the Debt/(Shareholders' equity + Debt) ratio, contained in credit instruments among Cemig Generation and Transmission and Banco Itaú BBA. Such ratio is required to be less than or equal to 60%, and, as of December 31, 2011, the ratio was 62% for Cemig Generation and Transmission. Cemig Generation and Transmission has obtained a waiver from Itaú BBA, which is valid until December of 2012.
- the EBITDA/Net Interest Expenses ratio, contained in credit instruments among Cemig Generation and Transmission and Banco Itaú BBA. Such ratio is required to be more than or equal to 2.8x, and, as of December 31, 2011, the ratio was 2.6x for Cemig Generation and Transmission. Cemig Generation and Transmission has obtained a waiver from Itaú BBA which is valid until December of 2012.
- the Short Term Debt/EBITDA ratio, contained in credit instruments among Cemig Generation and Transmission and Banco Itaú BBA. Such ratio is required to be more than or equal to 105%, and, as of December 31, 2011, the ratio was 133% for Cemig Generation and

Transmission. Cemig Generation and Transmission has obtained a waiver from Itaú BBA which is valid until December of 2012

All the waivers obtained in 2011 affirm that the respective creditors will not exercise their rights to demand either accelerated or immediate payment of the total amount due until December 31, 2012.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable.

**Item 15. Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures**

Our Executive Board, including our Chief Executive Officer, or CEO, and Chief Financial and Investor Relations Officer, or CFO, evaluated the effectiveness of our disclosure controls and procedures, and concluded that on December 31, 2011, these disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our filings and submissions under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC s

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rules and forms and (ii) accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

**(b) Management's Annual Report on Internal Control over Financial Reporting**

Our Executive Board, including our CEO and CFO, is responsible for establishing and maintaining effective internal controls over financial reporting.

Our internal controls over financial reporting include policies and procedures that were implemented to provide reasonable assurance as to (i) the reliability of the recording accounting and financial information; (ii) the preparation of accounting records in accordance with IFRS; (iii) the processing of payments and receipts in accordance with management authorization; and (iv) the timely detection of inappropriate acquisitions, and the disposal or allocation of material assets. We emphasize that due to their inherent limitations, the possibility exists that these actions may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may decline.

Our management evaluated the effectiveness of our internal controls over financial reporting at December 31, 2011, based on the criteria established in the Integrated Internal Control Framework specified by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, and concluded that, for the year ended December 31, 2011, our system of internal controls over financial reporting is effective.

The Company's independent registered public accounting firm which audited our consolidated financial statements for the year ended December 31, 2011, KPMG Auditores Independentes, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2011 and issued an attestation report, which is included elsewhere herein.

*The Ethics Committee*

Our Ethics Committee was established on August 12, 2004, and is made up of three permanent members and three alternate members. It is responsible for the management, dissemination and updating of the Statement of Ethical Principles and Code of Professional Conduct.

The Committee receives and investigates all reports of violation of the ethical principles and standards of conduct. Specifically with regard to ethical principles, these should be presented with the identification of the interested party. Complaints or doubts should be addressed to: CEMIG, Av. Barbacena 1200, SA/19th Floor/A1. The Committee may also be contacted by e-mail [comissaoeetica@cemig.com.br](mailto:comissaoeetica@cemig.com.br).



In December 2006 we implemented the Anonymous Reporting Channel, available on our intranet. The purpose of this program is to receive, forward and investigate complaints or doubts of irregular practices, such as financial fraud, misappropriation of assets, receipt of unfair advantages, and the engagement of illegal contracts. This channel represents the Company aim of improving transparency, correcting unethical or illegal behavior and enhancing corporate governance, as well as being an instrument that meets the requirements of the Sarbanes-Oxley Act.

(c) **Attestation Report of the Registered Public Accounting Firm**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Companhia Energética de Minas Gerais – CEMIG

We have audited the accompanying consolidated balance sheets of Companhia Energética de Minas Gerais – CEMIG and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements,

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for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Companhia Energética de Minas Gerais - CEMIG and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG Auditores Independentes

Belo Horizonte, Brazil

April 26, 2012

**(d) Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during the year ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

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

Table of Contents**Item 16B. Code of Ethics**

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. Our code of ethics applies to our Chief Executive Officer, Chief Financial and Investor Relations Officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics was filed with the SEC as Exhibit 11 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003, and is also available on our website at [www.cemig.com.br](http://www.cemig.com.br). If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver within five business days following the date of the amendment or waiver on our web site at [www.cemig.com.br](http://www.cemig.com.br).

**Item 16C. Principal Accountant Fees and Services****Audit and Non-Audit Fees**

The following table summarizes the aggregate fees billed to us by KPMG Auditores Independentes during the fiscal years ended December 31, 2011 and 2010:

	Year ended December 31,	
	2011	2010
	(thousands of reais)	
<b>Audit fees</b>	624	1,113
<b>Additional services:</b>		
Diagnosis and assesment of internal controls SOX	255	239
Tax Fees	121	76
Audit-Related Fees	302	317
R&D Projects	25	
Translation of reports	9	5
Training related to tax regulation	6	6
Technical Report related to Financial Project	16	
<b>Total fees</b>	1,358	1,756

*Audit fees* Audit fees in the above table are the aggregate fees billed by KPMG Auditores Independentes in 2011 and 2010 in connection with the audit of our annual financial statements prepared in accordance with the accounting practices adopted in Brazil and the United States and the review of our quarterly statutory financial statements.

*Tax Fees* Tax fees are fees for professional services in relation to tax return reviews (tax compliance).

*Audit-Related Fees* Audit-related fees are fees for services in connection with regulatory demands.

**Audit Committee Pre-Approval Policies and Procedures**

Our Fiscal Council currently serves as our audit committee for purposes of the Sarbanes-Oxley Act of 2002. However, as required by Brazilian legislation, we have adopted pre-approval policies and procedures by which all audit and non-audit services provided by external auditors must be approved by the Board of Directors. Any service proposals submitted by external auditors need to be discussed and approved by the Board of Directors during its meetings. Once the proposed service is approved, we formalize the engagement of services. The approval of any audit and non-audit services to be provided by our external auditors is specified in the minutes of our Board of Directors.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

We are relying on the general exemption from the listing standards relating to audit committees contained in Rule 10A-3(c)(3) under the Exchange Act. We have a Fiscal Council that carries out the functions of an audit committee of the United States to the extent permitted under Brazilian law. Brazilian law requires our Fiscal Council to be separate from our board of directors, and members of our Fiscal Council are not elected by our management. Brazilian law provides standards for the independence of our Fiscal Council from our management.

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We do not believe that our reliance on this general exemption will materially affect the ability of our Fiscal Council to act independently and to satisfy the other requirements of the listing standards relating to audit committees contained in Rule 10A-3 under the Exchange Act.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Not applicable.

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**

**Corporate Governance Differences from NYSE Practices**

On November 4, 2003, the New York Stock Exchange, or NYSE, established new corporate governance rules. Under the rules, foreign private issuers are subject to a more limited set of corporate governance requirements than U.S. domestic issuers. Under these rules, we are required to set forth in our annual report to shareholders a description of the significant differences between CEMIG's corporate governance practices and those that would apply to a U.S. domestic issuer under the NYSE corporate governance rules. The following table summarizes these differences.

Section	NYSE Corporate Governance Rule for U.S. Domestic Issuers	Our Approach
303A.01	A listed company must have a majority of independent directors. Controlled companies are not required to comply with this requirement.	Under Section 303A of the rules of the New York Stock Exchange, controlled company is taken to include a company in which more than 50% of the voting power is held by one individual, a group or another company. Since 50.97% of the voting stock of CEMIG is held by the State of Minas Gerais, it is considered to be a controlled company. Therefore, this requirement currently does not apply to CEMIG.
303A.03	The non-management directors of a listed company must meet at regularly scheduled executive sessions without management.	The non-management directors of CEMIG do not meet at regularly scheduled executive sessions without management.
303A.04		

	<p>A listed company must have a nominating/corporate governance committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties. Controlled companies are not required to comply with this requirement.</p>	<p>As a controlled company, CEMIG is not required to have a nominating/governance committee.</p> <p>Nonetheless, CEMIG has a Corporate Governance Committee, composed of dependent and independent directors, and its responsibilities are clearly defined in the internal regulations of the Board of Directors.</p>
<p>303A.05</p>	<p>A listed company must have a compensation committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties. Controlled companies are not required to comply with this requirement.</p>	<p>As a controlled company, CEMIG would not be required to comply with the compensation committee requirements as if it were a U.S. domestic issuer. CEMIG does not have a compensation committee.</p>
<p>303A.06 and 303A.07</p>	<p>A listed company must have an audit committee with a minimum of three independent directors that satisfy the independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, with a written charter that covers certain</p>	<p>CEMIG exercised its prerogative under SEC Rule 10A-3 and the Sarbanes Oxley Act of 2002, which allow non U.S. issuers not to have an Audit Committee. Our Fiscal Council carries out the functions of an Audit Committee of the United States up to the limit permitted by Brazilian law.</p>

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Section	NYSE Corporate Governance Rule for U.S. Domestic Issuers	Our Approach
	minimum specified duties.	CEMIG's Fiscal Council is a permanent body, responsible, principally, for inspection and supervision of the activities of the management and for verifying the managers' compliance with their duties under the law and under the by-laws.
303A.08	Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with limited exemptions set forth in the NYSE rules.	Under Brazilian Corporate Law, shareholder preapproval is required for the adoption of equity compensation plans.
303A.09	A listed company must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects.	CEMIG's listing on BM&FBovespa is at Corporate Governance Level 1, and CEMIG is thus obliged to comply with the rules contained in those related regulations.  In addition, CEMIG's Manual for Disclosure and Use of Information, its Securities Trading Policy, the Internal Regulations of its Board of Directors, and its Code of Ethics outline important rules of corporate governance which orient its management.
303A.12	Each listed company Chief Executive Officer must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards.	CEMIG's Chief Executive Officer will promptly notify the NYSE in writing after any executive officer of CEMIG becomes aware of any material non-compliance with any applicable provisions of the NYSE corporate governance rules.

**PART III**

**Item 17. Financial Statements**

Reference is made to pages F-1 through F-107 hereof.

The following financial statements are filed as part of this annual report on Form 20-F:

- Report of KPMG Auditores Independentes for the years 2011, 2010 and 2009
  
- Audited Consolidated Statement of Financial Position as of December 31, 2011 and December 31, 2010



- Audited Consolidated Income Statement and Statements of Comprehensive Income for the years ended December 31, 2011, 2010 and 2009
- Audited Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2011, 2010 and 2009
- Audited Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009

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- Notes to the Consolidated Financial Statements

**Item 18. Exhibits**

The following documents are included as exhibits to this annual report:

<b>Exhibit Number</b>	<b>Document</b>
1	Corporate by-laws of CEMIG, as amended and in effect since December 21, 2011
2.1	Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, by and among us, Citibank, N.A., as depository, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs filed on August 20, 2001 (File No. 333-13826)).
2.2	Shareholders Agreement, dated June 18, 1997, between the State Government and Southern, relating to the rights and obligations of owners of our shares (incorporated by reference to Exhibit 2.1 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
2.3	Amendment No. 1 to the Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, by and among us, Citibank, N.A., as depository, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs filed on June 11, 2007 (File No. 333-143636)).
2.4	Deposit Agreement, dated as of June 12, 2007, by and among us, Citibank, N.A., as depository, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the common share ADSs filed on May 7, 2007 (File No. 333-142654)).
4.1	Contract of Concession for Generating Electric Energy, dated July 10, 1997, between the Federal Government and us, relating to the provision of electric energy generation services to the public (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.2	Contract of Concession of Electric Energy Transmission Services, dated July 10, 1997, between the Federal Government and us, relating to the transmission of electric energy to the public (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.3	Second Amendment to the Electricity Transmission Concession Contract, dated September 16, 2005 (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
4.4	Third Amendment to the Electricity Transmission Concession Contract, for the Northern, Southern, Eastern, and Western geographic areas, dated April 13, 2010 (incorporated by reference to Exhibit 4.4 to our Registration Statement on Form 20-F filed on June 30, 2010 (File No. 1-15224)).
4.5	Contracts of Concession of Public Service for Distribution of Electric Energy, dated July 10, 1997, between the Federal Government and us, relating to the provision of electric energy distribution services to the public (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.6	First Amendment to the Electricity Distribution Concession Contract, dated March 31, 2005 (incorporated by reference to Exhibit 4.5 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).

4.7 Second Amendment to the Electricity Distribution Concession Contract, dated September 16, 2005 (incorporated by reference to Exhibit 4.6 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).

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<b>Exhibit Number</b>	<b>Document</b>
4.8	Contract for the Assignment of CRC Account, dated May 31, 1995, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.4 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.9	First Amendment to the Contract for the Assignment of CRC Account, dated February 24, 2001, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.5 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).
4.10	Second Amendment to the Contract for the Assignment of CRC Account, dated October 14, 2002, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.6 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).
4.11	Third Amendment to the Contract for the Assignment of CRC Account, dated October 24, 2002, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.7 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).
4.12	Fourth Amendment to the Contract for the Assignment of CRC Account, dated January 23, 2006, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.14 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
4.13	Announcement of Start of Public Distribution of Senior Units under CRC Account Securitization Fund, dated as of January 26, 2006 (incorporated by reference to Exhibit 4.15 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
4.14	Summary of Indenture Covering Public Distribution of Non-Convertible Unsecured Debentures, dated August 24, 2006, between Cemig Distribution and Unibanco União dos Bancos Brasileiros S.A. (incorporated by reference to Exhibit 4.18 to our Registration Statement on Form 20-F filed on July 23, 2007 (File No. 1-15224)).
4.15	Summary of Indenture Covering Public Distribution of Non-Convertible Unsecured Debentures, dated April 17, 2007, between Cemig Generation and Transmission and Unibanco União dos Bancos Brasileiros S.A. (incorporated by reference to Exhibit 4.19 to our Registration Statement on Form 20-F filed on July 23, 2007 (File No. 1-15224)).
4.16	Summary of Indenture Covering the Second Issuance of Debentures, dated December 19, 2007, between Cemig Distribution and BB Banco de Investimento S.A. (incorporated by reference to Exhibit 4.20 to our Annual Report on Form 20-F filed on June 30, 2008 (File No. 1-15224)).
4.17	Share Purchase Agreement, dated April 23, 2009, between Cemig Generation and Transmission, Terna Rete Elettrica Nazionale S.p.A., and CEMIG (incorporated by reference to Exhibit 4.22 to our Registration Statement on Form 20-F filed on June 19, 2009 (File No. 1-15224)).
4.18	English Summary of Share Purchase Agreement between Companhia Energética de Minas Gerais CEMIG and Andrade Gutierrez Concessões S.A., dated December 30, 2009 (incorporated by reference to Exhibit 4.18 to our Registration Statement on Form 20-F filed on June 30, 2010 (File No. 1-15224)).
4.19	English Summary of Share Purchase Agreement between Companhia Energética de Minas Gerais CEMIG and Fundo de Investimento em Participações PCP, dated December 31, 2009 (incorporated by reference to Exhibit 4.19 to our Registration Statement on Form 20-F filed on June 30, 2010 (File No. 1-15224)).
4.20	English Summary of Put Option Agreement between Companhia Energética de Minas Gerais CEMIG and Enlighted Partners Venture Capital LLC, dated March 24, 2010 (incorporated by reference to Exhibit 4.20 to our Registration Statement on Form 20-F filed on June 30, 2010 (File No. 1-15224)).
4.21	English Summary of Share Purchase Agreement among Transmissora Aliança de Energia Elétrica S.A., Abengoa Concessões Brasil Holding S.A. and Abengoa Participações Holding S.A., dated June 2, 2011.



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<b>Exhibit Number</b>	<b>Document</b>
4.22	English Summary of Share Purchase Agreement among Transmissora Aliança de Energia Elétrica S.A., Abengoa Concessões Brasil Holding S.A., Abengoa Construção Brasil Ltda., NTE - Nordeste Transmissora de Energia S.A. and Abengoa Participações Holding S.A., dated June 2, 2011.
4.23	Summary of Indenture Covering Public Distribution of Non-Convertible Unsecured Debentures, dated March 3, 2010, between Cemig Generation and Transmission and BB Banco de Investimento S.A.. (incorporated by reference to Exhibit 4.23 to our Annual Report on Form 20-F filed on June 30, 2011 (File No. 1-15224))
4.24	English Summary of Share Purchase Agreement between Transmissora Aliança de Energia Elétrica S.A. and Abengoa Concessões Brasil Holding S.A. dated March 16, 2012.
4.25	English Summary of Investment Agreement among RR Participações S.A., Light S.A. and Renova Energia S.A. dated July 8, 2011.
4.26	English Summary of Put Option Agreement between Parati S.A and Fundação de Seguridade Social Braslight dated July 15, 2011.
4.27	English Summary of Share Purchase and Sale Agreement entered into between Amazônia Energia Participações S.A. and Construtora Queiroz Galvão S.A., Construtora OAS Ltda., Contern Construções e Comércio Ltda, Cetenco Engenharia S.A., Galvão Engenharia S.A. and J. Malucelli Construtora de Obras S.A., for shares in Norte Energia S.A. dated October 25, 2011.
4.28	English Summary of Share Acquisition Agreement between CEMIG and the State of Minas Gerais dated December 27, 2011.
4.29	Summary of Indenture Covering the Public Distribution of Non-Convertible Unsecured Debentures, dated March 13, 2012, between Cemig Geração e Transmissão S.A., HSBC Corretora de Títulos e Valores Mobiliários S.A., Banco BTG Pactual S.A. and Banco do Nordeste do Brasil S.A.
8	List of Subsidiaries (incorporated by reference to Exhibit 8 to our Annual Report on Form 20-F filed on May 25, 2005 (File No. 1-15224)).
11	Code of Ethics (incorporated by reference to Exhibit 11 to our Annual Report on Form 20-F filed on July 1, 2004 (File No. 1-15224)).
12.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 26, 2012.
12.2	Chief Financial Officer, Investor Relations Officer and Control of Holding Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 26, 2012.
13.1	Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 26, 2012.
13.2	Chief Financial Officer, Investor Relations Officer and Control of Holding Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 26, 2012.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

COMPANHIA ENERGÉTICA DE MINAS GERAIS - CEMIG

By: /s/ Djalma Bastos de Moraes  
Name: Djalma Bastos de Moraes  
Title: Chief Executive Officer

Date: April 26, 2012

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# ***Companhia Energética de Minas Gerais CEMIG***

***Financial Statements as of December 31, 2011 and  
December 2010 and for the Years Ended December 31,  
2011, 2010 and 2009 and Report of Independent  
Registered Public Accounting Firm***

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Table of Contents**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT DECEMBER 31, 2011 AND 2010****ASSETS****(MILLIONS OF R\$)**

	Notes	2011	2010
<b>CURRENT</b>			
Cash and cash equivalents	6	2,862	2,980
Short-term investments	7	359	322
Consumers and traders	8	2,550	2,263
Concession holders transport of energy		427	401
Financial assets of the concession	13	1,120	625
Recoverable taxes	9	354	374
Income tax and social contribution recoverable	10 a	221	490
Traders free energy transactions		22	30
Inventories		54	41
Other credits		563	560
<b>TOTAL CURRENT ASSETS</b>		<b>8,532</b>	<b>8,086</b>
<b>NON-CURRENT</b>			
Account receivable from the State of Minas Gerais Government	12	1,830	1,837
Deferred income tax and social contribution	12	2,036	1,801
Recoverable taxes	10 b	328	140
Income tax and social contribution recoverable	9	23	83
Escrow deposits	10 a	1,388	1,027
Consumers and traders	11	159	96
Other credits	8	184	138
Financial assets of the concession		8,778	7,316
Investments	14	177	-
Property, plant and equipment	15	8,662	8,228
Intangible assets	16	5,261	4,804
<b>TOTAL NON-CURRENT ASSETS</b>		<b>28,826</b>	<b>25,470</b>
<b>TOTAL ASSETS</b>		<b>37,358</b>	<b>33,556</b>

The notes are an integral part of these consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT DECEMBER 31, 2011 AND 2010

**LIABILITIES AND SHAREHOLDERS EQUITY**

(MILLIONS OF R\$)

		2011	2010
<b>CURRENT</b>			
Suppliers	17	1,190	1,121
Regulatory charges	20	368	384
Employee profit sharing		90	116
Taxes payable	18a	517	404
Income tax and social contribution payable	18b	129	137
Interest on capital and dividends payable		1,243	1,154
Loans and financings	19	4,382	1,574
Debentures	19	3,439	629
Payroll and related charges		272	243
Employee post-retirement benefits	21	101	99
Provision for losses on financial instruments		25	69
Other obligations		414	473
<b>TOTAL CURRENT LIABILITIES</b>		<b>12,170</b>	<b>6,403</b>
<b>NON-CURRENT</b>			
Regulatory charges	20	262	142
Loans and financings	19	5,358	6,244
Debentures	19	2,600	4,780
Taxes payable	18a	897	693
Deferred Income tax and social contribution	18b	1,234	1,065
Provisions	22	549	371
Concessions payable		130	118
Employee post-retirement benefits	21	2,187	2,062
Other obligations		226	201
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>13,443</b>	<b>15,676</b>
<b>TOTAL LIABILITIES</b>		<b>25,613</b>	<b>22,079</b>
<b>SHAREHOLDERS EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	<b>23</b>		
Share capital		3,412	3,412
Capital reserves		3,954	3,954
Profit reserves		3,293	2,874
Accumulated other comprehensive income		1,081	1,211
Accumulated foreign currency translation adjustment		5	(1)
Funds allocated for capital increase		-	27
<b>TOTAL SHAREHOLDERS EQUITY</b>		<b>11,745</b>	<b>11,477</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>		<b>37,358</b>	<b>33,556</b>

The notes are an integral part of these consolidated financial statements.



Table of Contents**CONSOLIDATED INCOME STATEMENT****FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010****(MILLIONS OF R\$, EXCEPT EARNINGS PER SHARE)**

	Note	2011	2010	2009
<b>REVENUES</b>	24	15,814	13,847	13,449
<b>OPERATING COSTS</b>	25			
<b>COST OF ELECTRICITY AND GAS</b>				
Electricity purchased for resale		(4,278)	(3,722)	(3,199)
Charges for the use of the basic transmission grid		(830)	(729)	(853)
Gas purchased for resale		(329)	(225)	(167)
		(5,437)	(4,676)	(4,219)
<b>OPERATING COST</b>				
Personnel and management		(934)	(967)	(926)
Materials		(73)	(126)	(106)
Outsourced services		(740)	(805)	(639)
Depreciation and amortization		(867)	(867)	(872)
Operating provisions		(71)	(14)	(46)
Royalties for usage of water resources		(154)	(140)	(146)
Cost of Construction		(1,529)	(1,328)	(1,410)
Other		(152)	(46)	(83)
		(4,520)	(4,293)	(4,228)
<b>TOTAL COST</b>		(9,957)	(8,969)	(8,447)
<b>GROSS PROFIT</b>		5,857	4,878	5,002
<b>OPERATING EXPENSES</b>	25			
Selling expenses		(190)	(283)	(184)
General and administrative expenses		(841)	(367)	(677)
Other operating expenses		(413)	(581)	(449)
		(1,444)	(1,231)	(1,310)
<b>Operating profit before net finance expenses and income taxes</b>		4,413	3,647	3,692
		(1)		
Financial revenues	26	995	841	832
Financial expenses	26	(2,051)	(1,666)	(1,187)
<b>Profit before income tax</b>		3,356	2,822	3,337
Income tax and social contribution	10c	(1,111)	(872)	(896)
Deferred income tax and social contribution	10c	170	308	(235)
<b>PROFIT FOR THE YEAR</b>		<b>2,415</b>	<b>2,258</b>	<b>2,206</b>
<b>Basic earnings per preferred and common share</b>	23	<b>3.54</b>	<b>3.41</b>	<b>3.69</b>
<b>Diluted earnings per preferred and common share</b>	23	<b>3.54</b>	<b>3.41</b>	<b>3.69</b>

The notes are an integral part of these consolidated financial statements.



Table of Contents**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010****(MILLIONS OF R\$)**

	2011	2010	2009
<b>PROFIT FOR THE YEAR</b>	<b>2,415</b>	<b>2,258</b>	<b>2,206</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Foreign currency translation differences for foreign operations	6	(1)	
Cash flow hedge instruments	(1)	2	
	5		
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>2,420</b>	<b>2,259</b>	<b>2,206</b>

The notes are an integral part of these consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010****(MILLIONS OF R\$)**

	Share capital	Capital reserves	Profit reserves	Accumulated other comprehensive income	Accumulated foreign currency translation adjustment	Accumulated losses	Funds allocated for capital increase	Total shareholders equity
<b>BALANCE AT DECEMBER 31, 2009</b>	<b>3,102</b>	<b>3,969</b>	<b>3,177</b>	<b>1,344</b>		<b>(453)</b>	<b>27</b>	<b>11,165</b>
Profit for the year						2,258		2,258
Other comprehensive income:								
Foreign currency translation differences					(1)			(1)
Cash flow hedge instruments				2				2
<b>Total comprehensive income for the year</b>				<b>2</b>	<b>(1)</b>	<b>2,258</b>		<b>2,259</b>
Transactions with shareholders recorded directly in shareholders equity								
Ordinary Dividends (R\$1.65 per share)						(1,129)		(1,129)
Extraordinary Dividends (R\$1.32 per share)			(900)					(900)
Proposed additional dividends (R\$ 0.10 per share)			67			(67)		
Other changes in shareholders equity								
Capital increase	310	(15)	(295)					
Acquisition of jointly-controlled subsidiaries effect of first-time adoption of IFRS						82		82
Constitution of reserves								
Legal reserve			113			(113)		
Retained earnings			712			(712)		
Realization of reserves								
Revaluation of property, plant and equipment				(135)		135		
<b>BALANCE AT DECEMBER 31, 2010</b>	<b>3,412</b>	<b>3,954</b>	<b>2,874</b>	<b>1,211</b>	<b>(1)</b>		<b>27</b>	<b>11,477</b>

The notes are an integral part of these consolidated financial statements.

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	Share capital	Capital reserves	Profit reserves	Accumulated other comprehensive income	Accumulated foreign currency translation adjustment	Accumulated losses	Funds allocated for capital increase	Total shareholders equity
<b>BALANCE AT DECEMBER 31, 2010</b>	<b>3,412</b>	<b>3,954</b>	<b>2,874</b>	<b>1,211</b>	<b>(1)</b>		<b>27</b>	<b>11,477</b>
Profit for the year						2,415		2,415
Other comprehensive income:								
Foreign currency translation differences					6			6
Cash flow hedge instruments				(1)				(1)
<b>Total comprehensive income for the year</b>				<b>(1)</b>	<b>6</b>	<b>2,415</b>		<b>2,420</b>
Transactions with shareholders recorded directly in shareholders equity								
Ordinary Dividends (R\$1.65 per share)						(1,208)		(1,208)
Extraordinary Dividends (R\$1.32 per share)			(850)					(850)
Proposed additional dividends in 2010 paid in 2011 (R\$0.10 per share)			(67)					(67)
Proposed additional dividends in 2011 (R\$0.10 per share)			86			(86)		
Other changes in shareholders equity								
Devolution of Funds allocated for capital increase							(27)	(27)
Constitution of reserves								
Legal reserve			109			(109)		
Retained earnings			1,141			(1,141)		
Realization of reserves								
Revaluation of property, plant and equipment				(129)		129		
<b>BALANCE AT DECEMBER 31, 2011</b>	<b>3,412</b>	<b>3,954</b>	<b>3,293</b>	<b>1,081</b>	<b>5</b>			<b>11,745</b>



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**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

(MILLIONS OF R\$)

	2011	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
PROFIT FOR THE YEAR	2,415	2,258	2,206
<b>Expenses (revenues) not affecting cash and cash equivalents</b>			
Income tax and social contribution	(171)	(308)	235
Depreciation and amortization	939	896	895
Loss on disposal of property, plant and equipment and intangible assets	22		23
Interest and monetary variation	(783)	(516)	(339)
Operating provisions	342	(78)	(168)
Amortization of goodwill on acquisitions	86	72	34
Employee post-retirement benefits	287	208	243
	<b>3,137</b>	<b>2,532</b>	<b>3,129</b>
Increase (decrease) in assets			
Consumers and traders	(514)	(32)	(260)
Account receivable from the Minas Gerais State Government	173	116	127
Recoverable taxes	(168)	107	55
Income tax and social contribution recoverable	433	(75)	(128)
Concession holders - transport of energy	(27)	(34)	66
Escrow deposits	(226)	(400)	(245)
Financial assets	660	501	140
Other	(52)	(123)	20
	<b>279</b>	<b>60</b>	<b>(225)</b>
Increase (decrease) in liabilities			
Suppliers	69	269	(40)
Taxes payable	317	2	544
Payroll and related charges	29	(110)	59
Regulatory charges	104	60	(165)
Accrued interest - Loans, financings and debentures	246	286	(259)
Employee post-retirement benefits	(160)	(56)	(356)
Other	(123)	333	(167)
	<b>482</b>	<b>784</b>	<b>(384)</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>3,898</b>	<b>3,376</b>	<b>2,520</b>

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	2011	2010	2009
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
In investments	(177)		
In short-term investments	(37)	(322)	
In financial assets of the concession	(1,026)	(1,477)	(1,340)
In property, plant and equipment	(924)	(347)	(702)
In intangible assets	(1,852)	(2,298)	(1,607)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(4,016)</b>	<b>(4,444)</b>	<b>(3,649)</b>
<b>CASH FLOWS OF FINANCING ACTIVITIES</b>			
Loans, financings and debentures obtained	4,255	6,227	5,223
Repayment of loans, financings and debentures	(2,219)	(4,775)	(1,016)
Interest on capital and dividends paid	(2,035)	(1,829)	(937)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>1</b>	<b>(377)</b>	<b>3,270</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(118)</b>	<b>(1,445)</b>	<b>2,141</b>
<b>STATEMENT OF CHANGES IN CASH AND CASH EQUIVALENTS</b>			
Beginning of the year	2,980	4,425	2,284
End of the year	2,862	2,980	4,425
	<b>(118)</b>	<b>(1,445)</b>	<b>2,141</b>
<b>PAYMENTS MADE IN THE YEAR</b>			
Interest on loans, financings and debentures	1,082	803	688
Income tax and social contribution	885	502	731
<b>NONCASH TRANSACTIONS</b>			
Financial charges transferred to property, plant and equipment	47	17	5

The notes are an integral part of these consolidated financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS**

**AS AT DECEMBER 31, 2011 AND 2010**

**(FIGURES IN MILLIONS OF R\$, EXCEPT WHERE OTHERWISE INDICATED)**

**1. OPERATIONS**

a) The Company

Companhia Energética de Minas Gerais (CEMIG or the Company) is a listed Brazilian corporation, enrolled on the Brazilian Registry of Corporate Taxpayers (CNPJ) under 17.155.730/0001-64. Its shares are traded at Corporate Governance Level 1 on the BM&FBovespa exchange (Bovespa) and on the New York (NYSE) and Madrid (Latibex) Stock Exchanges. The Company is an entity domiciled in Brazil, with its head office at Avenida Barbacena 1200, Belo Horizonte, Minas Gerais. It operates exclusively as a holding company, with equity interests in individually or jointly controlled subsidiaries. The main objectives of its subsidiaries are the construction and operation of systems for generation, transformation, transmission, distribution and trading of electric power, as well as the development of activities in the different energy fields, for commercial purposes.

CEMIG has equity interests in the following subsidiaries and jointly controlled entities that were in operation at December 31, 2011:

- Cemig Geração e Transmissão S.A. (Cemig GT) (subsidiary) Electric power generation and transmission, through 52 power plants (46 hydroelectric power plants, 4 wind power plants and 2 thermoelectric power plants) and transmission lines, mostly belonging to the Brazilian national generation and transmission grid system.

Cemig GT has equity interests in the following subsidiaries and jointly controlled entities:

- Hidrelétrica Cachoeirão S.A. (Cachoeirão) (jointly controlled): Production and sale of electric power as an independent power producer, through the Cachoeirão hydroelectric power plant located at Pocrane, in the State of Minas Gerais. The plant began operating in 2009;

- Baguari Energia S.A. (Baguari Energia) (jointly controlled): Construction, operation, maintenance and commercial operation of the Baguari Hydroelectric Plant, through participation in the UHE Baguari Consortium (Baguari Energia 49.00% and Neoenergia 51.00%), located on the Doce river in Governador Valadares, the State of Minas Gerais. The plant began operation of its units during the period from September 2009 to

May 2010;

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- Transmissora Aliança de Energia Elétrica S.A (TAESA) (jointly controlled): Construction, operation and maintenance of electric power transmission facilities in 11 states of Brazil. TAESA has the following subsidiaries: Empresa de Transmissão do Alto Uruguai S.A. (ETAU), Brasnorte Transmissora de Energia S.A. (Brasnorte) and Abengoa.
  
  - Central Eólica Praias de Parajuru S.A. (Parajuru) (jointly controlled): Production and sale of electric power through the Parajuru wind farm, in the city of Beberibe, in the State of Ceará. The plant began operating in August 2009;
  
  - Central Eólica Praia do Morgado S.A. (Morgado) (jointly controlled): Production and sale of electric power at the Morgado wind farm in the city of Acaraú in the State of Ceará, Northern Brazil. The plant began operating in May 2010.
  
  - Central Eólica Volta do Rio S.A. (Volta do Rio) (jointly controlled): Production and sale of electric power at the Volta do Rio Wind Farm in the city of Acaraú in the State of Ceará, Northern Brazil. The plant began operating in September 2010.
  
  - Hidrelétrica Pipoca S.A. (Pipoca) (jointly controlled): Independent production of electric power, through construction and commercial operation of the Pipoca PCH (Small Hydro Plant), located on the Manhauçu River, in the cities of Caratinga and Ipanema, in the State of Minas Gerais. The plant began operating in October 2010.
  
  - Empresa Brasileira de Transmissão de Energia S.A. (EBTE) (jointly-controlled): Holder of a public electric power transmission service concession, through the transmission lines in the State of Mato Grosso. The transmission facility began operating in June 2011;
- Subsidiaries and jointly-controlled subsidiaries of Cemig GT at development stage:
- Guanhões Energia S.A. (Guanhões Energia) (jointly controlled): Production and trade of electric power through construction and commercial operation of the following Small Hydroelectric Plants (PCHs) in the State of Minas Gerais: Dores de Guanhões, Senhora do Porto and Jacaré, in the city of Dores de Guanhões; and Fortuna II, in the city of Virginópolis. It is scheduled to start operating the first turbine in October 2013;

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- Cemig Baguari Energia S.A. (Cemig Baguari) (subsidiary): Production and trade of electric power as an independent power producer, in future projects;
- Madeira Energia S.A. (Madeira) (jointly controlled): Implementation, construction, operation and commercial operation through its subsidiary Santo Antônio Energia S.A., of the Santo Antônio hydroelectric power plant located in the Madeira river basin in the State of Rondônia, with commercial operations start-up scheduled for 2012. Madeira incurred certain losses in recent years as it has been in a pre-operating stage, and at December 31, 2011, Madeira had a negative net working capital (current liabilities in excess of current assets) in the amount of R\$1,353 in its holding company and R\$1,279 when consolidated, R\$128 thousand of which rolls up into the financial information of Cemig GT based on its equity interest. Madeira was in a negative net working capital position at December 31, 2011 primarily because its debentures balance is due on September 30, 2012. In order to balance its working capital position, Madeira will receive a capital increase from its shareholders including CEMIG GT, estimated at R\$2,881 for the year 2012, to meet its short-term obligations. In its balance sheet as at December 31, 2011, Madeira has presented capital expenditures related to the construction and development project for the construction of the plant, which according to financial projections, should be absorbed by future revenue from operations. Madeira's property, plant and equipment balance at December 31, 2011 was approximately R\$11,510 (R\$1,151 of which rolls up into the financial information of Cemig GT). According to management's expectations, operations are scheduled to commence in the first quarter of 2012.
- Lightger S.A. ( Lightger ) (jointly controlled): Independent electric power production through construction and commercial operation of the hydroelectric powerstation referred to as the Paracambi Small Hydroelectric Power Plant, on the Ribeirão das Lages river in the city of Paracambi, in the State of Rio de Janeiro. The start up of operations is scheduled for the first semester of 2012;
- Amazônia Energia Participações S.A ( Amazônia Energia ) (jointly controlled) Special Purpose Company (SPC) established by Cemig GT and Light, for the purpose of acquisition of a 9.77% interest of North Energia SA ( NESA ), a holding company of the concession of the Belo Monte hydroelectric power plant ( Belo Monte Hydroelectric Plant ). Cemig GT holds a 74.5% interest in Amazônia Energia and Light holds 25.5%. The start up of operations is scheduled for February 2015;
- Cemig Distribuição S.A. (Cemig D ) (subsidiary) Distribution of electric power through distribution grids and lines in practically all of the State of Minas Gerais;
- Light S.A. ( Light ) (jointly controlled): Holding company that holds direct and indirect interests in other companies for operating electric power services, including generation, transmission, trading or distribution, and other related services. Light has the following subsidiaries and jointly-controlled subsidiaries:
- Light Serviços de Eletricidade S.A. ( Light SESA ) (subsidiary) listed company in Bovespa: Operating mainly in electric power distribution, in various municipalities of the State of Rio de Janeiro;
- Light Energia S.A. ( Light Energia ) (private subsidiary): Its main activities are studying, planning, building and commercially operating systems for generation, transmission, trading of electric power and related services. Light Energia has equity interests in Central Eólica São Judas Tadeu Ltda., Central Eólica Fontainha Ltda. and Renova Energia S.A.;



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- Light Esco Prestação de Serviços Ltda. ( Light Esco ) (subsidiary): Its main activity is purchasing, selling, importing and exporting of electric power, and providing of consulting services in the energy sector;
- Itaocara Energia Ltda. ( Itaocara Energia ) (subsidiary): A company in the development stage its main activities are the planning, construction, installation and commercial operation of electric power plants;
- Lightger Ltda. ( Lightger ) (jointly controlled): A company in the development stage, set up to participate in auctions of concessions, authorizations and permissions in new power plants. On December 24, 2008, Lightger obtained its installation license, authorizing the start of construction of its Paracambi Small Hydroelectric Plant. It is a jointly-controlled subsidiary of Light S.A. (with 51%) and Cemig GT (with 49%). The start up of operations is scheduled for beginning of 2012;
- Lighthidro Ltda. ( Light Hidro ) (subsidiary): A company in the development stage, set up to participate in auctions of concessions, authorizations and permissions in new power plants;
- Instituto Light para o Desenvolvimento Urbano e Social (Instituto Light): Its purpose is to participate in social and cultural projects, with a focus on the economic and social development of cities;
- Lightcom Comercializadora de Energia S.A. (Lightcom) (subsidiary): Involved in purchasing, selling, importing and exporting electric power and general consulting services in the free and regulated markets for electric power;
- Axxiom Soluções Tecnológicas S.A. (Axxiom) (jointly controlled): It provides technological solutions and systems for operational management of public service concessions, including electric power, gas, water and waste companies and other utilities. Jointly controlled by Light S.A (51%) and CEMIG (49%);
- Sá Carvalho S.A. (Sá Carvalho) (subsidiary): Production and sale of electric power, as an electric power public service concession holder, through the Sá Carvalho hydroelectric power plant;
- Usina Térmica Ipatinga S.A. (Ipatinga) (subsidiary): Production and sale, as an independent power producer, of thermoelectric power, through the Ipatinga thermoelectric power plant, located on the facilities of Usinas Siderúrgicas de Minas Gerais S.A. USIMINAS;
- Companhia de Gás de Minas Gerais GASMIG (GASMIG) (jointly controlled): Acquisition, transport and distribution of natural gas and related products, through a concession for distribution of gas in the State of Minas Gerais.;



- Cemig Telecomunicações S.A. (Cemig Telecom) (subsidiary): Providing telecommunications services and developing activities related to them, through an integrated system consisting of optical fiber cables, coaxial cables, and electronic and associated equipment (multi-service network). It holds 49% of Ativas Data Center (Ativas) (jointly controlled), the principal activity of which is providing services to supply IT and communications infrastructure, comprising hosting and related services for medium and large-sized corporations;

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- Efficientia S.A. (Efficientia) (subsidiary): Providing energy efficiency and optimization services and energy solutions through studies and execution of projects, as well as providing operation and maintenance services in energy supply facilities;
- Horizontes Energia S.A. (Horizontes) (subsidiary): Production and sale of electric power, as an independent power producer, through the Machado Mineiro and Salto do Paraopeba hydroelectric power plants in the the State of Minas Gerais, and the Salto do Voltão and Salto do Passo Velho power plants in the State of Santa Catarina;
- Central Termelétrica de Cogeração S.A. (Cogeração) (subsidiary): Production and sale of thermoelectric power produced as an independent producer in future projects;
- Rosal Energia S.A. (Rosal) (subsidiary): Production and sale of electric power, as an electric power public service concession holder, through the Rosal hydroelectric power plant located on the border between the States of Rio de Janeiro and Espírito Santo, Brazil;
- Empresa de Serviços e Comercialização de Energia Elétrica S.A. (formerly Central Hidrelétrica Pai Joaquim S.A. (subsidiary): Production and sale of electric power as an independent power producer in future projects;
- Cemig PCH S.A. (PCH) (subsidiary): Production and sale of electric power as an independent power producer, through the Pai Joaquim hydroelectric power plant;
- Cemig Capim Branco Energia S.A. (Capim Branco) (subsidiary): Production and sale of electric power as an independent power producer, through the Amador Aguiar I and II hydroelectric power plants, built through a consortium with private sector partners;
- Usina Termelétrica Barreiro S.A. (Barreiro) (subsidiary): Production and sale of electric power, as an independent thermoelectric power producer, through the construction and operation of the UTE Barreiro thermoelectric power plant, located in the facilities of V&M do Brasil S.A., in the State of Minas Gerais;
- Cemig Trading S.A. (Cemig Trading) (subsidiary): Sale and brokerage of electric power;
- Companhia Transleste de Transmissão (Transleste) (jointly controlled): Operation of the transmission line connecting the substation located in Montes Claros and the substation of the Irapé hydroelectric power plant;

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- Companhia Transudeste de Transmissão (Transudeste) (jointly controlled): Construction, operation and maintenance of the Itutinga Juiz de Fora transmission line;
  
- Companhia Transirapé de Transmissão (Transirapé) (jointly controlled): Construction, operation and maintenance of the Irapé Araçuaí transmission line;

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- Empresa Paraense de Transmissão de Energia S.A. (ETEP) (jointly controlled): Holder of an electric power public service concession for a transmission line in the State of Pará. ETEP has set up the subsidiary Empresa Santos Dumont de Energia S.A. (ESDE);
- Empresa Norte de Transmissão de Energia S.A. (ENTE) (jointly controlled): Holder of an electric power public service concession for transmission through two transmission lines in the States of Pará and Maranhão;
- Empresa Regional de Transmissão de Energia S.A. (ERTE) (jointly controlled): Holder of an electric power public service concession for a transmission line in the State of Pará;
- Empresa Amazonense de Transmissão de Energia S.A. (EATE) (jointly controlled): Holder of an electric power public service concession for the transmission lines between the substations of Tucuruí, Marabá, Imperatriz, Presidente Dutra and Açailândia. EATE has interests in the following transmission companies: Empresa Brasileira de Transmissão de Energia S.A. (EBTE) (jointly controlled); Sistema de Transmissão Catarinense S.A. (STC) (subsidiary) and Lumitrans Companhia Transmissora de Energia Elétrica S.A. (Lumitrans) (subsidiary);
- Empresa Catarinense de Transmissão de Energia S.A. (ECTE) (jointly controlled): Holder of an electric power public service concession for transmission lines in the State of Santa Catarina;
- Axxiom Soluções Tecnológicas S.A. (Axxiom) (jointly controlled): Providing technological solutions and systems for operational management of public service concessions, including electric power, gas, water and waste companies and other utilities. Jointly controlled by Light S.A (51%) and Cemig (49%);
- Transchile Charrúa Transmisión S.A. (Transchile) (jointly controlled): Implementation, operation and maintenance of the Charrúa Nueva Temuco transmission line and two transmission line sections in the Charrúa and Nueva Temuco substations, in the central region of Chile. The head office of Transchile is in Santiago, Chile. The transmission line began operating in January 2010;
- Companhia de Transmissão Centroeste de Minas (Centroeste) (jointly controlled): Construction, operation and maintenance of the Furnas Pimenta transmission line. The transmission line began operating in April 2010;
- Parati S.A Participações em Ativos de Energia Elétrica (Parati) (jointly controlled): holding company that holds interests in other Brazilian or foreign companies that operate in any activity. Parati holds a 6.42% interest in Light;

- Cemig Serviços (subsidiary): It provides services related to planning, construction, operation and maintenance of electric power generation, transmission and distribution systems, and provides administrative, commercial and engineering services in the different energy fields.

The joint control investments were made by CEMIG and its subsidiaries through shareholders agreements with the other shareholders of the investee companies.

(b) The electric power sector in Brazil:

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The Brazilian electric power sector is regulated by the Federal Government through the Ministry of Mining and Energy (MME), which has exclusive authority over the sector. The regulatory policy for the sector is implemented by the Brazilian National Electric Power Agency (ANEEL).

Retail supply of electric power by the Company and its subsidiaries and jointly-controlled subsidiaries takes place in accordance with the clauses in the long-term electric power sales concession agreements.

Under the distribution concession agreements, the Company is authorized to charge its consumers a rate for supply of electric power that consists of two components: 1) a portion related to the generation, transmission and distribution costs that are non-manageable (Portion A Costs); and (2) a portion of operating costs (Portion B Costs). Both components are established as part of the original concession for given initial periods. Subsequent to the initial periods, and at regular intervals, ANNEL has the authority to review the Company's costs to determine inflation adjustments (or other similar adjustment factors), if any, applicable to the Portion B Costs (the Scaling Adjustment) for the subsequent period. This review may result in a positive, null or negative scaling adjustment.

In addition to the adjustments related to the Portion A and Portion B Costs mentioned above, the electric power supply concessions have an annual tariff adjustment based on various factors, including inflation. Following regulatory changes made in December 2001, the Company may now apply for tariff adjustments arising from significant events that disrupt the economic-financial balance of its business. Other normal or recurring events (such as increases in electricity purchased, taxes on revenue or even local inflation) may also be absorbed through specific tariff increases. When the Company requests a tariff adjustment, it is necessary to prove the financial impact on its operations resulting from these events.

In the generation business, the Company also sells energy through auctions for distribution through the captive market and it also sells energy to free consumers in the free contracting environment. In the free contracting environment, energy is traded through the generation concessionaires, small hydroelectric power plants, self generators, retailers and importers of energy.

Free consumers are those whose demand exceeds 3MW at 69kV or a higher voltage level or any voltage level, if supply started after July 1995.

Once the consumer has opted for the free market, he can only return to the regulated system if he informs the distributor of his area five years in advance. This period of notice ensures that, if necessary, the distributor may purchase additional energy to meet the re-entry of free consumers in the regulated market. The state generators can sell electricity to free consumers, but contrary to private generators they are required to do so through an auction process.

According to the transmission concession contracts, the Company is authorized to charge the rates for use of the transmission system (TUST). The rates are adjusted annually on the same date as the adjustments of permitted annual revenues (RAP) of the transmission concessionaires. The tariff period begins on July 1 of the year of publication of tariffs until June 30 of the following year.

In Brazil the transport of large amounts of electricity over long distances is done using a network of transmission lines and substations at voltages equal to or higher than 230 kV, known as the Basic Network.

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Any agent of the electricity sector that produces or consumes electricity has the right to use this basic network, as well as consumers that meet certain technical and legal requirements. This is called Open Access, assured by law and guaranteed by ANEEL.

The operation and administration of the basic network is the responsibility of the National Electric System Operator (ONS), a legal entity of private law, regulated and supervised by ANEEL, and integrated by the holders of generation, transmission, distribution and trading rights and also by consumers with a direct connection to the basic network. ONS is responsible for managing the dispatch of electric power from the power plants under optimized conditions, involving the use of the dams of the hydroelectric power plants and the fuel of the national interconnected system.

The payment for the use of transmission also applies to the generation of Itaipu. However, due to the legal characteristics of this power plant, the corresponding charges are assumed by distribution concessionaires, holders of the respective shares of the hydroelectric power plant's power.

## **2 BASIS OF PREPARATION**

### **2.1 Statement of compliance**

The financial statements have been prepared in accordance with Brazilian Accounting Standards (BR GAAP), comprising the Brazilian Corporation Law, based on Law 11638 of 2007 and Law 11941 of 2009, the statements, orientations and interpretations issued by the Accounting Pronouncements Committee (CPC); and the rules of the Brazilian Securities Commission (CVM).

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and also in accordance with accounting practices adopted in Brazil.

On March 6, 2012, the Company's Executive Board authorized the issuing of the Financial Statements for the year ended December 31, 2011, and consequent submission to the Board of Directors.

### **2.2 Basis of measurement**

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

- Financial instruments and derivative financial instruments are measured at fair value;



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

### **2.3. Functional and presentation currency**

These consolidated financial statements are presented in Reais, which is the Company's functional currency. All financial information is presented in millions of Reais, except where otherwise indicated.

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**2.4. Use of estimates and judgment**

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

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

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

- Note 8 Allowance for doubtful accounts;
  
- Note 10 Deferred income tax and social contribution;
  
- Note 15 Depreciation;
  
- Note 16 Amortization;
  
- Note 21 Employee post-retirement benefits;
  
- Note 22 Provisions;
  
- Note 24 Unbilled electric power supplied;
  
- Note 29 Fair value measurements and derivative financial instruments.



Table of Contents**2.5 Reclassifications of account balances, 2010**

Original Accounts	2010	2009
<b>Financial Statement</b>		
<b>CURRENT ASSETS</b>		
Other credits	(30)	
	<b>(30)</b>	
<b>NON-CURRENT</b>		
Investments	(24)	
	<b>(24)</b>	
<b>INCOME STATEMENT</b>		
Revenue from supply of electricity	(133)	(265)
Construction Revenue		
Revenue from use of the transmission grid	(358)	
	<b>(491)</b>	<b>(265)</b>
Construction Cost		
Other operating expenses, net	(144)	
Employees and managers profit shares	(313)	(239)
	<b>(457)</b>	<b>(239)</b>
<b>Financial Revenues</b>		
Gains on financial instruments	(8)	(1)
	<b>(8)</b>	<b>(1)</b>
<b>Statement of Value Added</b>		
Sale of Energy, Gas and services		
Construction Cost		
Other operating expenses	(344)	
Financial Revenues	(8)	
<b>Statement of Cash Flows</b>		
<b>Expenses (revenues) not affecting cash and cash equivalents</b>		
<b>(Increase) / decrease in assets</b>		
Recoverable taxes	33	
Recoverable Income tax and social contribution		
Financial assets of the concession		
<b>(Increase) / decrease in liabilities</b>		
Recoverable taxes	2	
Income tax and social contribution payable		
Losses on financial instruments	(9)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
In financial assets of the concession	81	
	<b>2010</b>	<b>2009</b>
	<b>(Reclassified)</b>	<b>(Reclassified)</b>
<b>Reclassifications Accounts</b>		
<b>Financial Statement</b>		
<b>CURRENT ASSETS</b>		
Traders free energy transactions	30	
	<b>30</b>	
<b>NON-CURRENT</b>		
Other credits	24	

	<b>24</b>	
<b>INCOME STATEMENT</b>		
Other operating revenues	133	265
Construction Revenue	983	1,291
Construction Revenue	358	
	<b>1,474</b>	<b>1,556</b>
Construction Cost	983	1,291
Construction Cost	144	
Other operating expenses, net	313	239
	<b>1,440</b>	<b>1,530</b>
<b>Financial Expenses</b>		
Losses on financial instruments	8	1
	<b>8</b>	<b>1</b>
<b>Statement of Value Added</b>		
Sale of Energy, Gas and services	983	
Construction Cost	983	
Construction Cost	344	
Interest	8	
<b>Statement of Cash Flows</b>		
<b>Expenses (revenues) not affecting cash and cash equivalents</b>		
Interest and monetary variation	(582)	(190)
<b>(Increase) / decrease in assets</b>		
Recoverable taxes	108	55
Recoverable Income tax and social contribution	(75)	(128)
Financial assets of the concession	501	140
<b>(Increase) / decrease in liabilities</b>		
Recoverable taxes	350	
Income tax and social contribution payable	(349)	
Other	(9)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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The reclassifications presented above were made to provide more relevant information related to the following items:

- Investments: information not relevant individually, related to the cost of acquisition of interests in audiovisual projects in accordance with the tax incentive law in force;
- Construction Revenue and Cost: Presented at the net amount in the Consolidated Statements of Income and Value Added in 2010, which were separated to enable evaluation of their amounts and their impacts on revenue and operating expenses;
- Employee and manager profit sharing, presented as an item of operating costs in 2010 and which was reclassified to other operating expenses as it addresses distribution of results based on overall corporate goals, defined in the specific collective bargaining agreement;
- Financial Results: presents the results of financial instruments on a net basis, a gain or loss in the period;
- Financial Assets: reclassification for better presentation of revenue from financial assets from operating activities and investments;

The other items have been reclassified for better presentation of their effects on financial statements.

**2.6. Significant accounting policies**

The accounting policies described below have been applied consistently to all periods presented in these individual and consolidated financial statements.

The accounting policies have been applied consistently by the entities of the group.

a) Financial instruments

*Non-derivative financial assets* The Company initially recognizes loans and receivables and deposits on the date that they are originated. All the other financial assets (including assets designated at fair value through profit and loss) are recognized initially on the date of trading, which is

the date that the Company becomes one of the parties to the contractual provisions of the instrument.

The Company derecognizes a non-derivative financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction where substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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The Company has the following non-derivative financial assets: Cash, bank deposits, Cash equivalents and Short-term investments measured at fair value through profit or loss, Consumers and traders, Concession holders transport of energy, Account receivable from the State of Minas Gerais Government and Financial assets of the concession, recognized at their nominal value and similar to their fair values.

*Non-derivative financial liabilities* The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date on which is the date the Company becomes a party to the contractual provisions of the instrument. The company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company has the following non-derivative financial liabilities: loans and financing, debentures, suppliers and other obligations. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

*Share Capital* Common shares are classified as shareholders equity. Preferred shares are classified as shareholders equity if they are not redeemable, or redeemable only at the Company s option. Owners of preferred shares do not have the right to vote but do have preference in the liquidation of the share capital. The rights to mandatory minimum dividends as established for the preferred shares are described in Note 23.

The mandatory minimum dividends as defined in the by-laws are recognized as a liability in the statement of financial position.

*Financial instruments at fair value through profit or loss* A financial asset is classified as a financial instrument at fair value through the profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company s documented risk management or investment strategy. Attributable transaction costs are recognized in the income statement when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes in the fair value are recognized in the income statement for the period.

The Company holds the following types of financial instruments at fair value through profit or loss: short-term investments and cash equivalents.

*Loans and receivables* Loans and receivables are financial assets with fixed or calculable payments that are not quoted on an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at the amortized cost using the effective interest method, less any impairment losses.

The Company holds the following types of loans and receivables: cash, consumers and traders, concession holders transport of energy, accounts receivable from the Government of the State of Minas Gerais, CRC account securitization fund (FIDC), financial assets of the concession and traders free energy transactions.





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Cash and cash equivalents comprise cash balances, financial deposits and short-term investments with original maturity of three months or less from the date of its contract and are subject to an insignificant risk of change in value, classified as loans and receivables. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

The Company recognizes a financial asset resulting from a service concession agreement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrading of services provided. These financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition the financial assets are measured at amortized cost and classified as loans and receivables.

*Derivative financial instruments and hedging activities* - The jointly controlled subsidiary Madeira holds financial hedge derivative instruments to hedge cash flow and regulate the main financial risk exposures, and the subsidiary Cemig Distribuição holds financial hedge derivative instruments to manage their exposures to risks of changes in foreign currency. Derivatives are initially recognized at fair value and attributable transaction costs are recognized in the income statement when incurred. After initial recognition, derivatives are measured at fair value and changes in fair value are recorded in the income statement, except in the circumstances described below for hedge accounting.

The method of accounting for gains and losses of derivatives is subject to the possible classification of the derivative instrument as a cash flow hedge. The effective portion of the changes in fair value of derivatives designated and described as cash flow hedge is recognized in other comprehensive income. The gain or loss related to the ineffective portion is recognized immediately in financial income. The amounts accumulated in equity are realized in the Income Statement in the periods when the hedged item affects the result. For derivatives that are not classified as cash flow hedge, changes in fair value are recognized as gains or losses in the financial results.

For the use of hedge accounting, Madeira applies its policy classifying the applicable derivatives as cash flow hedge, emphasizing that its management considers the instruments that offset between 80% and 125% of the change in price of the item for which the hedge was taken out as highly effective.

b) Foreign currency

Transactions in foreign currencies are translated into the Company's respective functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated into the functional currency at the exchange rate on that date. The exchange gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments made during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the exchange rate on the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate on the date of the transaction.

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Gains and losses arising from changes in foreign currencies related to the jointly-controlled subsidiary Transchile are recognized directly in shareholders' equity as an accumulated foreign currency translation adjustment, and are recognized in the income statement when these investments are sold, in whole or in part. The financial statements of subsidiaries outside Brazil are adjusted to Brazilian and international accounting practices and are subsequently translated into the Company's functional currency at the exchange rate on the reporting date.

c) Consumers and Traders

Accounts receivable from consumers, traders and concessionaires are recorded initially at fair value, whether already invoiced or not, and, subsequently, measured by amortized cost. The receivable balance includes the respective direct taxes that are the Company's tax responsibility, less any applicable tax credits that were withheld at the source.

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

For large consumers an analysis of individual debtors and the actions underway to receive credits is made.

d) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the principle of average cost of acquisition and includes expenditures incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition. The materials purchased for inventory purposes are classified in current assets; the materials destined for construction of property, plant and equipment or intangible assets are classified in property, plant and equipment or intangible assets, and are not depreciated or amortized.

Net realizable value is the estimated selling price in the normal course of business, less the estimated costs of completion and selling expenses.

e) Operating leases

Payments made under operating lease agreements are recognized as expenses in the income statement on a straight-line basis over the period of the leasing agreement.

f) Assets linked to the concession

*Distribution activity*

The portion of the assets of the concession that will be fully amortized during the concession period are recorded as intangible assets and are fully amortized during the concession agreement period.

Amortization is calculated on a straight-line basis over the useful lives of the distribution assets, using the distribution amortization rates established by ANEEL, and reflect the estimated useful life of the assets.

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The Company assesses the residual value of the distributions assets, which represents the amount that will not be fully amortized by the end of the concession period. The residual value is reported in the consolidated financial statements as a financial asset because it represents an unconditional right to receive cash or another financial asset directly from the grantor at the end of the concession agreement period.

New distribution assets are recorded initially in intangible assets, stated at the cost of acquisition, including the capitalized borrowing costs. When these assets are placed in service, the Company assesses whether there will be any residual value at the end of the concession agreement period and then reclassifies the residual value amount to financial assets, in accordance with the criteria mentioned in the previous paragraphs.

When an asset is replaced, the net book value of the asset is written off as an expense to the income statement.

*Transmission activity*

For new transmission concessions, granted after the year 2000, the costs related to the construction of the infrastructure are expensed when incurred. The Company recognizes construction revenue by reference to the stage of completion of a contract, which includes the taxes applicable to the revenue and any profit margin.

Only the costs of the infrastructure that will be used during the concession are recorded in the income statement. The portion of the assets that will not be used during the concession is recorded as a financial asset, because there is an unconditional right to receive cash or other financial assets directly from the grantor at the end of the concession agreement period.

For new transmission concessions, granted after the year 2000, the transmission revenue to be received throughout the concession agreement period, adjusted at fair value, is recorded in financial assets, during the construction period of the transmission lines.

For old transmission concessions, granted before the year 2000, the Company has not adopted the IFRIC 12 retrospectively due to the volume and age of the assets. Instead, the net book values of these assets were used and classified as financial assets for purposes of the first-time adoption of IFRS.

As the Company earns transmission revenue through making its transmission network available to users, and there have been no historical issues with respect to the demand for transmission activity, the Company considers there is no significant risk of a shortage of demand for transmission activity. Accordingly, the transmission assets have been classified as financial assets in the consolidated financial statements.

Of the total amounts billed, the portion related to the operation and maintenance of the assets is recorded as revenue, and the portion related to the construction revenue, originally recorded at the time of formation of the assets, is used to recover the financial assets.

Additions for expansion and reinforcement generate additional cash flow from the grantor and, therefore, this new cash flow is incorporated into the balance of the financial asset.

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*Gas Activity*

The portion of the assets of the concession that will be fully used during the concession period are recorded as intangible assets and are fully amortized during the concession agreement period.

The amortization for the gas related assets is calculated on a straight-line basis over the useful lives of the gas related assets, using the amortization rates based on the useful life estimates made by Management.

The Company has measured the value of the assets which will not be fully amortized by the end of the concession agreement period and reports this amount as a financial asset because it is an unconditional right to receive cash or other financial asset directly from the grantor.

New gas related assets are recorded initially in intangible assets, valued at the cost of acquisition, including capitalized borrowing costs. When these assets are placed in service, the Company assesses whether there will be any residual value at the end of the concession agreement period and then reclassifies the residual value to financial assets, in accordance with the criteria described in the previous paragraphs.

When an asset is replaced, the net book value of the assets is written off as an expense to the income statement.

*Wind Power Generation Activity*

The costs related to construction of the infrastructure are recorded in the income statement when calculating and recording construction revenue based on the stage of completion of the work performed, including taxes on income and any profit margin.

The balances of assets, used during the concession period, are recognized as Intangible Assets.

g) Intangible assets

Intangible assets are assets related to service concession agreements and software.

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The Company recognizes intangible assets either through acquisition from third parties or internally generated. For an intangible asset acquired from third parties, the Company values the asset in the financial statements at its total cost of acquisition, net of accumulated amortization. For an internally-generated intangible asset, the Company recognizes the intangible asset during its development phase only if use of the asset is technically feasible and if the asset is likely to produce future economic benefits. The Company values its internally-generated intangible assets at cost, net of accumulated amortization and accumulated impairment losses.

For intangible assets linked to the concession, the accounting practices as described in the item `assets linked to the concession` above are applied.



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h) Property, plant and equipment

Items of property, plant and equipment are measured at acquisition or formation cost, including deemed cost and borrowing costs, less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of assets built by the Company includes the cost of materials and direct labor, and any other costs directly attributable to bringing the assets to their present location and in working conditions for their intended use.

The subsequent costs are capitalized to the extent that is probable that future benefits associated with the expenses will flow to the Company.

The carrying amount of the replaced asset is written-off, and the repairs and maintenance costs are fully recorded in the the income statement.

Depreciation and amortization are calculated on the balance of property, plant and equipment in service and on the underlying asset balances of investments in consortia, on a straight-line basis, using the rates determined by ANEEL for the assets related to electricity activities, and reflect the estimated useful life of the assets.

The principal depreciation rates applied to the Company's property, plant and equipment assets are shown in Note 15.

Interest and other financing charges incurred on financings linked to the construction in progress during the construction period are capitalized as constructions in progress and consortias.

For borrowings raised for construction purposes of a specific asset of plant, property and equipment, the Company capitalizes all the financial costs related to the borrowings directly to the respective asset constructed. For other borrowings raised that are not linked directly to a specific asset of property, plant and equipment, a weighted average rate is used to capitalize and allocate the borrowing costs of these loans.

i) Impairment

*Financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter into bankruptcy or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables at both a specific asset and collective level.

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All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

When assessing collective impairment, the Company uses past trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted to reflect management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

*Non-financial Assets*

The carrying amounts of the Company's non-financial assets, other than inventories and deferred income tax and social contribution, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated. The carrying amount of property, plant and equipment and intangible assets is tested if there is evidence that an asset may be impaired.

j) Employee benefits

*Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (pension fund) and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the income statement in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

*Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their services rendered in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on well rated bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the asset to be recognized is limited to

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the total of any unrecognized past service costs and net actuarial losses and the present value of the economic benefits available in the form of future reimbursements available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of the economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan's liabilities.

When the benefits of a plan are improved, the portion of the increased benefit related to the past service of the employees is recognized in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the income statement.

The Company recognizes all actuarial gains and losses in excess of 10% of the plan assets or 10% of the plan's liabilities in the income statement over approximately 11 years (the average time of future service of the present active participants), since 2009.

For the Company's defined benefit pension plan obligations, the liability recorded in the statement of financial position is the greater of: a) the debt agreed-upon with the foundation for amortization of the actuarial obligations, and b) the present value of the actuarial obligation after deduction of the fair value of plan assets, as calculated by a qualified actuary and provided in the actuarial opinion. In the years presented, the debt agreed-upon with the foundation is greater than the amounts of the actuarial report. In this case, the annual amount recorded in the income statement corresponds to the charges and monetary variation on that debt, which is recognized as a financial expense of the Company.

*Other long-term employee benefits*

The Company's net obligation in respect of long-term employee benefits other than pension plans is the amount of the future benefit that employees have earned in return for their service in current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on well rated bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method. Any actuarial gains and losses are recognized in the income statement in the period in which they arise.

The procedures mentioned above are used for the actuarial obligations related to the Company's employee health plan, life insurance plan, and dental plan.

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*Termination benefits*

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be reliably estimated reliably.

*Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee, and the obligation can be estimated reliably. Employee profit sharing specified in the Company's by-laws is accrued in accordance with the requirements established in the collective agreements with the employee unions and recorded in employee and manager profit sharing.

k) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or not formal obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**Concessions Contracts** A provision for onerous concessions is recognized when the expected benefits to be derived from the contract are lower than the unavoidable cost of meeting the obligations of the concession. The provision is measured at present value at the lower of the expected cost of terminating the concession contract and the expected net cost of continuing with it.

l) Interest on capital

The interest on capital paid in substitution of cash dividends, although recorded for tax purposes as a financial expense, is presented in the consolidated financial statements as an amount reducing shareholders' equity, so as to reflect the essence of the transaction.

m) Income tax and social contribution

Current and deferred income tax and the social contribution are calculated based on the rates of 15%, plus a surcharge of 10% on taxable income exceeding R\$240 thousand, for income tax, and 9% on taxable income for the social contribution, and take into account offsetting of tax loss carry forwards and negative balances for calculation of social contribution, limited to 30% of the taxable income.

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The income tax and social contribution expense comprises current and deferred taxes. The current tax and the deferred tax are recognized in the income statement unless they are related to a business combination, or items directly recognized in shareholders' equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the rates that are expected to be applied to temporary differences when they are reversed, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they are related to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

n) Revenue

In general, for the Company's business in electric power, gas, telecommunications and other sectors, revenues are recognized when there is persuasive evidence, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer on services rendered and goods sold. It is associated costs and possible return from sales can be estimated reliably, and the amount of revenue can be measured reliably.

Revenue from electric power sales are recorded based on the energy delivered and the tariffs specified in the contractual terms or in effect in the market. Revenues for energy supplied of electric power to end consumers are recorded when the energy is supplied to customers. The invoicing is performed on a monthly basis. Unbilled energy supplied, from the period between the last billing and the end of each month, is estimated based on the billing from the previous month and is accrued at the end of the month. The differences between the amounts accrued and the actual revenues realized, which have not historically been significant, are recorded in the following month.



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Revenue from the supply of electric power to the Brazilian grid system is recorded when the supply has taken place and is invoiced to consumers on a monthly basis, in accordance with the payment schedules specified in the concession agreement.

Revenue from other operators and from free consumers that use its transmission (older concessions) and distribution grids is recorded in the month in which the network services are provided.

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For newer transmission concessions, the portion of the invoicing related to operation and maintenance of the transmission lines is recorded on a monthly basis as revenues in the income statement. The revenue related to construction services under the contract for service concessions is recognized on a percentage of completion basis.

For the older transmission concessions, the fair value of the operation and maintenance of the transmission lines and the remuneration of the financial asset are recorded as revenue in the income statement each month.

The services provided include charges for connection and other related services and revenues are recorded when the services are provided.

o) Financial income and financial costs

Financial income includes interest income on funds invested, fee income for consumer payments made late, interest income on financial assets of the concession, interest income on other financial assets. Interest income is recognized in the income statement using the effective interest method.

Financial costs include interest expense on borrowings and foreign exchange and monetary variation on borrowings. Interest expense on the Company's borrowings is recognized using the effective interest method.

p) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit or loss attributable to the controlling shareholders and minority interest of the Company by the weighted average number of common and preferred shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the controlling shareholders and minority interest and the weighted average number of common and preferred shares outstanding, adjusted for own shares held, for the effects of all dilutive potential shares, with the diluted effect in the periods presented.

q) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses related to transactions with any of the Company's other components. All operating results of operating segments are reviewed regularly by the Company's CEO to make decisions on resources to be allocated to the segment and to assess its performance, and for which individual financial information is available.

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Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax and social contribution assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

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r) New accounting pronouncements not yet adopted

As a result of the process of standardization of Brazilian accounting rules with international standards, there are expectations that the new standards, amendments and interpretations of IFRS to be issued by the IASB will also be approved by the CPC in Brazil before the required date for them to come into effect.

Accordingly, we present below, in the Company's interpretation, the changes in IFRS expected to take place after December 31, 2011 and not yet adopted in Brazil which might impact Cemig's Accounting Statements, and the possible effects of which are still being evaluated by the Management:

- IAS 1 - Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income. This international accounting standard is effective for fiscal years beginning on or after January 1, 2012.
- IAS 19 - Employee Benefits - The objective of IAS 19 is to prescribe the accounting and disclosure of employee benefits (i.e. all forms of consideration given by an entity in exchange for service rendered by employees). This international accounting standard is effective for fiscal years beginning on or after January 1, 2013, with earlier application permitted.
- IAS 27 - Consolidated and Separate Financial Statements (revised in 2011) - Superseded by IFRS 10 and IFRS 12, the main objective of IAS 27 is the accounting for investments in subsidiaries, jointly controlled entities, and affiliated companies when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. This international accounting standard is effective for fiscal years beginning on or after January 1, 2013.
- IAS 28 - Investments in Affiliated companies and joint ventures (revised in 2011) - Superseded by IFRS 11 and IFRS 12, IAS 28 applies to all investments in which an investor has significant influence but not control or joint control except for investments held by a venture capital organization, mutual fund and unit trust. This international accounting standard is effective for fiscal years beginning on or after January 1, 2013.
- IAS 32 - The purpose of the changes is to clearly explain the compensation requirements of financial instruments, where the main explanations are related to the meaning of a legally executable right to be settled by the net amount and where some settlement systems at the gross amount may be considered equivalent to settlement at the net amount. This amendment comes into force on or as from January 1, 2014.
- IFRS 7 Financial Instruments: Disclosures. Effective starting on July 1, 2011. This standard requires certain disclosures to be presented by category of instrument based on the IAS 39 measurement categories. The designation is made at the time of initial recognition. The classification depends on both the entity's business model and the cash flow characteristics of the financial instrument. Regarding financial liabilities, the standard does not change most of the established demands in IAS 39.



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- IFRS 9 Financial Instruments Effective starting on January 1, 2013 This standard simplifies the model for measurement of financial assets and establishes two main categories of measurement: amortized cost and fair value. Any changes in the fair value of liabilities valued at fair value would not have an effect on the statement of other comprehensive income, because they would be recognized in the statement of other accumulated comprehensive income.
  
- IFRS 10 Consolidated Financial Statements - Effective starting on January 1, 2013. This standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It also defines the principle of control, and establishes control as the basis for consolidation. It establishes how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee.
  
- IFRS 11 - Joint arrangements Effective starting on January 1, 2013, but earlier adoption is encouraged. The core principle of IFRS 11 is that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint agreement. There are two types of joint arrangements: (i) joint operations, a situation in which an operator has assets and contractual obligations and, as a consequence, it recognizes its share in the assets and liabilities, revenues and expenses and (ii) joint control, a situation in which an operator has the right over the contractual net assets and as a consequence it recognizes the investment using the equity method. The main change is that if the type of joint arrangement is not a joint venture, the entities must use the equity method extinguishing the proportional consolidation which will impact consolidation for all jointly controlled entities in the Group.
  
- IFRS 12 Disclosure of interests in other entities Effective starting on January 1, 2013. This standard establishes disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, affiliated companies and unconsolidated structured entities and the effects on its financial position, financial performance and cash flows.
  
- IFRS 13 Fair Value Measurement - Effective starting on January 1, 2013. This standard defines fair value, set out in a single IFRS framework for measuring fair value and requires disclosures of fair value measurements. The main change is the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard requires using significant unobservable inputs for fair value measurements. To meet the disclosure objective, the following minimum disclosures are required for each class of assets and liabilities measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition. (Note that these requirements have been summarized and additional disclosure is required where necessary).

s) Determination of adjustment to present value

The Company applied the adjustment to present value on certain onerous concession contracts and also on the balance of the debentures issued by the Company. The discount rates used were consistent with the cost of raising funds in transactions with the same term on the date of the transactions, which represents, in the Company's estimation, a percentage of 12.50%, including inflation expectations.



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**3.PRINCIPLES OF CONSOLIDATION**

The financial statements of the subsidiaries and jointly-controlled subsidiaries described in Note 1 have been consolidated for purposes of the consolidated financial statements.

(a) Subsidiaries and jointly-controlled subsidiaries

The financial statements of subsidiaries and jointly-controlled subsidiaries are included in the consolidated financial statements from the date on which the control, or shared control, begins until the date on which the control or shared control ceases. The assets, liabilities and results of the jointly-controlled subsidiaries have been consolidated into the consolidated financial statements using proportional consolidation. The accounting policies of subsidiaries and jointly-controlled subsidiaries are aligned with the policies adopted by the Company.

The joint control of the Company is established through a shareholders' agreement signed previously, whose strategic, financial and operating decisions are taken with unanimous consent between the parties.

In some jointly controlled companies, Cemig has more than 50% of the voting rights, however, there are shareholders' agreements that give the minority shareholders relevant rights that represent the sharing of control.

(b) Consortia

The quota-part of the assets, liabilities and revenues and expenses of consortium operations is registered in the subsidiary that owns the corresponding equity interest.

(c) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated when preparing the consolidated financial statements. Unrealized gains arising from transactions with invested companies recorded under the equity method are eliminated against the investment in proportion to the Company's interest. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of a loss through impairment.

The references made in these financial statements of subsidiaries and jointly controlled companies are performed in proportion to the Company's interest.





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Transchile's financial statements, for consolidation purposes, are translated from U.S. dollars (Transchile's functional currency) to Reais based on the exchange rate at the reporting date, since CEMIG's functional currency is the Real. Foreign currency differences are recognized in other comprehensive income and are presented in shareholders' equity. Since January 1, 2009, CEMIG's date of transition to IFRS, the Company has applied IAS 21 "The Effects of Changes in Foreign Exchange Rates" and these differences have been recognized in the accumulated foreign currency translation adjustment.

The reporting dates of the remaining subsidiaries and jointly-controlled subsidiaries used for consolidation purposes coincide with those of the holding company.

The consolidated financial statements include the balances and transactions of the exclusive investment funds, the only unit holders of which are the Company and its subsidiaries. The funds comprise public and private debt securities and debentures of companies with a minimum Brazilian long-term risk rating of A+(bra), thus ensuring high liquidity of the securities.

The exclusive fund, the financial statements of which are regularly reviewed and audited, is subject to obligations restricted to payment for services rendered for administration of the assets, attributed to the operation of investments, such as custody fees, audit fees and other expenses. There are no significant financial obligations or assets of the unit holders to guarantee these obligations.

As shown in the table below, the Company uses full and proportional consolidation criteria when preparing its consolidated financial statements. The interest in the Company's subsidiaries and jointly-controlled subsidiaries presented in the table below is based on the subsidiary's share capital held by CEMIG.

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		2011		2010	
Subsidiaries and jointly controlled companies	Form of consolidation	Direct stake (%)	Indirect stake (%)	Direct stake (%)	Indirect stake (%)
<b>Subsidiaries and jointly controlled companies</b>					
Cemig Geração e Transmissão	Full	100		100	
Cemig Baguari Energia	Full		100		100
Hidrelétrica Cachoeirão	Proportional		49		49
Guanhães Energia	Proportional		49		49
Madeira Energia	Proportional		10		10
Hidrelétrica Pipoca	Proportional		49		49
Baguari Energia	Proportional		69.39		69.39
Empresa Brasileira de Transmissão de Energia EBTE	Proportional		49		49
Central Eólica Praias de Parajuru	Proportional		49		49
Central Eólica Volta do Rio	Proportional		49		49
Central Eólica Praias de Morgado	Proportional		49		49
Taesa	Proportional		56.69		56.69
Light Ger	Proportional		49		49
Amazônia Energia	Proportional		74.50		
Cemig Distribuição	Full	100		100	
Cemig Telecom	Full	100		100	
Ativas Data Center	Proportional		49		49
Rosal Energia	Full	100		100	
Sá Carvalho	Full	100		100	
Horizontes Energia	Full	100		100	
Usina Térmica Ipatinga	Full	100		100	
Cemig PCH	Full	100		100	
Cemig Capim Branco Energia	Full	100		100	
Cemig Trading	Full	100		100	
Efficientia	Full	100		100	
Central Termelétrica de Cogeração	Full	100		100	
UTE Barreiro	Full	100		100	
Empresa de Serviços e Comercialização de Energia					
Elétrica	Full	100		100	
Cemig Serviços	Full	100		100	
Gasmig	Proportional	55.19		55.19	
Companhia Transleste de Transmissão	Proportional	25		25	
Companhia Transudeste de Transmissão	Proportional	24		24	
Companhia Transirapé de Transmissão	Proportional	24.5		24.5	
Light	Proportional	26.06		26.06	
Light SESA	Full		26.06		26.06
Light Energia	Full		26.06		26.06
Light Esco	Full		26.06		26.06
Light Ger	Full		13.29		13.29
Light Soluções em Eletricidade	Full		26.06		26.06
Instituto Light	Full		26.06		26.06
Itaocara Energia	Full		26.06		26.06
Lightcom	Full		26.06		26.06
Axxiom	Proportional		13.29		13.29
Transchile	Proportional	49		49	
Companhia de Transmissão Centroeste de Minas	Proportional	51		51	
Empresa Amazonense de Transmissão de Energia					
EATE	Proportional	49.98		49.98	
Sistema de Transmissão Catarinense STC	Full		30.82		30.82
Lumitrans Cia. Transmissora de Energia Elétrica	Full		30.82		30.82
Empresa Brasileira de Transmissão de Energia EBTE	Proportional		19.65		19.65
Empresa Paraense de Transmissão de Energia ETEP	Proportional	49.98		49.98	
Empresa Santos Dumont Energia ESDE	Full		49.98		49.98

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Empresa Norte de Transmissão de Energia ENTE	Proportional	49.99	49.99
Empresa Regional de Transmissão de Energia ERTE	Proportional	49.99	49.99
Empresa Catarinense de Transmissão de Energia ECTE	Proportional	19.09	19.09
Axxiom	Proportional	49	49
Parati	Proportional	25	

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CEMIG and its subsidiaries and jointly-controlled subsidiaries hold the following concessions from ANEEL:

<b>GENERATION</b>	<b>Location</b>	<b>Date of Concession or Authorization</b>	<b>Date of Expiration</b>
	<b>Location: (RIVER)</b>		
<b>Hydroelectric power plants</b>			
São Simão	Rio Paranaíba	01/1965	01/2015
Emborcação	Rio Paranaíba	07/1975	07/2025
Nova Ponte	Rio Araguari	07/1975	07/2025
Jaguara	Rio Grande	08/1963	08/2013
Miranda	Rio Araguari	12/1986	12/2016
Três Marias	Rio São Francisco	04/1958	07/2015
Volta Grande	Rio Grande	02/1967	02/2017
Irapé	Rio Jequitinhonha	01/1999	02/2035
Aimorés	Rio Doce	07/2000	12/2035
Salto Grande	Rio Santo Antônio	10/1963	07/2015
Funil	Rio Grande	10/1964	12/2035
Queimado	Rio Preto	11/1997	01/2033
Itutinga	Rio Grande	01/1953	07/2015
Capim Branco I	Rio Araguari	08/2001	08/2036
Capim Branco II	Rio Araguari	08/2001	08/2036
Camargos	Rio Grande	08/1958	07/2015
Porto Estrela	Rio Santo Antônio	05/1997	07/2032
Igarapava	Rio Grande	05/1995	12/2028
Piau	Rio Piau / Pinho	10/1964	07/2015
Gafanhoto	Rio Pará	09/1953	07/2015
Sá Carvalho	Rio Piracicaba	12/1994	12/2024
Rosal	Itabapoana RJ	05/1997	05/2032
Pai Joaquim	Rio Araguari	04/2002	04/2032
Salto Paraopeba	Rio Paraopeba	10/2000	10/2030
Machado Mineiro	Rio Pardo	07/1995	07/2025
Salto do Passo Velho	Rio Capecozinho	10/2000	10/2030
Salto do Voltão	Rio Capecozinho	10/2000	10/2030
PCH Cachoeirão	Rio Manhuaçu	07/2000	07/2030
UHE Baguari	Rio Doce	08/2006	08/2041
PCH Pipoca	Rio Manhuaçu	09/2001	09/2031
Outras	Diversas	Diversas	Diversas
Light UHE Fontes Nova	Ribeirão dos Lajes	07/1996	06/2026
Light UHE Nilo Peçanha	Ribeirão dos Lajes	07/1996	06/2026
Light UHE Pereira Passos	Ribeirão dos Lajes	07/1996	06/2026
Light UHE Ilha dos Pombos	Rio Paraíba do Sul	07/1996	06/2026
Light UHE Santa Branca	Rio Paraíba do Sul	07/1996	06/2026
	<b>(CITY/STATE)</b>		
<b>Wind power plants (1)</b>			
Morro do Camelinho	Gouveia MG	03/2000	01/2017
Praias do Parajuru	Berberibe CE	09/2002	08/2029
Volta do Rio (2)	Aracajú CE	12/2001	08/2034
Praia de Morgado (2)	Aracajú CE	12/2001	08/2034

<b>Thermoelectric power plants (1)</b>	<b>CITY/STATE)</b>		
Igarapé	Juatuba MG	01/2005	08/2024
Ipatinga	Ipatinga MG	11/2000	12/2014
Barreiro	Belo Horizonte MG	02/2002	04/2023

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<b>Projects in progress Hydroelectric power plants</b>			
<b>(1)</b>	<b>(RIVER)</b>		
UHE Santo Antônio	Rio Madeira	06/2008	06/2043
PCH Dolores dos Guanhanes	Rio Guanhanes	11/2002	11/2032
PCH Fortuna II	Rio Guanhanes	12/2001	12/2031
PCH Senhora do Porto	Rio Guanhanes	10/2002	10/2032
PCH Jacaré	Rio Guanhanes	10/2002	10/2032
<b>TRANSMISSION</b>			
	<b>Location: (STATE)</b>		
National Grid	Minas Gerais	07/1997	07/2015
Sub-Estação SE Itajubá 3	Minas Gerais	10/2000	10/2030
Transleste LT Irapé Montes Claros	Minas Gerais	02/2004	02/2034
Transudeste LT Itutinga Juiz de Fora	Minas Gerais	03/2005	03/2035
Transirapé LT Irapé Araçuaí	Minas Gerais	03/2005	03/2035
EBTE LT Juína-Brasnorte	Mato Grosso	10/2008	10/2038
ETEP LT Tucuruí Vila do Conde	Pará	06/2001	06/2031
ENTE LTs Tucuruí Marabá Açailândia	Pará/Maranhão	12/2002	12/2032
ERTE LT Vila do Conde Santa Maria	Pará	12/2002	12/2032
EATE LT Tucuruí Presidente Dutra	Pará	06/2001	06/2031
ECTE LT Campos Novos Blumenau	Santa Catarina	11/2000	11/2030
STC LT Barra Grande	Santa Catarina	06/2006	06/2036
Lumitrans LT Machadinho	Santa Catarina	07/2004	07/2034
TAESA TSN (3)	Goiás/ Bahia	12/2000	12/2030
TAESA Munirah (4)	Bahia	02/2004	02/2034
TAESA Gtesa (5)	Pernambuco/ Paraíba	01/2002	01/2032
TAESA Patesa (6)	Rio Grande do Norte	12/2002	12/2032
TAESA NVT (7)	Maranhão/Distrito Federal	12/2000	12/2030
TAESA ETAU (8)	Santa Catarina/Rio G. do Sul	12/2002	12/2032
TAESA ETEO (9)	São Paulo	05/2000	05/2030
TAESA Brasnorte (10)	Mato Grosso	03/2008	03/2038
TAESA STE (11)	Rio Grande do Sul	12/2002	12/2032
TAESA ATE (12)	Paraná/São Paulo	02/2004	02/2034
TAESA ATE II (13)	Tocantins/Piauí/Bahia	03/2005	03/2035
TAESA ATE III (14)	Tocantins/Pará	03/2006	03/2036
Transchile LT Charrua Nova Temuco	Chile	05/2005	05/2028
Centroeste de Minas LT Furnas Pimenta	Minas Gerais	03/2005	03/2035
<b>Projects in progress Transmission</b>			
ESDE LT Barbacena2-Juiz de Fora 1	Minas Gerais	11/2009	11/2039
<b>DISTRIBUTION</b>			
Cemig Distribuição			
Norte	Minas Gerais	04/1997	02/2016
Sul	Minas Gerais	04/1997	02/2016
Leste	Minas Gerais	04/1997	02/2016
Oeste	Minas Gerais	04/1997	02/2016
Light SESA			
Região Metropolitana	Rio de Janeiro	07/1996	06/2026
Grande Rio	Rio de Janeiro	07/1996	06/2026
Vale do Paraíba	Rio de Janeiro	07/1996	06/2026

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- (1) The installed capacities shown refer to CEMIG's equity interests in the subsidiaries and jointly-controlled subsidiaries and also in consortia with private initiative. For further information see note 17.
  - (2) The expiration date of the concession is 20 years after the start up of operation.
  - (3) TSN Transmissora Sudeste Nordeste S.A.
  - (4) Munirah Transmissora de Energia S.A.

- (5) Gtesa Goiânia Transmissora de Energia S.A.
- (6) Paraíso Açú Transmissora de Energia S.A.
- (7) NVT Novatrans Energia S.A.
- (8) ETAU Empresa de Transmissão Alto Uruguai S.A.
- (9) ETEO Empresa de Transmissão de Energia do Oeste S.A.
- (10) Brasnorte Transmissora de Energia S.A.
- (11) STE Sul Transmissora de Energia S.A.
- (12) ATE Transmissora de Energia S.A.
- (13) ATE II Transmissora de Energia S.A.
- (14) ATE III Transmissora de Energia S.A.



Table of Contents**Onerous concessions**

When obtaining the concessions for construction of certain generation projects, the Company agreed to make payments to ANEEL during the concession agreement period as compensation for commercial exploration. The information on the Company's concessions and the amounts to be paid, refer to the table below:

Ventures	Carrying amount in	Present value in	Amortization period	Index
	2011	2011		
Porto Estrela (Consortium)	369	116	08/2001 to 07/2032	IGPM
Irapé	32	11	03/2006 to 02/2035	IGPM
Queimado (Consortium)	8	3	01/2004 to 12/2032	IGPM
Baguari (Consortium)	5	1	09/2009 to 09/2042	IPCA
Capim Branco (Consortium)	20	7	09/2007 to 08/2035	IGPM

The Company makes its payments to the grantor on a monthly basis in accordance with the payment schedule agreed upon by both the Company and ANEEL. While the agreed-upon payment schedules may stipulate varying monthly amounts of payment, for accounting purposes the Company used the updated carrying amount and recognized the expenses incurred on a straight-line basis over the concession contract period.

The payments paid to the grantor for the Porto Estrela, Irapé, Queimado, Baguari and Capim Branco plants in 2011 were approximately R\$125 thousand, R\$1.3 million, R\$370 thousand, R\$170 thousand and R\$776 thousand, respectively.

The present value of the payments to be paid in the 12-month period are: R\$5.4 million, R\$1.3 million, R\$367 thousand, R\$168 thousand and R\$771 thousand, respectively (face value amounts of R\$5.9 million, R\$1.4 million, R\$389 thousand, R\$178 thousand and R\$821 thousand).

The rate used by CEMIG to discount the face value of its onerous concession liabilities to present value was 12.50%, which represents the average borrowing rate under normal conditions on the transaction date.

Table of Contents**5. OPERATING SEGMENTS**

The Company has three primary operating segments: Generation, Transmission and Distribution. These primary operating segments are configured separately to reflect the regulatory framework of the Brazilian electric power sector, which has different legislations for each segment.

The segments mentioned above reflect the Company's management and its organizational and monitoring structure. Due to the structure of the regulatory framework, the operating segments were not set up per geographical area.

The Company also operates in the gas, telecommunications and other businesses markets, which have a smaller impact on the results of its operations.

The table below presents the consolidated income statement per operating segment for 2011 and 2010:

**FINANCIAL STATEMENTS BY ACTIVITY AT DECEMBER 31, 2011**

DESCRIPTION	ELECTRIC POWER						Elimination	Total
	Generation	Transmission	Distribution	Gas	Telecom	Other		
<b>ASSETS</b>	<b>12,104</b>	<b>9,060</b>	<b>13,128</b>	<b>854</b>	<b>420</b>	<b>14,702</b>	<b>(12,910)</b>	<b>37,358</b>
<b>INVESTMENTS</b>	<b>972</b>	<b>1,030</b>	<b>1,857</b>	<b>84</b>	<b>36</b>			<b>3,979</b>
<b>NET OPERATING REVENUE</b>	<b>3,783</b>	<b>1,354</b>	<b>10,548</b>	<b>458</b>	<b>125</b>	<b>51</b>	<b>(505)</b>	<b>15,814</b>
<b>COST OF OPERATION</b>								
<b>COST OF ELECTRICITY AND GAS</b>								
Electricity bought for resale	(587)		(3,921)				230	(4,278)
Charges for the use of the basic transmission grid	(268)		(812)				250	(830)
Gas bought for resale				(329)				(329)
<b>Total - Cost of Operation</b>	<b>(855)</b>		<b>(4,733)</b>	<b>(329)</b>			<b>480</b>	<b>(5,437)</b>
<b>OPERATING COSTS AND EXPENSES</b>								
Personnel and managers	(176)	(137)	(839)	(19)	(28)	(50)		(1,249)

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Employee and manager profit sharing	(35)	(20)	(148)		(2)	(16)		(221)
Post-employment obligations	(19)	(9)	(87)		(1)	(8)		(124)
Materials	(11)	(12)	(72)	(1)		(2)		(98)
Outsourced services	(131)	(72)	(802)	(7)	(21)	(18)	20	(1,031)
Depreciation and amortization	(388)	(3)	(495)	(18)	(35)			(939)
Operating provisions	(6)	(3)	(249)		(1)	2		(257)
Royalties for use of water resources	(154)							(154)
Construction Cost		(117)	(1,412)					(1,529)
Other	(60)	(36)	(236)	(5)	(16)	(14)	5	(362)
<b>Total - Operational Cost</b>	<b>(980)</b>	<b>(409)</b>	<b>(4,340)</b>	<b>(50)</b>	<b>(104)</b>	<b>(106)</b>	<b>25</b>	<b>(5,964)</b>
<b>TOTAL COST</b>	<b>(1,835)</b>	<b>(409)</b>	<b>(9,073)</b>	<b>(379)</b>	<b>(104)</b>	<b>(106)</b>	<b>505</b>	<b>(11,401)</b>
<b>GROSS PROFIT</b>	<b>1,948</b>	<b>945</b>	<b>1,475</b>	<b>79</b>	<b>21</b>	<b>(55)</b>		<b>4,413</b>
Equity gain (loss) on subsidiaries	(1)							(1)
Financial Income	178	130	362	26	11	185	103	995
Financial Expenses	(484)	(551)	(714)	(17)	(13)	(169)	(103)	(2,051)
<b>Profit before taxes</b>	<b>1,641</b>	<b>524</b>	<b>1,123</b>	<b>88</b>	<b>19</b>	<b>(39)</b>		<b>3,356</b>
Income tax and social contribution tax	(460)	(83)	(383)	(20)	(6)	(159)		(1,111)
Deferred income tax and social contribution tax	57	(77)	61		5	124		170
<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>1,238</b>	<b>364</b>	<b>801</b>	<b>68</b>	<b>18</b>	<b>(74)</b>		<b>2,415</b>

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## FINANCIAL STATEMENTS BY ACTIVITY DECEMBER 31, 2010

DESCRIPTION	ELECTRIC POWER							Total
	Generation	Transmission	Distribution	Gas	Telecom	Other	Elimination	
<b>ASSETS</b>	<b>11,549</b>	<b>7,906</b>	<b>11,197</b>	<b>842</b>	<b>390</b>	<b>13,641</b>	<b>(11,969)</b>	<b>33,556</b>
<b>INVESTMENTS</b>	<b>359</b>	<b>1,581</b>	<b>2,051</b>	<b>52</b>	<b>78</b>	<b>1</b>		<b>4,122</b>
<b>OPERATING INCOME</b>	<b>3,311</b>	<b>1,129</b>	<b>9,184</b>	<b>502</b>	<b>105</b>	<b>131</b>	<b>(515)</b>	<b>13,847</b>
<b>COST OF OPERATION</b>								
<b>COST OF ELECTRICITY AND GAS</b>								
Electricity bought for resale	(382)		(3,570)				230	(3,722)
Charges for the use of the basic transmission grid	(271)		(712)				254	(729)
Gas bought for resale				(225)				(225)
<b>Total - Cost of Operation</b>	<b>(653)</b>		<b>(4,282)</b>	<b>(225)</b>			<b>484</b>	<b>(4,676)</b>
<b>OPERATING COSTS AND EXPENSES</b>								
Personnel and managers	(184)	(132)	(821)	(18)	(11)	(45)		(1,211)
Employee and manager profit sharing	(49)	(26)	(236)		(1)	(13)		(325)
Post-employment obligations	(24)		(73)			(10)		(107)
Materials	(14)	(12)	(106)	(1)	(1)			(134)
Outsourced services	(132)	(56)	(724)	(5)	(16)	(17)	27	(923)
Depreciation and amortization	(402)	6	(458)	(8)	(33)	(1)		(896)
Operating provisions	4	(3)	(252)		1	112		(138)
Royalties for use of water resources	(140)							(140)
Construction Cost	2	(212)	(932)	(186)				(1,328)
Other	(58)	(35)	(207)	1	(12)	(15)	4	(322)
<b>Total - Operational Cost</b>	<b>(997)</b>	<b>(470)</b>	<b>(3,809)</b>	<b>(217)</b>	<b>(73)</b>	<b>11</b>	<b>31</b>	<b>(5,524)</b>
<b>TOTAL COST</b>	<b>(1,650)</b>	<b>(470)</b>	<b>(8,091)</b>	<b>(442)</b>	<b>(73)</b>	<b>11</b>	<b>515</b>	<b>(10,200)</b>
<b>GROSS PROFIT</b>	<b>1,661</b>	<b>659</b>	<b>1,093</b>	<b>60</b>	<b>32</b>	<b>142</b>		<b>3,647</b>
Financial Income	201	117	332	25	7	69	89	840
Financial Expenses	(454)	(411)	(631)	(9)	(5)	(66)	(89)	(1,665)
<b>Profit before taxes</b>	<b>1,408</b>	<b>365</b>	<b>794</b>	<b>76</b>	<b>34</b>	<b>145</b>		<b>2,822</b>
Income tax and social contribution tax	(435)	(80)	(209)	(16)	(5)	(126)		(871)
Deferred income tax and social contribution	63	4	(13)		(1)	254		307

tax

**PROFIT FOR THE  
YEAR**

**1,036**

**289**

**572**

**60**

**28**

**273**

**2,258**

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Table of Contents**6. CASH AND CASH EQUIVALENTS**

	2011	2010
Bank accounts	157	95
Financial investments		
Bank certificates of deposit	2,346	2,516
Financial Treasury Bonds (LFTs)	64	122
National Treasury Bonds (LTNs)	26	
Financial Bonds - Banks	177	
Others	92	247
	2,705	2,885
	<b>2,862</b>	<b>2,980</b>

These short-term investments are transactions contracted with Brazilian institutions and international financial institutions with branches in Brazil for securities at normal market prices and under normal market conditions. All of these investments are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value and there is no restriction on its use. In its short-term investment portfolio, the Company holds Financial Treasury Bonds, National Treasury Bonds, Financial Bonds - Banks and Bank Certificates of Deposit (CBDs), which earn interest at fixed and floating rates. The Company also holds Time Deposits with Special Guarantees (DPGEs), which receive a percentage of return based on the CDI rate (which varies from 100% to 110%) published by CETIP (the Clearing House for the Custody and Financial Settlement of Securities).

The Company's exposure to interest rate risk and a sensitivity analysis of the Company's financial assets and liabilities are shown in Note 28.

**7. MARKETABLE SECURITIES - SHORT-TERM INVESTMENTS**

The Short-term Investments refers to financial investments made in Brazilian and international financial institutions with branches in Brazil at market prices and conditions with original maturity of three months or less from the date of its contract.

	2011	2010
Cash equivalents		
Bank certificates of deposit	359	322
	<b>359</b>	<b>322</b>

Table of Contents**8. ACCOUNTS RECEIVABLE FROM CONSUMERS AND TRADERS**

Consumer category	Balances not yet due	Up to 90 days past due 2011	More than 90 days past due	2011	Total	2010
Residential	625	239	325	1,189		1,022
Industrial	408	56	322	786		711
Commercial, services and others	315	62	186	563		466
Rural	63	22	30	115		102
Governmental entities	89	13	54	156		139
Public illumination	59	5	31	95		85
Public service	126	13	45	184		194
<b>Subtotal Consumers</b>	<b>1,685</b>	<b>410</b>	<b>993</b>	<b>3,088</b>		<b>2,719</b>
Wholesale supply to other concession holders	168	47	26	241		195
Allowance for doubtful accounts receivable			(621)	(621)		(555)
<b>Total Consumers and traders</b>	<b>1,853</b>	<b>457</b>	<b>398</b>	<b>2,708</b>		<b>2,359</b>
Current assets				2,550		2,263
Non-current assets				158		96

The breakdown of the allowance for doubtful accounts, by consumer category, is as follows:

	2011	2010
Residential	317	249
Industrial	106	98
Commercial, services and others	152	116
Rural	16	17
Governmental entities	6	26
Public illumination	12	19
Public service	12	30
	<b>621</b>	<b>555</b>

The allowance for doubtful accounts is considered to be sufficient to cover any losses on the recoverability of these assets.

Changes in the allowance for doubtful accounts in 2011 were as follows:

<b>Balance at December 31, 2010</b>	<b>555</b>
Formation of provision	163
Write-offs of accounts receivable	(97)
<b>Balance at December 31, 2011</b>	<b>621</b>

The Company's exposure to credit risk related to accounts receivables from consumers and traders is given in Note 28.





Table of Contents**9. RECOVERABLE TAXES**

	2011	2010
<b>Current</b>		
Recoverable ICMS	153	223
PIS and PASEP	33	27
COFINS	157	117
Other	11	7
	354	374
<b>NON CURRENT</b>		
Recoverable ICMS	243	85
PIS, PASEP and COFINS	85	55
	328	140
	<b>682</b>	<b>514</b>

PASEP and COFINS credits originate from acquisitions of property, plant and equipment and can be offset against state taxes payable over 48 months.

The recoverable ICMS (VAT) tax credits, recorded in non-current assets, originate from acquisitions of property, plant and equipment and can be used to offset state tax obligations over a 48 month period. The amount reclassified to current assets as of December 31, 2011 was made in accordance with management's estimates of the amounts which will be used on or before December 31, 2012.

Within the current COFINS recoverable tax credit balance at December 31, 2011, the Company holds an amount of R\$67.3 million related to tax credits from Federal Revenue Department for restitution of the FINSOCIAL contribution amounts unduly collected during the period from September 1989 to February 1991. This resulted from a judicial decision made which stated that there was no legal foundation requiring the Company to pay its federal tax obligations based on the tax rate increases established in tax code effective during the abovestated period. This amount has been updated by the interest earned through year-end.

**10. INCOME TAX AND SOCIAL CONTRIBUTION****a) Income Tax And Social Contribution Recoverable**

The balances of income tax and social contribution refer to tax credits in the income tax returns from previous years and advance payments made in 2011, which will be offset against the amount of federal tax payable calculated for the year 2012, recorded under Taxes payable.

	2011	2010
<b>Current</b>		
Income tax	171	353

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Social contribution	50	137
	221	490
<b>Non-current</b>		
Income tax	21	66
Social contribution	2	17
	23	83
	<b>244</b>	<b>573</b>

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Table of Contents**b) Deferred Income Tax And Social Contribution**

CEMIG and its subsidiaries and jointly-control subsidiaries have income taxes and social contribution calculated at the statutory annual rates of 25% and 9%, respectively. The Company's tax credits for these taxes are comprised as follows:

	2011	2010
Tax credits:		
Tax loss carryforwards /negative basis for social contribution	632	571
Provisions	142	126
Employee post-retirement benefits	369	350
Allowance for doubtful accounts receivable	212	192
Tax credits on absorption of subsidiary	88	84
Financial instruments	59	33
Foreign exchange variation	128	125
Taxes payable – suspended liability (1)	181	143
Onerous concession contract	62	57
Other	163	120
	<b>2,036</b>	<b>1,801</b>

(1) Income Tax on PASEP/COFINS.

At a meeting on March 15, 2012, the Board of Directors approved the technical study prepared by CEMIG's Financial and Investor Relations Committees on the forecast for future taxable profits, which shows its ability to use the deferred tax assets over a maximum period of 10 years.

Based on the study for realization of tax credits mentioned above, the Company recognized a portion of tax credits related to deferred Income Tax and Social Contribution that were not recorded in its financial statements in the amount of R\$119.9 in 2011 (R\$288.5 in 2010).

The deductible temporary differences and tax loss carry forwards do not expire under current tax law. Deferred tax assets were recognized in relation to these items as it is probable that future taxable income will be available, enabling the Company to use these tax assets.

In accordance with the individual estimates of CEMIG, including its subsidiaries and jointly-controlled subsidiaries, future taxable income will allow the Company to make use of its the deferred tax assets existing at December 31, 2011, as follows:

	Estimated Taxable Income
2012	411
2013	560
2014	367

2015	371
2016 to 2017	129
2018 to 2019	108
2020 and 2021	90
	2,036

Table of Contentsc) **Reconciliation of income tax and social contribution expenses**

The following table presents the reconciliation of the nominal income tax (25% tax rate) and social contribution (9% tax rate) expenses with the actual expenses incurred, as shown in the income statement:

	2011	2010	2009
Profit before income tax and social contribution	3,356	2,822	3,337
Income tax and social contribution nominal expense	(1,141)	(959)	1,135
Tax effects applicable to:			
Non-deductible contributions and donations	(8)	(9)	(9)
Tax incentives	28	22	30
Tax credits not recognized	(2)	2	31
Amortization of goodwill	(11)	(10)	(9)
Adjustment in income tax and social contribution prior year	(3)	4	6
Recognition of credits on tax loss carryforwards	120	289	
Others	76	97	(45)
<b>Income tax and social contribution effective expense</b>	<b>(941)</b>	<b>(564)</b>	<b>(1,131)</b>
<b>Effective rate</b>	<b>28.03%</b>	<b>19.99%</b>	<b>33.89%</b>
<b>Current income tax and social contribution</b>	<b>(1,111)</b>	<b>(872)</b>	<b>(896)</b>
<b>Deferred income tax and social contribution</b>	<b>170</b>	<b>308</b>	<b>(235)</b>

Income tax incentives of Transmissora Aliança de Energia Elétrica S.A. - Taesa

The Ministry of National Integration, through the Federal Agency for Development of the Northeast (ADENE) and the Federal Agency for the Development of the Amazon Region (ADA), issued Constitutive Reports 169/2004 and 0260/2003 granting some of Taesa's subsidiaries tax benefits of a 75% reduction to their income tax payable for the activity carried out in the region to which the benefits apply, in the amount of R\$45 (CEMIG's portion R\$25.5).

This benefit is calculated on a monthly quota of operating profit of the Northeast-Southeast line of 84.48%, which is the effective percentage of the line in the state of Bahia, an area subsidized by SUDENE (Superintendency for the Development of the Northeast).

**11. ESCROW DEPOSITS**

The escrow deposits refer mainly to tax and labor issues.

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The main escrow deposits are mainly comprised of litigation, related to tax obligations referring primarily to withhold income tax on interest on capital, to indemnities and taxes on donations (ITCD), and to PASEP/COFINS related to exclusion of value-added tax (ICMS) from the tax basis of PASEP/COFINS, and others.

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	2011	2010
<b>Labor obligations</b>	207	212
<b>Tax obligations</b>		
Income tax on interest on shareholders' capital	14	14
State inheritance and donation taxes (ITCD)	116	
PASEP/COFINS	720	551
Other tax obligations	59	57
<b>Others</b>	272	193
	<b>1,388</b>	<b>1,027</b>

Based on a court decision made in the fourth quarter of 2011 in favor of CEMIG which deemed certain state inheritance and donation taxes (ITCD) to be refundable, in 2011 the Company recorded a total escrow deposit balance in the amount of R\$116 million related to its refundable ITCD taxes. This balance is comprised of the tax principal of R\$48 million and interest accrued of R\$68 million.

The balances of deposits in court in relation to the PASEP and COFINS taxes have a corresponding provision recorded under taxes payable. For more details, see Note 18.

## **12. ACCOUNTS RECEIVABLE FROM THE MINAS GERAIS STATE GOVERNMENT AND CRC ACCOUNT SECURITIZATION FUND**

The credit balance remaining from the Recoverable Results Account (CRC) was passed on to the Government of the State of Minas Gerais in 1995, through an agreement for assignment of the Recoverable Results Account (the CRC Agreement) pursuant to Law 8724/93 for monthly amortization over seventeen years, as from June 1, 1998, with interest of 6% per year, restated monthly by the Fiscal Reference Unit (UFIR).

The CRC Agreement was modified by certain amendments commencing in 2001 (First Amendment to CRC Agreement) that addressed issues relating to remuneration of the receivable, which replaced the monetary updating unit in the agreement from UFIR to IGP-DI inflation index, backdated to November 2000, due to the abolition of the UFIR in October 2000, and certain guarantees relating to dividend retention by the State Government.

The Second and Third Amendments to the CRC Agreement were signed in October 2002, setting new conditions for amortization of the credits receivable from the Minas Gerais State Government. The main clauses were: (i) monetary updating by the IGP-DI; (ii) amortization of the two amendments by May 2015; (iii) interest rates of 6.00% and 12.00% for the Second and Third Amendments, respectively; and (iv) guarantee of retention, in full, of dividends becoming due to the Minas Gerais State Government for settlement of the Third Amendment.

### **a) Fourth Amendment to the CRC Agreement**

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As a result of default in receipt of the credits specified in the Second and Third Amendments, the Fourth Amendment was signed, with the aim of making possible full receipt of the CRC balance through the extension of the guarantee relating to the retention of dividends payable to the Minas Gerais State Government. This agreement was approved by the Extraordinary General Meeting of Stockholders completed on January 12, 2006.

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The Fourth Amendment to the CRC Agreement has backdated effect on the outstanding balance existing on December 31, 2004, and consolidated the amounts receivable of the Second and Third Amendments, corresponding to R\$ 5,580 on December 31, 2011 (R\$ 5,070 as at December 31, 2010).

The Minas Gerais State Government amortizes this payable to the Company via 61 consecutive semi-annual installments, which are due on June 30 and December 31 of each year, over the period from June 2005 to June 2035. The installments for amortization of the principal, updated by the IGP-DI, increase over the period, from R\$29 for first month to R\$105 for the 61st month expressed in currency of December 31, 2011.

The Company is recognizing the State Government's payments by withholding 65% of the regular dividends and interest on capital due to the State Government. If the 65% of regular dividends and interest on capital is not sufficient to amortize the installment due in a given month, the Company may increase its withholding to include 65% of all extraordinary dividends as well. The dividends withheld will be applied in the following order: (i) the settlement of past due installments, (ii) the settlement of the semi-annual installments, (iii) the pre-payment of up to 2 installments; and (iv) the payment of the remaining principal balance.

As at December 31, 2011 the installments due for June 30 and December 31, 2012 had already been received.

As part of the Fourth Amendment to the CRC Agreement, in order to ensure complete receipt of the credits, the Company agreed to a requirement in which, on an annual basis, it must maintain compliance with the financial covenants in conformity with its Strategic Plan and as set forth in its by-laws, as follows:

Target	Index required
Debt / EBITDA	Less than 2 (1)
Debt / (Debt + Shareholders' equity)	Less than or equal to 40.00% (2)
Capex on investments and acquisition of assets	Less than or equal to 40.00% of EBITDA

EBITDA = Earnings before interest, taxes on profit, depreciation and amortization.

- (1) Less than 2.5 in certain situations specified in the by-laws.
- (2) 50% or less, in certain temporary situations also specified in the by-laws.

As at December 31, 2011, the Company was not in compliance with the index requirement for CAPEX on investments and acquisition of assets/EBITDA, holding an index of 74.38%. At the Extraordinary Shareholders' General Meeting in 2012, the Company will present a request for to increase the upper limit of the index required.

**b) Creation of CEMIG CRC Account Securitization Fund**

On January 27, 2006, Cemig transferred the accounts receivable from the CRC Account Agreement to a credit securitization investment fund (FIDC). The value of the FIDC was established by the Fund administrator, based on CEMIG's long term financial predictions, estimating the dividends that will be withheld for amortization of the debit balance of the CRC agreement. Based on these projections, the FIDC, on that date, was valued at the total amount of R\$1,659,125, of which R\$900,000 are senior quotas and R\$759,125 are subordinated quotas.

The senior quotas were acquired by financial institutions and are being amortized in 20 semi-annual installments, starting in June 2006, with interest accruing at the rate of CDI plus 1.7% per year, and are guaranteed by CEMIG.

The subordinated quotas were subscribed by Cemig and correspond to the difference between the total value of the FIDC and the senior quotas.

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The subordinated quotas are updated for monetary valuation purposes in the amount of the difference between the valuation of the FIDC using a rate of 10% per year and the increase in value of the senior quotas, as calculated based on CDI plus 1.7% per year.

The composition of the CRC Account Securitization at December 31:

	2011	2010
• Senior quotas held by third parties	820	891
• Subordinated quotas owned by CEMIG	1,001	938
• Dividends retained by the Fund	9	8
	1,010	946
<b>TOTAL</b>	<b>1,830</b>	<b>1,837</b>

The changes to the amounts receivable in connection with the CRC Account Securitization Fund in 2011 and 2010 were as follows:

<b>Balance at December 31, 2010</b>	<b>1,837</b>
Monetary updating of the senior quotas	103
Monetary updating of the subordinated quotas	63
Investment in the subordinated quotas	14
Amortization of the senior quotas	(187)
<b>Balance at December 31, 2011</b>	<b>1,830</b>

On December 21, 2011, Cemig set aside R\$87 for purposes of paying dividends and R\$10 for purposes of making a contribution to the Fund to pay the minimum senior quota amounts payable and other operating expenses of the FIDC. The total cash disbursement in the amount of R\$94 for amortization of senior quotas was made in January 2012.

The dividends to be distributed to shareholders arising from net income recorded for the period ended December 31, 2011, as declared by the Executive Board and the Board of Directors, in accordance with the Company's by-laws, are classified as current liabilities in the consolidated financial statements. Of the total dividends to be distributed, R\$266 is payable to the Minas Gerais State Government, and R\$173 will be retained for settlement of part of the CRC Account Receivable.

#### c) Criteria for Consolidation of the CRC Account Securitization Fund (FIDC)

As Cemig is the guarantor for the senior quotas, and, in the event that the withholdings for dividends due to the Minas Gerais State Government are not sufficient to cover the installment amounts due, Cemig would be required to issue a dividend payment to the State Government for the difference. As such, the consolidated financial statements present the balance of the FIDC fully recorded in Cemig, and the senior quotas are presented as debt under loans and financing in current and non-current liabilities. Similarly, upon consolidation, the monetary updating of the FIDC has been fully recognized as financial income, and the amount of the monetary updating of the senior quotas is recorded as a financial

expense.

Table of Contents**d) Negotiation for the advanced payment of account receivable from the Minas Gerais State Government - CRC**

On November 9, 2011, the Company reported to shareholders and the market that the Company entered into discussions with representatives from the Minas Gerais State Government to negotiate an early settlement of the CRC account receivable. Negotiations are in progress, and once completed, would also be subject to relevant regulatory approval. It is not yet possible to measure the potential impacts on the Company's financial statements.

**13. FINANCIAL ASSETS OF THE CONCESSION**

As described in Note 2, Item 2.6 (g), the Company's distribution, transmission, gas and wind generation concession contracts are within the criteria for application of IFRIC 12 Service Concession Arrangements). At the end of the concession period, the grantor will provide indemnity to the Company for the unamortized value of the concession assets according concession agreement between CEMIG and ANEEL and effective legislation and regulatory rules.

The balances of the financial assets as of December 31, 2011 and 2010 are as follows:

	<b>2011</b>	<b>2010</b>
Distribution concessions	3,331	2,509
Gas concessions	305	287
Newer transmission concessions	5,504	4,400
Older transmission concessions	758	745
	<b>9,898</b>	<b>7,941</b>
Current assets	1,120	625
Non-current assets	8,878	7,316

For newer transmission concessions, the internal rate of return of financial assets ranged between 7.8% and 14.48%, in accordance with the specified characteristics of each concession and their investment dates.

**14. INVESTMENTS****a) Less Value of Assets in Acquisitions in Interests of Subsidiaries and Jointly-Controlled Subsidiaries**

In the first acquisition of Light, a less value of the concession corresponding to the difference between the amounts paid in 2006 for the acquisition of an interest and the net book value of the interest in the equity of Light is recorded in the amount of R\$91.2. This less value arises from the estimate of future years' commercial operating results of electricity distribution and generation concessions throughout the concession

period, and is being amortized on a straight-line basis from October 2006 to the concession's expiration date in May 2026. The remaining amount of the deficit value is R\$66.8 at December 31, 2011 (R\$71.5 at December 31, 2010).

**b) Added Value of Assets in Acquisitions in Interests of Subsidiaries and Jointly-Controlled Subsidiaries**

In accounting for equity interest acquisitions of wholly-owned and jointly-controlled subsidiaries, the Company records an added value to account for the difference between the amount paid and the net book value of the equity interest acquired. This difference arises due to certain intangible asset values of the concessions (added value of concessions) acquired and financial concession asset values acquired. The Company records the amortization of the added value of assets which have defined useful lives on a straight-line basis over the remaining period of the concession contract.

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**c) Acquisition of Additional Interest in Light**

*Acquisition of Additional Interest in 2010*

On March 25, 2010, the Company executed a Purchase and Sale Agreement and made payment for its acquisition of 25,494,500 common shares in Light from Andrade Gutierrez Concessões ( AGC ) at R\$29.54 per share, which represented 12.50% of Light 's total registered capital and voting shares outstanding. The purchase price paid by CEMIG totaled approximately R\$719, which includes the amount stipulated in the contract between the Company and AGC, an adjustment based on the index published by CETIP (Securities Settlement and Custody Center) from December 1, 2009 to March 25, 2010, and a deduction for the dividends that Light declared in the amount of R\$2.12 per share in its Ordinary General Meeting of Stockholders on March 24, 2010.

On November 17, 2010, the Company paid for and obtained an additional 1,081,649 common shares in Light from AGC at approximately R\$30.5 million, the acquired interest of which represented approximately 0.53% of Light 's total registered capital and voting shares outstanding.

In its acquisition of the interest in Light from AGC, the Company recognized a premium in the amount of R\$359 million for the added value of the concession acquired.

*Acquisition of Additional Interest in April 2011*

On April 12, 2011 Parati S.A. Participações em Ativos e Energia Elétrica (Parati) made payment for its acquisition of 54.08% of the total registered capital of Redentor Energia S.A. (Redentor). The purchase price paid totaled R\$403.4 million for the shares at a price of R\$6.87 per share. Redentor holds 13.03% of the total registered capital and voting shares of Light.

As this transaction resulted in the transfer of the control of Redentor, Parati made a public offer to acquire the remaining shares of Redentor.

On September 30, 2011, Parati made a public offer and through an auction acquired 93.04% of the outstanding shares from the minority shareholders. In this acquisition, Parati paid R\$7.20 per share, corresponding to the total amount of R\$333.8 million. This acquisition represented 42.72% of the shares of the capital, and the price of R\$6.87 represented the same price per share paid to the controlling shareholder on May 12, 2011, updated by the Selic rate from that date until September 30, 2011.

In the first semester of 2012 Parati plans to make another public offering in order to acquire the remaining common shares (representing 3.20% of the total capital) of Redentor's capital. In doing so, Redentor will be de-register from its status as a publicly-held company and will exit from the free market.

*Acquisition of Additional Interest in July 2011*

On July 7, 2011 Parati acquired a 100% interest in Luce, owner of 75% of the shares of Luce Brasil Fundo de Investimento em Participações (FIP Luce), which, through Luce Empreendimentos e Participações S.A., indirectly holds 9.77% of the total and voting capital of Light.

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The amount paid for Parati's acquisition was R\$515.9 million. In accordance with FIP Luce's Shareholders' Agreement, after Parati acquired a controlling ownership in FIP Luce, Braslight (Foundation Braslight Social Security) had an option valid for 60 days in which it could exercise a right to sell its remaining 25% interest to Parati.

On July 15, 2011, Parati was notified through Luce that Braslight decided to exercise its right to sell its 25% interest in FIP Luce. On July 28, 2011, the sale transaction was executed and Parati acquired the remaining 25% interest in FIP Luce for R\$172.0 million.

As a result of the above acquisitions, Parati now holds 25.68% of Light's voting capital. Cemig holds a 25% interest in Parati, and Redentor Fundo de Investimento em Participações holds the remaining 75% interest.

At CEMIG's Extraordinary General Meeting of the Shareholders held on March 24, 2011, the shareholders granted a put option to Fundo de Investimento em Participações Redentor - FIP Redentor ( FIP Redentor ), in which FIP Redentor will have the right to sell to CEMIG the totality of its shares in Parati S.A. Participações em Ativos de Energia Elétrica ( Parati ) at the end of the 60th month from the date of the shares were issued to FIP Redentor on March 24, 2011. CEMIG will have the obligation to buy them or to indicate a third party to purchase them. The exercise price will be the amount originally paid by FIP Redentor for the shares, plus other expenses for constitution and administration of FIP Redentor, updated by the CDI rate plus 0.9% per year.

**d) Acquisitions of equity interests - Renova**

On July 9, 2011, the Company, through Light, approved a partnership with Renova Energia, a publicly traded company which invests in small hydroelectric power plants (PCHs) and wind power plants.

Light, as a new investor, and Renova, as the investee, signed an Investment Agreement under which Light will pay R\$360 million to acquire common shares and an equity interest in Renova. Renova will conduct a new common share issuance, and Light's acquisition will be executed under the following terms:

Through this investment, Light will hold 35.1% of the common shares of Renova and 26.2% of its total capital. Additionally, all shareholders with individual equity interests of more than 5% of Light's capital have agreed to freely renounce their rights of first refusal in the increase in Renova's capital in favor of Light.

The investment does not result in a forfeiture of control by RR Participações S.A. (controlling shareholder of Renova) for purposes of Article 254-A of the Brazilian Corporate Law nor an acquisition of a controlling ownership in Renova by Light.

**e) Acquisitions in equity interests - CR Zongshen E- Power Fabricadora de Veículos S.A. (E-Power)**

On September 9, 2011, Light acquired 20% of the registered common shares issued by E-Power for R\$120 thousand. Through a shareholders agreement, joint control was established between Light and E-Power. There was no difference between the fair value and the amount paid by Light for its 20% equity interest.

**f) Acquisition of equity interests - ABENGOA**

On June 2, 2011, TAESA signed two Share Purchase Agreements with the ABENGOA Group:

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- The first is for acquisition of 50% of the shares held by Abengoa Concessões Brasil Holding S.A. in the registered capital of Abengoa Participações Holding S.A., which on the closing date of the transaction owned 100% of the recorded capital of the following transmission companies:

STE Sul Transmissora de Energia S.A.;

ATE Transmissora de Energia S.A.;

ATE II Transmissora de Energia S.A.;

ATE III Transmissora de Energia S.A.;

- The second is for acquisition of 100% of the shares held by Abengoa Concessões Brasil Holding S.A. and by Abengoa Construção Brasil Ltda. in the recorded capital of NTE - Nordeste Transmissora de Energia S.A.

On November 29, 2011, TAESA concluded its execution of the above purchase transactions and paid a total of R\$1.17 billion in exchange for the equity interests acquired. This operation increased TAESA's share in the electricity transmission market from 6.5% to 8.6% in terms of Permitted Annual Revenue (RAP).

**g) Acquisitions of equity interests - Norte Energia S.A.**

In October 2011, the Boards of Directors of CEMIG and Light approved the acquisition of 9.77% of the capital of North Energia S.A., a company holding the concession for the construction and operation of the Belo Monte hydroelectric power plant. The acquisition was made by Amazon Energy, a company in which Light holds 51% of the common shares, and Cemig Geração e Transmissão holds 49% of the common shares and 100% of the preferred shares. The total price paid by Amazon Energy on November 1, 2011 to acquire these shares in NESAs was R\$88.4 million, which represents 9.77% of the total capital investments made by the sellers, increased by the IPCA (Amplified Consumer Price Index) until October 26, 2011.

**h) Acquisition of additional equity interest in Gasmig**

On December 27, 2011, the Board of Directors approved the acquisition of registered preferred shares in Gasmig, representing 4.38% of Gasmig's total capital, from the Minas Gerais State Government for R\$67.2 million. The Board approved this acquisition to be made at a price per share of approximately R\$3.75. The execution of this acquisition is subject to the following conditions:

- An independent appraisal to determine the fair value of Gasmig's capital, which will be made by a specialized institution chosen and contracted by CEMIG.

- MGI-Minas Gerais Participações S.A. must complete in its entirety the transfer its equity interest in Gasmig to the Minas Gerais State Government.

**i) Acquisition of an interest in EATE and ETEP**

In 2011, the Company acquired from Eletrobrás the preferred shares of EATE and ETEP corresponding to 11.45% and 8.02% of the capital of these companies, respectively. The total amount paid for those additional interests were R\$91.1 million and R\$13.1 million, respectively, resulting in a total amount paid of R\$104.2 million. In connection with this acquisition, a less value of R\$99.8 million was recorded which represents the excess value of EATE and ETEP's book value over the amount paid. This value will be amortized on a straight-line basis over the remaining term of the concessions.

Table of Contents**15. PROPERTY, PLANT, AND EQUIPMENT**

	December 31, 2011			December 31, 2010		
	Cost	Accumulated depreciation	Net value	Cost	Accumulated depreciation	Net value
<b>In Service</b>	<b>19,052</b>	<b>(12,022)</b>	<b>7,030</b>	<b>18,041</b>	<b>(11,044)</b>	<b>6,997</b>
Land	425		425	411		411
Reservoirs, dams and water courses	7,990	(5,035)	2,955	7,643	(4,643)	3,000
Buildings, works and improvements	2,319	(1,560)	759	2,287	(1,442)	845
Machinery and equipment	8,233	(5,363)	2,870	7,664	(4,941)	2,723
Vehicles	26	(16)	10	17	(7)	10
Furniture and fixtures	59	(48)	11	19	(11)	8
<b>In progress</b>	<b>1,632</b>		<b>1,632</b>	<b>1,231</b>		<b>1,231</b>
Assets under construction	1,632		1,632	1,231		1,231
<b>Total Property, Plant and Equipment</b>	<b>20,684</b>	<b>(12,022)</b>	<b>8,662</b>	<b>19,272</b>	<b>(11,044)</b>	<b>8,228</b>

The changes in property, plant, and equipment from December 31, 2010 to December 31, 2011 are as follows:

	Balance at 12/31/2010	Additions / transfers	Write-off	Accumulated depreciation	Balance at 12/31/2011
<b>In Service</b>	<b>6,997</b>	<b>523</b>	<b>(15)</b>	<b>(475)</b>	<b>7,030</b>
Land	411	14			425
Reservoirs, dams and water courses	3,000	105		(150)	2,955
Buildings, works and improvements	845	(28)		(59)	758
Machinery and equipment	2,723	419	(13)	(258)	2,871
Vehicles	11	5	(2)	(4)	10
Furniture and fixtures	7	8		(4)	11
<b>In progress</b>	<b>1,231</b>	<b>401</b>			<b>1,632</b>
<b>Total Property, Plant, and Equipment</b>	<b>8,228</b>	<b>924</b>	<b>(15)</b>	<b>(475)</b>	<b>8,662</b>

The Company has not identified any indications of impairment with regards to its property, plant, and equipment. The concession contracts specify that, at the end of the concession contract period of each concession, the grantor will decide the amount to be indemnified to the Company. Management believes that the undepreciated book value of property, plant and equipment at the end of the concession period will be the amount to be reimbursed to the Company by the granting authority.

ANEEL, in conformity with the Brazilian regulatory framework, is responsible for establishing and periodically reviewing the estimates of useful economic life for generation and transmission assets in the electricity sector. The estimates of useful life established by the ANEEL are used in the processes for reviewing tariff rates and calculating the indemnification due to the concessionaires at the end of the concession period. These are recognized by the Company as reasonable and were used as the basis for depreciation of the Company's property, plant and equipment.

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The average annual depreciation rate is 2.31%. The main rates applied to the subsidiaries for the year ended December 31, 2011 are as follows:

### Generation

Hydroelectric power plants	2.54%
Thermoelectric power plants	4.09%
Management and other	9.53%
Telecommunications	7.33%

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Under Articles 63 and 64 of Decree 41019 of February 26, 1957, goods and facilities used in generation and transmission are entailed to these services and cannot be withdrawn, disposed of, assigned or given in mortgage guarantees without the express, prior authorization of the Regulator. ANEEL Resolution 20/99 provides regulations for disposition of assets of public electricity service concessions. These include granting prior authorization for disposition of assets that are not appropriate for serving the concession and are earmarked for disposal, but they require the proceeds to be deposited in a blocked bank account, to be invested in the concession.

Some of the Company's land and buildings recorded as Property, plant and equipment - Administration, were pledged in guarantee for court proceedings involving tax, labor, civil and other contingencies in the amount, net of depreciation, of R\$850 thousand at December 31, 2011.

## CONSORTIA

CEMIG is a partner in concession consortia for electricity generation projects. Each partner has the right to take electric power generated by the power plant in an amount proportional to its investment. These projects are governed by executor contracts which establish the rights and obligations of each party. Cemig's participation in consortia, represented by amounts invested in the projects and which are included in the previous table, is as follows:

	Share in the electricity generated	Average annual rate of depreciation %	2011	2010
In service:				
Porto Estrela Power Plant	33.33%	2.48	39	39
Igarapava Power Plant	14.50%	2.58	57	56
Funil Power Plant	49.00%	2.55	183	182
Queimado Power Plant	82.50%	2.62	209	207
Aimorés Power Plant	49.00%	2.62	551	549
Baguari Power Plant	34.00%	2.56	181	
Consórcio Capim Branco Energia S.A.	21.05%	2.60	56	56
Accumulated depreciation			(193)	(171)
<b>Total, in service</b>			<b>1,083</b>	<b>918</b>
In progress:				
Baguari Power Plant				181
Queimado Power Plant	82.50%		3	2
Funil Power Plant	49.00%			1
Aimorés Power Plant	49.00%		1	1
Igarapava Power Plant	14.50%		1	1
Porto Estrela Power Plant	33.33%			
Consórcio Capim Branco Energia S.A.			1	1
<b>Total in progress</b>			<b>6</b>	<b>187</b>
<b>Total, consortia</b>			<b>1,089</b>	<b>1,105</b>

The depreciation of the assets in the property, plant and equipment of the consortia is calculated by the straight-line method, based on rates established by ANEEL.

In 2008 the Company transferred its interest in the Baguari Plant to the jointly-controlled subsidiary Baguari Energia S.A. ANEEL approved the transfer of the concession on February 2, 2010.



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The table below shows, by project, the interests of the other partners in the electric power generated by the consortia:

<b>Consortium Power Plants</b>	<b>Consortium participants, other than CEMIG</b>	<b>Interest (%)</b>
Porto Estrela Power Plant	Companhia de Tecidos Norte de Minas Gerais Coteminas	33.34
	Vale S.A.	33.33
Igarapava Power Plant	Vale S.A.	38.15
	Companhia Mineira de Metais CMN	23.93
	Companhia Siderúrgica Nacional CSN	17.92
	Mineração Morro Velho MMV	5.50
Funil Power Plant	Vale S.A.	51.00
Queimado Power Plant	Companhia Energética de Brasília	17.50
Aimorés Power Plant	Vale S.A.	51.00
Baguari Power Plant	Furnas Centrais Elétricas S.A.	15.00
	Baguari I Geração de Energia Elétrica S.A.	51.00
Amador Aguiar I and II Power Plants	Vale S.A.	48.43
	Comercial e Agrícola Paineiras Ltda	17.89
	Companhia Mineira de Metais CMM	12.63

**DEEMED COST OF THE GENERATION ASSETS**

CEMIG, in compliance with IAS 16 Property, plant and equipment, revalued its generation assets, defining their fair value by the replacement cost on initial adoption of international accounting standards on January 1, 2009. This revaluation process did not change the estimated useful life of the assets, as the estimates are determined and established by ANEEL.

This new revaluation resulted in an increase in the value of those assets, which was recorded in a specific shareholders' equity account called Equity Valuation Adjustments with the adjusted also reflected in the Company's shareholders' equity.

**Fully Depreciated Assets**

As at December 31, 2011, Cemig GT held a gross carrying amount of R\$3.62 billion related to fully depreciated assets that are still in operation.

Table of Contents**16. INTANGIBLE ASSETS**

	2011			2010		
	Historical cost	Accumulated amortization	Residual value	Historical cost	Accumulated amortization	Residual value
<b>In Service</b>	<b>10,448</b>	<b>(6,709)</b>	<b>3,739</b>	<b>3,225</b>	<b>(144)</b>	<b>3,081</b>
<b>Defined useful life</b>						
Easements	34	(1)	33	64	(2)	62
Onerous Concessions (paid concession rights)	32	(9)	23	32	(8)	24
Concession assets	10,203	(6,556)	3,647	2,966		2,966
Others	179	(143)	36	163	(134)	29
<b>In progress</b>	<b>1,522</b>		<b>1,522</b>	<b>1,723</b>		<b>1,723</b>
Assets under construction	1,522		1,522	1,723		1,723
<b>Intangible assets, net</b>	<b>11,970</b>	<b>(6,709)</b>	<b>5,261</b>	<b>4,948</b>	<b>(144)</b>	<b>4,804</b>

The changes in consolidated intangible assets in 2011 are as follows:

	2010	Write-off	Accumulated Amortization	Additions / transfers	2011
<b>In Service</b>	<b>3,081</b>	<b>(6)</b>	<b>(533)</b>	<b>1,131</b>	<b>3,673</b>
<b>Defined Useful life</b>					
Easements	62			(26)	36
Onerous Concessions	24		(1)		23
Concession assets	2,966	(6)	(520)	1,134	3,574
Others	29		(12)	23	40
<b>In progress</b>					
Assets under construction	<b>1,723</b>			<b>(135)</b>	<b>1,588</b>
	1,723			(135)	1,588

## Concession Assets

In conformity with Technical Interpretation ICPC 01, accounting for concessions, the portion of the distribution infrastructure that will be used during the concession period, consisting of the distribution assets, net of consumer interests (special obligations), was recorded in Intangible Assets.

ANEEL, in conformity with the Brazilian regulatory framework, is responsible for establishing the economic useful life of distribution assets in the electricity sector, periodically establishing a review of the valuation assessment of these rates. The rates established by the Agency are used in the tariff review process and the calculation of compensation at the end of the concession and they are recognized as a reasonable estimate of the useful life of the concession's asset. Accordingly, these rates were used as the basis for evaluation and amortization of the intangible assets.



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The easement, onerous concession, concession assets and other intangible assets, are amortized on a straight-line basis and the rates used are those defined by ANEEL. The Company has not identified evidence of loss through impairment of its intangible assets, which have a definite useful life. The Company has no intangible assets with an indefinite useful life.

Fully amortized assets

As at December 31, 2011, Cemig Distribuição has a gross carrying amount of R\$1.55 billion related to fully amortized assets that are still in operation. It should be noted that these assets are not considered for determining the Company's tariffs.

**17.SUPPLIERS**

	2011	2010
<b>Supply and transport of electricity</b>		
Eletrobrás - Power from Itaipu	198	151
Furnas Centrais Elétricas S.A.	56	31
Spot market - CCEE	40	127
UTE Norte Fluminense	38	19
Purchase of electricity at auctions	64	39
Others	365	345
	<b>761</b>	<b>712</b>
<b>Materials and services</b>	<b>429</b>	<b>409</b>
	<b>1,190</b>	<b>1,121</b>

Table of Contents**18. TAXES PAYABLES****a) Taxes payable**

The non-current liabilities for PASEP and COFINS refer to the legal action challenging the constitutionality of the inclusion of ICMS in the calculation basis for these taxes, and, the offsetting of the amounts paid in the last 10 years has been requested. The Company and its subsidiaries Cemig Distribuição and Cemig Geração e Transmissão have obtained a Court injunction enabling them not to make the payment and authorizing payment in Court from 2008 until August, 2011. Thereafter, the Company opted to pay the new taxes each month.

	2011	2010
<b>Current</b>		
ICMS (Value-added tax)	330	277
COFINS (Tax on revenue)	95	66
PASEP (Tax on revenue)	21	11
INSS (Social security)	24	23
Others	47	27
	<b>517</b>	<b>404</b>
<b>Non-current</b>		
COFINS	683	531
PASEP	148	115
Others	66	47
	<b>897</b>	<b>693</b>

**b) Income tax and social contribution payable**

The non-current, deferred income tax and social contribution liabilities refer mainly to recognition of financial instruments (foreign exchange variations) on a cash basis, present value adjustment, capital costs assigned to loans and deemed cost of property, plant and equipment.

	2011	2010
<b>Current</b>		
Income tax	87	112
Social contribution	42	25
	<b>129</b>	<b>137</b>
<b>Non-current</b>		
Deferred tax liabilities		
Income tax	909	712
Social contribution tax	325	353
	<b>1,234</b>	<b>1,065</b>



Table of Contents**19. LOANS, FINANCING AND DEBENTURES**

<b>Lenders</b>	<b>Maturity of Principal</b>	<b>Annual Interest Rates (%)</b>	<b>Currency</b>	<b>Current</b>	<b>2011 Non Current</b>	<b>Total</b>	<b>2010 Total</b>
<b>IN FOREIGN CURRENCY</b>							
ABN AMRO Real S.A. (3)	2013	6	US\$24	24	23	47	62
Banco do Brasil A. Various bonds (1)	2024	Various	US\$8	8	27	35	51
BNP Paribas	2012	5.89	EURO	1		1	4
KFW	2016	4.50	EURO	2	6	8	9
Brazilian National Treasury (10)	2024	Various	US\$4	4	13	17	19
Banco Inter Americano del Desarrollo (7)	2026	2.12	US\$1	1	34	35	34
BNP 36 MM - Euros	2014	0.04	Eur		28	28	
Merril Lynch - Us\$ 50 MM	2016	0.03	Us\$		31	31	
IDB (16)	2022	Libor + Spread 1.7 to 2.2%pa	IDB (16)	3	50	53	
IDB (16)	2023	Libor + Spread 1.5 to 1.88%pa	IDB (16)	7	86	93	
Others	2019	Various	Various	8	3	11	12
<b>Total foreign currency financing</b>				<b>58</b>	<b>301</b>	<b>359</b>	<b>191</b>
<b>LOCAL CURRENCY</b>							
Banco do Brasil S.A.	2012	109.80of CDI	R\$	592		592	888
Banco do Brasil S.A.	2013	CDI + 1.70	R\$	29	27	56	85
Banco do Brasil S.A.	2013	107.60 of CDI	R\$	11	126	137	135
Banco do Brasil S.A.	2014	104.10 of CDI	R\$	1,025	200	1,225	1,224
Banco do Brasil S.A.	2013	10.83	R\$	(5)	711	706	630
Banco do Brasil S.A.	2014	98.5%of CDI	R\$	(3)	439	436	
Banco do Brasil S.A.	2012	106.00 of CDI	R\$	100		100	
Banco Itaú BBA S.A	2013	CDI + 1.70	R\$	123	36	159	235
Banco Itaú BBA S.A	2014	CDI + 1.70	R\$	1	2	3	4
Banco Votorantim S.A.	2013	CDI + 1.70	R\$	28	25	53	77
BNDES	2026	TJLP+2.34	R\$	8	104	112	119
Bradesco S.A.	2014	CDI + 1.70	R\$	1	1	2	1
Bradesco S.A.	2013	CDI + 1.70	R\$	104	94	198	296
Bradesco S.A.	2011	105.50 of CDI	R\$				351
Bradesco S.A.	2012	106.00 of CDI	R\$	990		990	
Debentures (6)	2011	104.00 of CDI	R\$				243
Debentures (6)	2014	IGP-M + 10.50	R\$	21	352	373	355
Debentures Government of the State of Minas Gerais. (6) (9)	2031	IGP-M	R\$		47	47	37
Debentures (6)	2017	IPCA + 7.96	R\$	2	501	503	472
Debentures (6)	2012	CDI+ 0.90	R\$	1,755		1755	1,726
Debentures (6)	2015	IPCA + 7.68	R\$	1,368		1368	1,285
ELETROBRÁS	2013	FINEL + 7.50 to 8.50	R\$	13	13	26	37
ELETROBRÁS	2023	UFIR. RGR + 6.00 to 8.00	R\$	74	355	429	373
Santander do Brasil S.A.	2013	CDI + 1.70	R\$	20	20	40	61
UNIBANCO S.A	2013	CDI + 1.70	R\$	84	77	161	241
UNIBANCO S.A (2)	2013	CDI + 1.70	R\$	22	18	40	60
Itaú e Bradesco (4)	2015	CDI + 1.70	R\$	200	620	820	891
Banco do Brasil S.A. (8)	2020	TJLP + 2.55	R\$	3	20	23	26
UNIBANCO S.A (8)	2020	TJLP + 2.55	R\$	1	5	6	6
Debentures V (5) (6)	2014	CDI + 1.50	R\$	64	178	242	210
Debentures VI (5) (6)	2011	115% of CDI	R\$				79
Debentures VII (5) (6)	2016	CDI + 1.35	R\$	4	210	214	
<b>Debentures LIGHT ENERGIA</b>							
I (5) (6)	2016	CDI + 1.45	R\$	2	56	58	
<b>Debentures LIGHT ENERGIA</b>							
II (5) (6)	2019	1.18% of CDI	R\$		137	137	
CCB Bradesco S.A (5)	2017	CDI + 0.85	R\$	28	122	150	120

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ABN AMRO Real S.A. (5)	2014	CDI + 0.95	R\$	1	26	27	22
BNDES (5)	2019	TLJP	R\$	53	319	372	190
DEBENTURES (6) (10)	2016	CDI+1.30%	R\$	3	10	13	
DEBENTURES (6) (10)	2016	CDI+1.30%	R\$	21	67	88	
DEBENTURES (6) (10)	2016	CDI+1.30%	R\$	40	127	167	
DEBENTURES (6) (10)	2016	112.5% of CDI	R\$	7	28	35	
BNDES (11)	2033	TJLP + 2.40	R\$	1	348	349	262
Debentures (11)	2013	IPCA	R\$	135	72	207	182
BNDES Repasse (11)	2033	TJLP	R\$	2	353	355	316
AMAZONIA - FNO	2031	10% a.a	R\$		55	55	
BNDES Principal Sub loan							
A/B/C/D (10)	2015	Various	R\$		67	67	366
BNDES (12)	2024	TJLP +2.15	R\$	3	37	40	42
CEF S.A (13)	2022	TJLP + 3.50	R\$	7	58	65	67
CEF S.A (14)	2021	TJLP + 3.50	R\$	6	46	52	54
CEF S.A (15)	2022	TJLP + 3.50	R\$	9	86	95	97
BNDES (16)	2019	Various	R\$	35	176	211	14
Pool of Banks (16)	2015	CDI + 0.90%	R\$	9	9	18	28
CEF S.A (16)	2016	117.5 of CDI	R\$	2	9	11	13
DEBENTURES (16)	2017	Various	R\$	18	814	832	820
PROMISSORY NOTES							
(ITAU)	2012	Various	R\$	669		669	
BNDES (17)	2016	TJLP + 3.12	R\$	27	104	131	158
BNDES (18) CEMIG							
TELECOM	2017	Various	R\$	9	43	52	48
BNDES	2028	URTJ+1.97	R\$	1	48	49	
Others	2025	Various	R\$	40	259	299	90
Total Brazilian currency financing				<b>7,763</b>	<b>7,657</b>	<b>15,420</b>	<b>13,036</b>
<b>TOTAL</b>				<b>7,821</b>	<b>7,958</b>	<b>15,779</b>	<b>13,227</b>

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- (1) These interest rates, which are based on the six-month Libor rate plus a spread of 0.81 to 0.88% per year, vary from 2.00 to 8.00 % per year;
  - (2) Loan from the parent company;
  - (3) Exchange rate Swaps for were contracted. The following are the rates for the loans and financings taking the swaps into account: CDI + 1.50% per year;
  - (4) Refers to the senior quotas of the FIDC. See Note 12.
  - (5) Loans, financings and debentures of RME (Light) and Parati.
  - (6) Registered, unsecured, debentures not convertible into shares, without preference.
  - (7) Financing of Transchile.
  - (8) Financing of Cachoeirão.
  - (9) Contracts adjusted to present value, as per changes to the corporate law in accordance with Law 11638/07.
  - (10) Consolidated loans and financings of the TBE group.
  - (11) Loan contracted for the jointly-controlled subsidiary Madeira Energia.
  - (12) Loan contracted for the jointly-controlled subsidiary Hidrelétrica Pipoca S.A.
  - (13) Loan contracted for the jointly-controlled subsidiary Praia de Morgado S.A.
  - (14) Loan contracted for the jointly-controlled subsidiary Praia de Parajuru S.A.
  - (15) Loan contracted for the jointly-controlled subsidiary VDR S.A.
  - (16) Loan contracted for the jointly-controlled subsidiary TAESA.
  - (17) Loan and financing of Gasmig.
  - (18) Loan arranged by Cemig Telecom Ativas.

GUARANTEES

The outstanding balance of loans and financing, as at December 31, 2011 is guaranteed by CEMIG as follows:

	<b>Reais</b>
Promissory note and collateral	6,148
Receivables	2,195
No Guarantees	5,559
Share pledge	1,393
Statutory lien	428
Federal Treasury Bonds	45
Mortgage	4
Escrow in cash	7
<b>TOTAL</b>	<b>15,779</b>

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The consolidated breakdown of loans, per currency and indexer, with the respective amortization, not taking into consideration the transfer of values for the short-term due to non-compliance with a contractual clause, as described in item a is as follows:

	2012	2013	2014	2015	2016	2017	2018	2019 and onwards	Total
<b>Currency</b>									
U.S. dollar	54	43	25	27	28	18	20	105	319
Euro	3	2	29	2	2				37
UMBNDDES (**)									3
	<b>57</b>	<b>45</b>	<b>54</b>	<b>29</b>	<b>30</b>	<b>18</b>	<b>20</b>	<b>105</b>	<b>359</b>
<b>Indexers</b>									
IPCA (Amplified Consumer Price Index)	237	547	475	655	168	167			2,250
UFIR (Fiscal Reference Unit) / RGR	74	66	66	59	47	37	34	46	429
Interbank Certificate of Deposit (CDI)	5,299	1,451	1,319	628	328	170	35	44	9,274
Eletróbrás Finel internal index	13	13							26
URTJ/TJLP (*)	146	172	191	181	172	143	133	852	1,991
General Price Index - Market (IGP-M)	22	2	354	2	2	2	2	56	443
UMBndes (**)	48	36	37	37	35	15	48	3	258
Others (IGP-DI, INPC) (***)	6	2	2						10
No indexer	1	716	4	5	4	3	3	2	739
	<b>5,846</b>	<b>3,005</b>	<b>2,448</b>	<b>1,567</b>	<b>756</b>	<b>537</b>	<b>255</b>	<b>1,003</b>	<b>15,420</b>
	<b>5,903</b>	<b>3,050</b>	<b>2,502</b>	<b>1,596</b>	<b>786</b>	<b>555</b>	<b>275</b>	<b>1,108</b>	<b>15,779</b>

(\*) URTJ = Interest Rate Reference Unit. Adjusted by the Long-term Interest Rate (TJLP)

(\*\*) UMBNDDES = BNDES Monetary Unit.

(\*\*\*) IGP-DI inflation index (General Price Index - Domestic Availability).

INPC - National Consumer Price Index.

The following table sets forth the relative variance for the year of 2011 and 2010 for the principal foreign currencies, interest rates and indices applied to Loans, financing and debentures:

Currency	Accumulated Variance in 2011 (%)	Accumulated Variance in 2010 (%)	Index	Accumulated Variance in 2011 (%)	Accumulated Variance in 2010 (%)
United States Dollars	12.58	(4.31)	IGP-M	5.10	11.32
Euro	9.25	(11.14)	CDI	11.64	9.74
			SELIC	11.67	9.81
			IPCA	6.50	5.91

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The changes in financing from December 31, 2010 to December 31, 2011 are as follows:

<b>Balance at December 31, 2010</b>	<b>13,226</b>
Acquisition of jointly-controlled subsidiaries opening balance	648
Loans and financings obtained	3,608
Monetary and FX variation	269
Borrowing costs	(24)
Amortization of borrowing costs	10
Financial charges recorded as provisions	1,349
Financial charges paid	(1,083)
Capitalization	(6)
Amortization	(2,218)
<b>Balance at December 31, 2011</b>	<b>15,779</b>

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The consolidated totals of funds raised in 2011 are as follows:

Loans / Financing sources	Maturity of Principal	Interest rates	Amount raised
<b>Moeda Nacional</b>			
Bndes Direto - Finem	2017	UMBNDDES + 2.58%	8
Bndes Direto - Finem +1	2017	UMBNDDES + 3.58%	8
Debêntures 7th Issue	2016	CDI + 1.35%	212
BNP - Eur 36 MM	2014	Eur + 3.98%	28
Merril Lynch - US\$ 50 MM	2016	US\$+ 2.59%	29
Bndes Direto - Sub-loan 2	2019	Urtjlp + 1.81%	33
Bndes Direto - Sub-loan 3	2019	Urtjlp + 2.21%	55
Bndes Direto - Sub-loan 4	2019	Urtjlp + 3.21%	55
Bndes Direto - PSI	2019	UMBNDDES + 4.50%	1
Debentures 1st Issuance	2016	Cdi + 1.45%	56
Banco do Brasil	2012	Cdi + 1.18%	130
Debentures 2nd Issue	2019	Tjlp + 1.45%	138
Bndes 125 600 MM	2028	UMBNDDES + 1.97%	17
Financiadora de Estudos e Projetos FINEP	2018	8.00%	7
BNDES	2028	UMBNDDES + 1.97%	49
NP ITAÚ	2012	105.5% of CDI	663
BNDES	2034	2.4% a.a + TJLP	123
BNDES	2025	2.15% + TJLP	1
Banco do Brasil S/A	2012	106.00% of CDI	100
Banco do Brasil S/A	2014	98.5% of CDI	200
Banco do Brasil S/A	2014	98.5% of CDI	210
Eletróbrás	2015	7.00%	17
Eletróbrás	2020	6.00%	75
Eletróbrás	2023	6.00%	23
Bradesco	2012	106% of CDI	1,000
DEBENTURES	2016	CDI + 1.30%	180
DEBENTURES	2016	CDI + 1.30%	95
DEBENTURES	2016	CDI + 1.30%	14
DEBENTURES	2016	CDI + 1.30%	35
BNDES	2023	3% a.a. + TJLP	14
BDMG	2017	Various	1
Itaú BBA - Swap II	2015	Various	3
HSBC	2012	Various	2
Bradesco	2016	Various	23
HP	2016	Various	3
			3,608

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The Debentures issued by its subsidiaries and jointly-controlled subsidiaries as at December 31, 2011 have the following characteristics:

Subsidiary	Form and class	Balance in 2011	Guarantee	Interest	COVENANTS	Maturity
Cemig Geração e Transmissão (1)	non-convertible into shares	47	No	IGP-M	No	2014
Cemig Geração e Transmissão (1)	non-convertible into shares	1,368	No	IPCA + 7.68	No	2015
Cemig Geração e Transmissão (1)	non-convertible into shares	1,755	Unsecured (Collateral of Holding)	CDI + 0.90	No	2012
Madeira Energia S.A. (1)	non-convertible into shares	207	Unsecured	IPCA	No	2013
Taesa (1)	non-convertible into shares	206	Unsecured	CDI + 1.30%	No	2015
Taesa (1)	non-convertible into shares	163	Unsecured	IPCA+7.91%	No	2015
Taesa (1) (2)	non-convertible into shares	463	Unsecured	106.0% of CDI	Yes	2017
Cemig Distribuição (1)	non-convertible into shares	503	No	IPCA+7.96	No	2017
Cemig Distribuição (1)	non-convertible into shares	373	Unsecured (Collateral of Holding)	IGP-M + 10.50	No	2031
ETEP (1)	non-convertible into shares	35	Unsecured	112.5% of CDI	No	2016
EATE (1)	non-convertible into shares	167	Unsecured	CDI + 1.30%	No	2016
ECTE (1)	non-convertible into shares	13	Unsecured	CDI + 1.30%	No	2016
ENTE (1)	non-convertible into shares	88	Unsecured	CDI + 1.30%	No	2016
Light 5th Issuance (1) (2)	non-convertible into shares	242	Unsecured	CDI + 1.50%	Yes	2014
Light 7th Issuance (1) (2)	non-convertible into shares	214	Unsecured (also with personal guarantee)	1.35% of CDI	Yes	2016
Light 1st Issuance (1) (2)	non-convertible into shares	57	Unsecured (also with personal guarantee)	1.45% of CDI	Yes	2016
Light 2nd Issuance (1) (2)	non-convertible into shares	137	Unsecured	1.18% of CDI	Yes	2019
<b>TOTAL</b>	non-convertible into shares	<b>6,039</b>				

(1) With no renegotiation clause and no debentures in cash.

(2) Complied fully with the covenants.

#### a) Covenants

Cemig and its subsidiaries Cemig Distribuição and Cemig Geração e Transmissão have contracts for loans and financing which contain covenants, requiring compliance on a semi-annual basis at the end of June and December each year.

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At December 31, 2011, one of Cemig's clauses was not complied with. However, the company obtained consent from its creditors prior to the stipulated date that they would not exercise their rights to demand immediate or early payment of amounts owed before December 31, 2012.

As of December 31, 2011, two clauses of Cemig Geração e Transmissão were not complied with. The formal consent (waiver) that its creditors will not exercise their rights to demand early or immediate payment of the total amount was obtained on March 14, 2012, after the closing date of the financial statements; Accordingly, the contracts whose clauses were not complied with are recognized in current liabilities. The amount reclassified to the current liabilities as a result of the covenants was R\$1,917.

The covenants of contracts for loans and financings of the other subsidiaries and jointly-controlled subsidiaries were fully complied with as of December 31, 2011 and 2010.

Table of Contents**The following are the main covenants:**

Description of the covenant	Index required
Debt/EBITDA;	Less than or equal to 2.5
Debt/EBITDA;	Less than or equal to 3.36
Net Debt /EBITDA	Less than or equal to 4.00
Current Debt/EBITDA	Less than or equal to 105%
Debt/Shareholders Equity + Debt	Less than or equal to 65%
EBITDA/Debt Charges	Greater than or equal to 2.8
EBITDA/Juros	Greater than or equal to 3.0
EBITDA/Financial Result	Greater than or equal to 2.0
Investment/EBITDA	Less than or equal to 75%

Net debt = Total debt less the sum of (the cash balance plus tradable securities).

EBITDA = Earnings before interest, taxes (on profit), depreciation and amortization. Specific criteria for the calculation of EBITDA are made in some contracts, with some variations with respect to this formula.

Three covenants were not complied with as of and for the year ended December 31, 2011, as follows:

Description of the covenant	Index required	Actual index as at Dec 31, 2011
<b>CEMIG</b>		
Debt / EBITDA	Less than or equal to 2.5	2.75
<b>Cemig Geração e Transmissão</b>		
Current Debt/ EBITDA	Less than or equal to 105%	133.40%
Debt / (Shareholders equity + Debt)	Less than or equal to 61%	62.14%

**b) Debentures**

The debentures issued by the Company's subsidiaries and jointly-controlled subsidiaries are simple, non-convertible.

**c) Commercial promissory notes**

On December 28, 2011 the Company concluded the 4th issuance of commercial promissory notes in the total amount of R\$1,000 through a public offering for distribution with restricted placement efforts, under the regime of a firm guarantee of subscription through a public offering, in the terms of CVM Instruction 476/09.



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The Company issued 100 (one hundred) of notes, with a nominal unit value of R\$10 each one, with maturity on December 22, 2012. The nominal unit value will not be updated. The notes will be remunerated at the effective rate of 106% of the interbank deposit rate ( DI ), calculated by CETIP S.A. Mercados Organizados. The total amount raised will be used for acquisition of asset and replenishment of cash due to investments made by the Company.

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Table of Contents**d) Issuance of debentures of Light SESA**

In May, 2011 Light SESA concluded its 7th issuance of unsecured debentures, non-convertible into shares, in the total amount of R\$650 through a public offering, for distribution with restricted placement efforts, under the regime of a firm guarantee of subscription, in the terms of CVM Instruction 476/09.

The debentures were issued on May 2, 2011, with an entry of funds in cash on May 5, 2011, and they will be remunerated at the effective rate of 100% of the CDI plus a spread of 1.35% p.a. defined in a bookbuilding process, with half-yearly payments of interest and final maturity on May 2, 2016.

In May 2011 Light Energia concluded its 1st issuance of unsecured debentures, non-convertible into shares, in the total amount of R\$170 through a public offering, for distribution with restricted placement efforts, under the regime of a firm guarantee of subscription, in the terms of CVM Instruction 476/09.

The debentures were issued on April 10, 2011, with an entry of funds in cash on May 12, 2011, and they will be remunerated at the effective rate of 100% of CDI plus a spread of 1.45% p.a. with half-yearly payments of interest and final maturity on April 10, 2016.

**20. REGULATORY CHARGES**

	2011	2010
Global Reversion Reserve RGR	59	46
Fuel Consumption Account CCC	68	51
Energy Development Account CDE	45	35
Eletrobrás Compulsory loan	1	1
ANEEL inspection charge	5	4
Energy Efficiency	148	156
Research and Development	217	197
Energy System Expansion Research	4	4
National Scientific and Technological Development Fund	8	8
Alternative Energy Program Proinfa	23	18
Emergency capacity charge	49	3
0.30% additional payment Law 12111/09	3	3
	<b>630</b>	<b>526</b>
Current liabilities	368	384
Non-current liabilities	262	142

**21. EMPLOYEE POST-RETIREMENT BENEFITS**

**The Forluz Pension Fund**

The Company sponsors a pension plan, administered by Fundação Forluminas de Seguridade Social ( Forluz ) covering substantially all its employees. The purpose of the pension plan is to provide the plan s members and participants, and their dependents, with additional financial income to complement their retirement.

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On December 31, 2004, the actuarial liabilities and the plan's assets were separated and allocated between CEMIG, Cemig Geração and Transmissão and Cemig Distribuição, based on the proportion of employees in each of these Companies.

FORLUZ provides the following supplementary pension benefit plan for its participants:

Mixed Benefits Pension Plan (Plan B): This plan operates as a defined-contribution plan during the phase of accumulation of funds for retirement benefits for normal time. The plan operates as a defined-benefit plan, providing disability and life insurance benefits for active employees and receipt of benefits for time contributed. The sponsors match the basic monthly contributions of the participants. Plan B is the only plan open for enrollment by new participants.

The sponsors' contribution to this plan is 27.52% for the portion with defined benefit characteristics, related to the coverage for disability or death for the active participant, and this is used for amortization of the defined obligation through actuarial calculations. The remaining 72.48%, related to the portion of the plan with defined-contribution characteristics, goes to the nominal accounts of the participants and is recognized in the current income statement as and when the Company makes payments, under Personnel expenses.

Paid-off Benefits Pension Plan (Plan A): This plan includes all currently employed and assisted participants who elected to migrate from the Company's previously sponsored defined benefit plan, and who are entitled to a proportional paid-off benefit. For active employees, this benefit has been deferred until the date of retirement.

CEMIG, Cemig Geração e Transmissão and Cemig Distribuição also maintain, independently of the plans made available by FORLUZ, payments of part of the life insurance premium for the retirees, and contribute to a health plan and a dental plan for the active employees, retired employee and dependents, administered by FORLUZ.

**Separation of the Health Plan into Cemig Saúde**

On August 26, 2008, FORLUZ's Executive Council, complying with orders issued by the Department of Supplementary Pensions (SPC), decided to transfer the management of CEMIG's Integrated Health Plan (PSI), to another entity to be created for this purpose, called Cemig Saúde. The reasoning as to why SPC issued such orders was that it believed it would be difficult if not impossible for health plans to retain participants that were not also participants in the companies' pension and retirement plans. The dental and pension plans are still managed by FORLUZ. The process of separating PSI into Cemig Saúde was concluded in 2010, and all existing benefits and coverages were kept.

**Amortization of Deficit in Actuarial Reserves**

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In this Note the Company presents its actuarial obligations and expenses incurred for purposes of the Retirement Plan, Health Plan, Dental Plan and Life Insurance Plan in accordance with the standards set forth in IAS 19 (Employee Benefits) and an independent actuarial report prepared as of December 31, 2011.

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The Company recognized an obligation for post-employment benefits, in the amount of R\$847 as at December 31, 2011 (R\$868 as at December 31, 2010) related to actuarial losses from prior years related to the pension fund. These obligations are being amortized in monthly installments, until June 2024, and are calculated under the fixed-installment system ( Price Table ). After the Third Amendment to the FORLUZ Agreement, the amounts began to be adjusted only by the *Amplified National Consumer Price Index* (IPCA) published by IBGE (Brazilian Institute of Geography and Statistics), plus 6% per year.

The post-employment obligation, as included in the Company's consolidated statement of financial position, represents the difference between the amount of debt as agreed-upon with FORLUZ for amortization of the actuarial obligations and the actuarial liability to the pension fund, as calculated by an independent actuary. Because the Company is required to pay this debt even if FORLUZ has a surplus, the Company recorded the debt in full against shareholders' equity on the transition date and then recorded the impacts related to monetary updating and interest in the financial result.

**The Braslight Pension Fund**

Light is a sponsor of *Fundação de Seguridade Social Braslight* ( Braslight ), a non-profit private pension plan entity whose purpose is to guarantee retirement revenue for Light employees subscribed with the Foundation, and a pension to their dependents.

Braslight was established in April 1974, and has four plans A, B, C and D implemented in 1975, 1984, 1998 and 2010, respectively. Around 96% of the active participants that were formerly in plans A and B have migrated to plan C.

While Plan A and Plan B are defined-benefit plans, Plan C is a mixed plan in which the specified benefits (retirement not arising from disability, and the respective pension reversal), during the capitalization phase are treated as a defined-contribution, without any connection with the INSS (National Institute of Social Security), and the risk benefits (health care assistance, retirement for disability, and life insurance benefits), as well as those of continued post-retirement income, once granted, are treated as a defined benefit. In Plan D, the benefits are the defined contributions before and after their concession.

On October 2, 2001, the Department of Supplementary Pensions approved a resolution with regards to the actuarial deficit and refinancing of the Braslight amortizable pension plan reserve, which were then fully recognized. Based on this resolution, the reserve is being amortized on a straight-line basis in 300 monthly installments, starting in July 2001. The installments are monetarily updated for variations in the IGP-DI plus 6% interest per year. As of December 31, 2011, the Braslight pension plan reserve totaled to R\$1,095 (R\$1,016 as of December 31, 2010). The proportion of the reserve, amortization, and related accumulated amortization, consolidated into CEMIG's consolidated financial statements was 32.48% based on its percentage ownership in Light as of December 31, 2011 (26.06% in 2010).

The liabilities and expenses recognized by Light in connection with the supplementary retirement plan are adjusted in accordance with the terms of IAS 19 (*Employee Benefits*) and in conformity with the information as provided in a report by independent actuaries. The 2011 independent actuarial valuation was performed as of December 31, 2011.



Table of ContentsIndependent Actuarial Information

The tables below present Cemig's consolidated actuarial information for the years ended December 31, 2011, which includes the additional amount related to the proportional consolidation of Light, as mentioned above:

	<b>Pension plans and retirement supplement plans</b>	<b>Health Plan</b>	<b>Dental Plan</b>	<b>Life Insurance</b>
Present value of funded obligations	7,254	626	18	540
Fair value of the plan's assets	(6,893)			
Present value of unfunded obligations	361	626	18	540
Unrecognized actuarial gains (losses)	96	(59)	13	(53)
Net liabilities	457	567	31	487
Addition amount related to the debt to Forluz	390			
<b>Total net liabilities</b>	<b>847</b>	<b>567</b>	<b>31</b>	<b>487</b>

As previously mentioned, the Company records an additional obligation corresponding to the difference between the obligation for supplementing the retirement pensions stated in the actuarial report and the debt agreed upon with FORLUZ.

The unrecognized actuarial gains and losses that exceeded 10% of the total post-employment benefit obligations will be recognized in the income statement over approximately 11 years, which is the average time of future service of present active participants, since 2009.

The changes in the present value of the Company's defined-benefit obligations from December 31, 2010 to December 31, 2011 were as follows:

	<b>Pension plans and retirement supplement plans</b>	<b>Health Plan</b>	<b>Dental Plan</b>	<b>Life Insurance</b>
<b>Defined-benefit obligation as of 12/31/2010</b>	<b>6.657</b>	<b>575</b>	<b>17</b>	<b>466</b>
Cost of current service	7	10		5
Interest on the actuarial obligation	673	58	2	48
Actuarial losses (gains) recognized	421	38		31
Benefits paid	(504)	(55)	(1)	(10)
<b>Defined-benefit obligation as of 12/31/2011</b>	<b>7.254</b>	<b>626</b>	<b>18</b>	<b>540</b>

The changes in the fair value of the plan assets of the plans from December 31, 2010 to December 31, 2011 were as follows:

	<b>Pension plans and retirement supplement plans</b>
<b>Fair value of the plan assets of the plan as of 12/31/2010</b>	<b>6,540</b>



Expected return	729
Employer Contributions	128
Benefits paid	(504)
<b>Fair value of the plan assets of the plans as of 12/31/2011</b>	<b>6,893</b>

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The amounts recognized in the income statement for the year ended December 31, 2011 were as follows:

	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life Insurance	
Current service cost	7	11			5
Interest on the actuarial obligation	673	58	2		48
Expected return on plan assets	(732)				
Actuarial losses (gains) recognized				(1)	
<b>Expense in 2011 as per the actuarial report</b>	<b>(52)</b>	<b>69</b>	<b>1</b>		<b>53</b>
Adjustment related to debt with FORLUZ	158				
<b>Total expense recorded in 2011</b>	<b>106</b>	<b>69</b>	<b>1</b>		<b>53</b>

The changes in net liabilities from December 31, 2010 to December 31, 2011 are as follows:

Parent Company	Pension plans and retirement supplement plans		Health Plan	Dental Plan	Life Insurance	Total
	FORLUZ	BRASLIGHT				
Net liabilities as at December 31, 2010	868	265	554	30	444	2,161
Expenses incurred	106	57	69	1	53	286
Contributions paid	(127)	(31)	(56)		(10)	(224)
Acquisition of equity interest in Light		65				65
<b>Net liabilities December 31, 2011</b>	<b>847</b>	<b>356</b>	<b>567</b>	<b>31</b>	<b>487</b>	<b>2,288</b>
Current liabilities	75	26				101
Non current liabilities	772	330	567	31	487	2,187

The expenses with pension funds are recorded in financial result as they represent the interest and monetary adjustments related to the debt with Forluz, as mentioned previously in this Note. The expenses related to the health, dental, and life insurance plans are recorded as other operating expenses.

The independent actuary's estimate for the expense to be recognized for 2012 is as follows:

	Pension plans and retirement supplement plans Forluz	Health Plan	Dental Plan	Life Insurance	
Current service cost	8	11			5
Interest on the actuarial obligation	703	60	2		54
Expected return on plan assets	(735)				
Actuarial losses (gains) recognized		1	(1)		1
<b>Estimated expense in 2012</b>	<b>(24)</b>	<b>72</b>	<b>1</b>		<b>60</b>

The independent actuary's estimate for the payment of benefits during 2012 is as follows:

	<b>Pension plans and retirement supplement plans</b>	<b>Health Plan</b>	<b>Dental Plan</b>	<b>Life Insurance</b>
Estimated payment of benefits in 2012	540	48	1	16

The Company and its subsidiaries Cemig Geração e Transmissão and Cemig Distribuição expect to make contributions totaling R\$194 to the pension fund during 2012.

The main categories of the plan's assets, as a percentage of the plan's total assets, are as follows:

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	CEMIG, Cemig Geração e Transmissão e Cemig Distribuição	
	2011	2010
Shares in Brazilian companies	16.31%	15.00%
Fixed income securities	83.69%	85.00%
	100.00%	100.00%

The Company's consolidated pension plan assets include the following assets, valued at fair value, held by both CEMIG and Light:

	2011	2010
Non-convertible debentures issued by the sponsors	367	450
Shares issued by the sponsors	12	10
Real estate properties of FORLUZ, occupied by the sponsors	192	185
	<b>571</b>	<b>645</b>

The table below presents the key assumptions used by the Company for its defined benefit pension plans for the years ended December 31, 2010, and December 31, 2011:

	2011	2010
Annual discount rate	10.07%	10.50%
Annual expected return on the plan's assets	10.98%	11.50%
Annual long-term inflation rate	4.30%	4.50%
Annual salary increases	6.39%	6.59%
Average Mortality table	AT-2000	AT-2000
Disability table	Light Average	Light Average
Mortality table for disabled persons	IAPB-57	IAPB-57

**22. PROVISIONS AND CONTINGENCIES**

Cemig and its subsidiaries and jointly-controlled subsidiaries are parties to various legal proceedings in Brazil arising from the normal course of business, regarding tax, labor, civil and other issues.

**Proceedings in which the Company is a debtor**

The Company and its subsidiaries and jointly-controlled subsidiaries have recorded provisions for contingencies for the proceedings where the expectation of loss is considered as more likely than not and that an outflow of resources will be required to settle the obligation, as follows:



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	Balance in 2010	Additions ( ) Reversals	Updates	Write-off	Balance in 2011
<b>Labor claims</b>					
Sundry	115	7	6		128
<b>Civil lawsuits</b>					
Personal injury	20	66			86
Rate increase Cruzado Plan	26	10	2		38
Environmental	4	53			57
Other	90	(1)	10	(13)	86
<b>Tax</b>					
FINSOCIAL	22				22
PIS and COFINS	8	1	1		10
ICMS	32	12	2		46
INSS	18	4	1		23
Other	9	7	1		17
<b>Regulatory</b>					
ANEEL administrative proceedings	27	7	2		36
<b>Total</b>	<b>371</b>	<b>166</b>	<b>25</b>	<b>(13)</b>	<b>549</b>

The management of Cemig believes that any disbursements in excess of the amounts accrued after the outcome of the respective processes will not have a material effect on the result of operations and the individual and consolidated financial position and of the Company.

Details on the principals, provisions and contingent liabilities are as follows:

**Provisions recorded for processes with the expectation of loss that is more likely than not and contingent liabilities connected to processes with the expectation of loss that are more likely not to happen.**

Labor claims

The grievances under the labor laws are basically disputes regarding overtime, allowances for dangerous work, property damages and pain and suffering.

The total amount of this contingency is approximately R\$524, of which R\$129 was provisioned.

Civil lawsuits Personal injury

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Cemig is party to various civil actions related to compensation for moral damages arising mainly from incidents during the normal course of business, in the amount of R\$189, of which R\$87 were provisioned.

A reassessment of the likelihood of loss of various processes, based on the opinion of the Company's legal counsel, was the main reason for provisions made in 2011, totaling R\$67, which changed to losses more likely than not that it will be required to outlay financial resources to settle the obligation.

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Among these actions there are processes related to the accident on February 27, 2011 in the town of Bandeira do Sul. The Company emphasizes that the most significant impact of these actions are not financial, but the exposure of the Company's image.

Rate increase - Cruzado Plan

A number of industrial consumers brought legal actions against the Company seeking refunds of amounts paid to Cemig as a result of a rate increase that became effective during the Brazilian government's economic stabilization plan (Cruzado Plan) in 1986, alleging that these increases violated the price controls instituted as part of that plan. The exposure for these rate increase claims is approximately R\$47 as of December 31, 2011, and R\$38 was recorded as a provision.

Environmental Matters

The Company and its subsidiaries are party to a number of administrative and judicial proceedings and claims involving environmental matters, regarding protected areas, environmental licenses and recuperation of environmental damage in the amount of approximately R\$79, of which R\$57 has been recorded as a provision.

The Company is challenging in court the environmental compensation, established in 2011, calculated based on Law 9985 of 2000 and Decree 6848 of 2009, which corresponds to 0.5% of the reference value of the project for implementation of the Santo Antônio hydroelectric power plant and its transmission system in stretch of the Madeira River, established in Installation Permit 540 of 2008 and defined in Operating License 1044, 2011, issued by the Brazilian Institute of Environment and Natural Renewable Resources (IBAMA). These features are intended to compensate the environmental impacts caused by the work, are updated by the Special IPCA and at December 31, 2011 amount to R\$52. This compensation is being considered as a priority by the Federal Environmental Compensation Committee to set the allocation of resources. The environmental expenses recorded as provisions were recorded as cost of Construction in progress - Reservoirs, dams and water courses.

The Company and its wholly-owned subsidiaries are defendants in various other public civil actions where the amounts involved cannot be assessed accurately, due to the fact that most of these lawsuits are related to alleged environmental damages and require indemnity, recuperation of damaged areas and compensation measures that will be defined in the course of the proceedings, often requiring experts to verify the amounts. Also, class actions may benefit third parties not originally involved in the proceedings, who may be entitled to further damages or compensations. Hence, we can not specify the amount involved in these proceedings.

Value-added tax

Since 1999, Light has been inspected a number of times by the tax authorities of the state of Rio de Janeiro for ICMS (value-added tax) infringements. As of December 31, 2011, the Company had received but had yet to make payment on certain infringement notices received from the tax authorities. Based on review of the infringement notices and on consultations with its legal department, Management believes that only part of the infringement amounts claimed represent a probable risk of loss for which the existence of a present obligation on the date of the financial statements is more likely than not, provisioned in the amount of R\$105. Cemig percentage of that amount is R\$34.





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Gasmig recorded a provision related to ICMS credits on purchase of fixed assets used in the network in the amount of R\$22, and Cemig's percentage of represents a quota share of R\$12.

Adicionalitly, the Company is a defendant in various administrative and legal proceedings brought by the State Tax Department of Minas Gerais, claiming ICMS and, in the event that the Company has to pay the tax on these transactions, it will be able to request reimbursement by the consumer to recover the value of the tax plus any penalties. The main proceedings are: the non payment of the ICMS on TUSD since the amount of the tax due has been divided in compliance with preliminary injunctions granted under a writ of security issued by those consumers and the demand contracted and not used that was billed during the period from January 2005 to December 2010, since the value of tax was excluded from the electric power bills, in compliance with the injunction granted; IMIDEC (the Institute for Defense of the Consumer of Minas Gerais) filed a civil lawsuit against Cemig Distribuição, questioning the ICMS on the total invoice and not only on the service provided; Cemig was notified, as joint obligor, in sales operations of the surplus electricity made to industrial consumers during the period rationing of rationing power, when the Department of Finance Secretary of the State of Minas Gerais demanded the payment of ICMS on these transactions. No provision was recorded and the estimated amount of the contingency is R\$434.

**Contingent liabilities, whose expected loss is considered as more likely than not that out flows of financial resources will be required to settle the obligation**

Taxes and other contributions

The Company and its subsidiaries and jointly-controlled subsidiaries are parties to various administrative and judicial proceedings relating to Taxes. The details of the main lawsuits are as follows:

Indemnity of the additional pay for year worked (*Anuênio*)

The Company and its subsidiaries Cemig Geração e Transmissão and Cemig Distribuição paid an indemnity to the employees in 2006, in the amount of R\$178, in exchange for the rights to future payments of additional pay for year worked (*Anuênio*) which would be incorporated into salaries. The Company and its subsidiaries did not make the payments of income tax and social security contribution on this amount because it considered that these obligations are not applicable to amounts paid as indemnity. However, to avoid the risk of a future fine arising from a different interpretation by the Federal Tax Authorities, the Company and its subsidiaries decided to file for writs of security to enable payment in court of the amount of any obligations, in the amount of R\$192 as of December 31, 2011 posted under Deposits connected to legal actions in Long term assets.

*Employee Profit sharing*

In 2006, Cemig was notified by the National Social Security Institute, INSS, as a result of the non-payment of the social security contribution on the amounts paid as profit sharing during the period from 2000 to 2004, representing R\$141 as at December 31, 2011. The Company appealed at the administrative level against the decision. No provision has been recorded since Cemig believes it has arguments on the merit for defense, and

an adverse outcome in this action is considered to be possible, but not probable.

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*Social security contributions*

The Brazilian Federal Revenue Department filed administrative proceedings against Cemig, Cemig Geração e Transmissão and Cemig Distribuição, in respect of pension contributions under various headings: profit sharing, worker food program (PAT), education allowance, payments for overtime, exposure to risk in the workplace, SEST / Senat, a fine for breach of accessory obligations. The Company has presented its defenses and is awaiting a hearing.

The expectation of loss in these actions is considered more likely that there is no cash outflow to settle an obligation and the amount of the contingency is approximately R\$781.

*Federal Contribution - FINSOCIAL*

The Federal Government filed a lawsuit against the Company, in order to rescind the judgment in the rescission action filed previously by Cemig, where it challenges the FINSOCIAL contribution, arguing that the action filed by Cemig was filed after the statute of limitations of two years. On December 31, 2011, the amount involved in this action was, approximately, R\$68.

*Offsetting of federal taxes credits*

The Federal Revenue Department Company did not ratify the declaration of offsetting of credits resulting from undue payment, or overpayment, by the Company related to various tax administrative processes with respect to proceedings regarding offsetting of federal taxes. Cemig is contesting the related tax postings made by the federal tax authority. The amount of the contingency is R\$424.

*Consolidated tax return (DIPJ) restitution and compensation*

The Company is a party to administrative proceedings involving claims for restitution and compensation arising from negative balances presented in the DIPJs for calendar years 1997 to 2000, and overpayments, identified by the corresponding documents for receipt of payment of federal revenue (DARF) and declarations of federal taxes and contributions (DCTF). The amount of the contingency is R\$296.

*PIS/COFINS tax rate*

Cemig was notified for underpayment of PIS / COFINS due to incorrect exclusions of financial expenses from the base for calculating contributions. Although the Company collected PIS / COFINS on financial income, the Federal Revenue Department considers that the amount

was underpaid. The amount of the contingency is R\$81.

The Company is a defendant in various legal proceedings in which the plaintiffs demand suspension of payment of PIS and COFINS, on the grounds that the imposition of such contributions in the context of electricity invoices is illegal. The amount of the contingency is R\$41.

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Regulatory matters

*CRC Account*

Prior to 1993 Brazilian electricity concession holders were guaranteed, by law, a rate of return on investment in assets used in the providing of electricity services to clients. The rates charged to users were uniform throughout the country, and the profits generated by the more profitable concession holders were reallocated to less profitable concession holders, in such a way that the rate of return for all the companies was equal to the national average. The deficits which the majority of the Brazilian electricity concession holders suffered were recorded in the CRC Account of each company. When the CRC Account and the guaranteed-return concept were abolished, Cemig used its positive balances in the CRC Account to offset its liabilities to the Federal Government.

Anel filed an administrative action against the Company, contesting credit related to these positive balances and on October 31, 2002 it issued a final administrative decision. On January 9, 2004, the National Treasury issued a collection notice in the amount of R\$516. Cemig filed a writ of security to suspend inclusion of the credit in the register of delinquent debtors of credits to the federal government (Cadin). Although the writ was denied by the lower court, an appeal was made to the Federal Court of the First Region, which granted Cemig a temporary injunction suspending inclusion in Cadin. On December 31, 2011, the amount involved in this action was R\$1,015, and no provision has been recorded.

*Contracts for public illumination (CIP)*

The Company is defendant in several public class actions challenging the clause in the Electricity Supply Contracts for public illumination, signed between the Company and the various municipalities of its concession area, and restitution by the Company of the difference representing the amounts charged in the last 20 years, in the event that the courts recognize that these amounts were unduly charged. The actions are grounded on a supposed mistake by Cemig in the estimate of time used for the calculation of the consumption of electricity by public illumination paid for by the Public Illumination Contribution (CIP). On December 31, 2011, the amount involved in this action was, approximately, R\$1,183.

*Regulatory contingency CCEE*

In an action dating from August 2002, AES Sul Distribuidora has challenged in the courts the criteria for accounting of electricity transactions on the wholesale electricity market during the period of rationing. It obtained a decision in its favor in February 2006, which ordered the CCEE to recalculate the transactions during the period of rationing disregarding Dispatch 288/2002. This was to be put into effect in the CCEE in November 2008, resulting in an additional disbursement for CEMIG, referring to the expense on purchase of power in the short-term market, in the CCEE, in the amount of approximately R\$124 as of December 31, 2011. On November 9, 2008 the Company obtained an injunction in the Regional Federal Court suspending the obligatory nature of the requirements to pay in court the amount owed arising from the Special Financial Settlement carried out by the CCEE. No provision has been constituted since Cemig believes it has arguments on the merit for defense.



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Civil lawsuits – low-income consumers

*Exclusion of some consumers as low-income*

The Federal Public Prosecutor filed a public civil action against the Company and ANEEL, to prevent the exclusion of some consumers classified in the low-income residential rate sub-class, requesting condemnation of the Company to pay double the amount paid in excess by the consumers. The request was upheld, however, the Company and ANEEL appealed the decision and are awaiting a hearing. The total amount of the contingency is R\$123.

*Tariff adjustment – Neutrality of Parcel A*

The Municipal Association for Protection of the Consumer and the Environment (AMPROCOM) and the Brazilian Association of Consumers (ABC) filed lawsuits against the Company and ANEEL, aiming at identifying all consumers who were adversely affected in the periodic review process and annual tariff adjustment in the period from 2002 to 2009, and the refund through a credit in the electricity bills, of the amounts for which they were incorrectly charged, through not disregarding the impact of future changes in demand for power consumption of non manageable cost components (Portion A) and the incorrect incorporation of these gains in the manageable costs of the distributor (Portion B), causing the economic-financial imbalance of the contract. The estimated value of the contingency is R\$1,061, where all consumers in the Cemig Distribuição concession area are considered.

Tax contingencies of Light SESA

The tax contingencies with a probability of loss considered more likely than not that an outflow of financial resources will be required to settle the obligation as at December 31, 2011 recognized by Light SESA, correspond to: the demand for income tax and social contribution on the earnings of the LIR and LOI since 1996; non ratification of compensation for claims of withholding income tax credits on financial investments and withholding tax on payments of power bills made by public bodies; a fine for alleged breach of accessory obligations related to the delivery of electronic files related to calendar years 2003 to 2005; tax assessment notice drawn up for the collection of ICMS on the amounts of economic subsidies targeted to low-income consumers; ICMS on commercial losses; Inspection Fee for Occupation and Permanence in Public Area, Streets and Roads (TFOP), levied by the Municipality of Barra Mansa; withholding tax on amounts paid by Light SESA as dividends, on the argument that they result from non-existent income; tax assessment for charge ICMS, due to the use of accumulated ICMS credits of Rheem Embalagens Ltda. on the acquisition of inputs and raw materials within the State of Rio de Janeiro. These lawsuits come to the total amount of R\$860, the amount corresponding to Cemig's interest in the capital of Light at December 31, 2011.

Claims in the Ordinary Course of Business

Additionally, the Company is involved as plaintiff or defendant in other, less relevant, litigation related to the normal course of its operations, in the amount of R\$516. Management believes it has adequate defense for these disputes and does not expect material losses related to these issues, that may have an adverse effect on the financial position and results of operations.





Table of Contents**Proceedings in which the Company is a creditor and with probable entry of economic benefits**PASEP and COFINS Expansion of the Base for Tax Calculation Purposes

The Parent company filed a legal suit challenging the expansion of the taxable base for PIS and COFINS tax calculation purposes on financial revenue and on other non-operating revenues during the period from 1999 to 2004, through Law 9718 of November 27, 1998. In the event of a favorable judgment in the final instance (subject to no further appeal) and we point out that the Federal Supreme Court has ruled on similar cases in favor of the taxpayer the gain to be recorded in the income statement will be R\$195, net of income tax and social contribution.

**23. SHAREHOLDERS EQUITY****(a) Share Capital**

The fully paid-in shares, each with a par value of R\$5.00, are distributed as follows:

Shareholders	Number of shares as of December 31, 2011					
	Common	%	Preferred	%	Total	%
The State of Minas Gerais	151,993,292	51			151,993,292	22
Other entities of The State of Minas Gerais	40,197		7,057,472	2	7,097,669	1
AGC Energia S.A.	98,321,592	33			98,321,592	14
Other:						
In Brazil	35,420,497	12	73,185,353	19	108,605,850	16
Abroad	12,494,090	4	303,902,089	79	316,396,179	47
<b>Total</b>	<b>298,269,668</b>	<b>100</b>	<b>384,144,914</b>	<b>100</b>	<b>682,414,582</b>	<b>100</b>

Shareholders	Number of shares as of December 31, 2010					
	Common	%	Preferred	%	Total	%
The State of Minas Gerais	151,993,292	51			151,993,292	22
Other entities of The State of Minas Gerais	40,197		7,057,472	2	7,097,669	1
AGC Energia S.A.	98,321,592	33			98,321,592	14
Other:						
In Brazil	35,084,145	12	88,391,812	23	123,475,957	18
Abroad	12,830,442	4	288,695,630	75	301,526,072	45
<b>Total</b>	<b>298,269,668</b>	<b>100</b>	<b>384,144,914</b>	<b>100</b>	<b>682,414,582</b>	<b>100</b>

Earnings Per Share

Considering that each class of shares participates equally in the income presented, the earnings per share in 2011 and 2010, of R\$3.54 and R\$ 3.41, respectively, were calculated based on the weighted average of the Company's shares outstanding in each of the abovementioned years.

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The weighted average number of shares used in calculating basic and diluted earnings per share is as follows:

<b>Weighted average of shares</b>	<b>2011</b>	<b>2010</b>
<b>Balance at January 1,</b>		
Common shares	298,269,668	271,154,243
Preferred shares	384,144,914	349,222,649
	<b>682,414,582</b>	<b>620,376,892</b>
<b>Effects of share issues in April 2010</b>		
Common shares		27,115,425
Preferred shares		34,922,265
		<b>62,037,690</b>
<b>Weighted average of shares at December 31</b>		
Common shares	298,269,668	289,231,193
Preferred shares	384,144,914	372,504,159
	<b>682,414,582</b>	<b>661,735,352</b>

Shareholders' Agreement

On August 1, 2011, the Government of the State of Minas Gerais signed a Shareholders' Agreement with AGC Energia S.A. with intervention and consent of BNDES Participações S.A. with validity for fifteen years. The agreement maintains the state of Minas Gerais as a hegemonic, isolated and sovereign controller of the Company and attributes a few prerogatives to AGC Energia in order to contribute to the Company's continued sustainable growth, amongst other contractual terms.

Return of Advance for Future Capital Increase ( AFAC )

In 1995, 1996 and 1998, by the State of Minas transferred financial resources intended for a capital increase in the historical amount of R\$27. In 2011, the Ministry of Finance requested the return of the amounts of these resources for future capital increases of AFAC, monetarily updated, since the aforementioned year the funds had not been used for the payment of shares in a capital increase.

In response to this request, the Board of Directors, on December 27, 2011, decided to return the Advance for Future Capital Increase ( AFAC ) to the State of Minas Gerais, in the amount of R\$93, corresponding to the historical amount of R\$27, adjusted by the IGP-M (General Index of Market Price) for the period and the financial expense corresponding to the monetary update of the future capital increase, in the amount of R\$66, was recorded in 2011.

Capital increase to be proposed to the Annual Shareholders' Meeting in April 2012

Cemig's Board of Directors will propose a capital increase to the Annual Shareholders' Meeting mainly through the use of its Profit reserves.

The approval of an increase in Cemig's capital from R\$3,412 to R\$4,265 through the issuing of 170,603,646 new shares, through the capitalization of R\$822 of the balance of the Profit Retention Reserve and R\$31 originating from the incorporation of portions of the Loan Assignment Agreement of the remaining balance of the CRC,

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distributing to shareholders as a result, a bonus of 25% in new shares, of the same kind as the priorly held shares and with a par value of R\$5.00, will be proposed.

**(b) Reserves**

The breakdown of Capital Reserves and Profit Reserves is presented as follows:

	2011	2010
<b>Capital Reserves</b>		
Interest on investments in fixed assets in progress    Own capital	1,313	1,313
Donations and subsidies for investment	2,573	2,573
Additional paid-in capital	69	69
Treasury Shares	(1)	(1)
	<b>3,954</b>	<b>3,954</b>

The reserve for interest on investments in fixed assets in progress    own capital refers to the interest on the shareholders' equity used in constructing assets and facilities, which is recorded in property, plant, and equipment as corresponding entries against shareholders' equity. Cemig decided to stop forming this reserve as from 1999.

The reserve for Donations and Subsidies for Investments refers basically to the compensation by the Federal Government of the difference between the profitability obtained by CEMIG up to March 1993 and the minimum return guaranteed by the legislation in effect at the time. The funds were used in the amortization of various obligations payable to the Federal Government, and the remaining balance originated the CRC contract.

Treasury shares refer to the shares transferred from FINOR originating from funds invested in CEMIG's projects in the area covered by SUDENE (Superintendency for the development of the Northeast) due to tax incentives.

	2011	2010
<b>Profit Reserves</b>		
Statutory Reserve	1,141	1,435
Profit retention Reserve	1,383	799
Proposal for distribution of additional dividends	86	67
Legal Reserve	683	573
	<b>3,293</b>	<b>2,874</b>

Statutory Reserve

The Statutory reserve is for future payment of extraordinary dividends, in accordance with Article 28 of the by-laws.

Profit Retention Reserve

The Profit Retention Reserve refers to profits not distributed in previous years to ensure the implementation of the Company's Investment Program, and the retentions supported by capital budgets approved by the Board of Directors in the periods in question. The main acquisitions of interests in other companies are a result of the retention of the aforementioned funds which more detail is presented in Note 14.

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Proposal for distribution of additional dividends

The Company recorded R\$86 in the Profit Reserve related to the portion of dividends proposed by management which exceeds the required minimum annual dividend distribution of 50% of net profit for the year, established in the Company's by-laws.

Legal Reserve

This reserve is a requirement for all Brazilian corporations and represents the appropriation of 5% of annual net income up to a limit of 20% of share capital as established by Article 193 of Brazilian Corporate Law 6,404. Accordingly, the Company opted to appropriate 4.52% of the net income as at December 31, 2011, in the amount of R\$109 in order to comply with the law.

**(c) Dividends**

Ordinary dividends

50% of the net income for the year must be used for distribution as a mandatory dividend to the Company's shareholders, as established in the Company's by-laws.

Preferred shares have priority in the reimbursement of capital and participate in the profit under equal conditions with common shares. Preferred shares have a right to an annual minimum dividend equal to the greater value between 10% of their par value; or 3% of the shareholders' equity associated with the shares.

Under the by-laws, CEMIG's shares held by private individuals have the right to a minimum dividend of 6% per year on their par value in all years when Cemig does not obtain sufficient profits to pay dividends to its shareholders. This guarantee is given by the State of Minas Gerais in the terms of Article 9 of State Law 828 of December 14, 1951 and Article 1 of State Law 8796 of April 29, 1985.

The declared dividends shall be paid in two equal installments, the first not later than June 30 and the second not later than December 30 of each year following the generation of profit. The Board of Directors is responsible for observing these deadlines and determining the place of payment and the process for payment.

The calculation of the dividends proposed for distribution to shareholders based on the Company's profit for the year-ended December 31, 2011 is as follows:





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<b>Minimum Dividend Distribution Calculation as required by the by-laws</b>	<b>2011</b>
Par value of preferred shares	1,921
Percentage applied to the par value of preferred shares	10.00%
Amount of dividends per first payment criteria	192
<b>Shareholders' equity</b>	<b>11,745</b>
Preferred shares as a percentage of Shareholders' equity (net of shares held in Treasury)	56.29%
Portion of Shareholders' equity represented by preferred shares	6,611
Percentage applied to the portion of Shareholders' equity represented by preferred shares	3.00%
Value of the dividends per second payment criteria	198
<b>Minimum obligatory dividends required by the by-laws for preferred shares</b>	<b>198</b>
<b>Mandatory Dividend Calculation</b>	
Profit (loss) for the year	2,415
Mandatory dividend 50.00% of profit for the year	1,208
<b>Dividends proposed</b>	<b>1,294</b>
Total dividends for preferred shares	728
Total dividends for common shares	566
<b>Dividends per share R\$</b>	
Minimum obligatory dividend required by the by-laws for preferred shares	0.29
Mandatory dividend	1.77
Proposed dividend	1.90

Extraordinary dividends

Cemig's Bylaws establishes that, without prejudice to the mandatory dividend, each year, or more frequently if the availability of cash permits, the Company will use the specific profit reserve for the distribution of extraordinary dividends, up to the limit of the cash available, as decided by the Board of Directors subject to compliance with the Company's Strategic Plan and the dividend policy specified therein.

The following extraordinary dividends were paid by the Company in 2011 and 2010:

- In a meeting held on December 16, 2010, the Board of Directors decided to declare an extraordinary dividend in the amount of R\$900, or R\$1.32 per share, using the profit reserve established under the Bylaws for this purpose. The payment of these dividends took place on December 29, 2010.
- In a meeting held on December 15, 2011, the Board of Directors decided to declare an extraordinary dividend, in the amount of R\$850, or R\$1.25 per share, using the profit reserve established under the Bylaws for this purpose. The payment of these dividends took place on December 28, 2011.



Table of Contents**(d) Accumulated Foreign Currency Translation Adjustments and Other Comprehensive Income**

	2011	2010
<b>Accumulated Foreign Currency Translation Adjustments and Other Comprehensive Income</b>		
Deemed Cost of the Generation Assets	1,080	1,210
Foreign Currency Translation Adjustments	5	(1)
Cash Flow Hedge Instruments	1	1
	<b>1,086</b>	<b>1,210</b>

The translation adjustments refer to the foreign exchange difference calculated on the translation of Transchile's financial statements based on the exchange rates for assets and liabilities at the end of the year, recorded directly in the abovementioned Shareholders' Equity account.

The amounts recorded as deemed cost of generation assets are due to a new valuation of the generation assets, with the definition of their fair value by their replacement cost at the first time adoption of IFRSs as at January 1, 2009. The new valuation of the generation assets resulted in an increase in the value of these assets, recorded in a specific shareholders' equity account, net of tax effects.

**24. REVENUE**

	2011	2010 (Reclassified)	2009 (Reclassified)
Supply of electric power (a)	16,841	14,821	14,743
Revenue from use of the electricity distribution grid – TUSD (b)	1,974	1,658	1,332
Revenue from use of the transmission system (c)	1,473	1,198	903
Construction revenue (d)	1,533	1,341	1,291
Other operating income (e)	990	924	917
Taxes on revenue (f)	(6,997)	(6,095)	(5,737)
<b>Net operating revenue</b>	<b>15,814</b>	<b>13,847</b>	<b>13,449</b>

Table of Contents**(a) Supply of electric power**

The breakdown of the supply of electric power by consumer class is as follows:

	GWh ( * )			R\$		
	2011	2010	2009	2011	2010 (Reclassified)	2009 (Reclassified)
Residential	10,742	9,944	9,744	5,452	4,833	4,626
Industrial	26,029	24,826	22,638	4,366	3,	3,857
Commerce, services and others	6,985	6,227	6,197	3,045	2,718	2,740
Rural	2,647	2,467	2,221	708	632	572
Governmental entities	1,191	1,083	1,071	531	467	467
Public lighting	1,371	1,220	1,226	357	310	309
Public service	1,439	1,360	1,338	425	394	395
Subtotal	50,404	47,127	44,435	14,884	13,290	12,966
Own consumption	57	53	52			
Unbilled, net				75	(71)	2
	50,461	47,180	44,487	14,959	13,219	12,968
Wholesale supply to other concession holders (**)	14,458	14,205	13,860	1,577	1,445	1,634
Power transactions on CCEE	5,138	4,785	2,542	269	133	137
Sales under the PROINFA program	121	85	20	36	24	4
<b>Total</b>	<b>70,178</b>	<b>66,255</b>	<b>60,909</b>	<b>16,841</b>	<b>14,821</b>	<b>14,743</b>

( \* ) The MWh column includes of the total electricity sold by Light, proportional to the Company's equity interest.

( \*\* ) Includes Contract for Trading of Electricity on the Regulated Market Sale (CCEAR) and bilateral contracts with other agents.

Tariff Review Cemig Distribuição

On April 8, 2011, ANEEL approved the tariff adjustment rate of Cemig Distribuição S.A. The result ratified by ANEEL represents a rate increase of 10.47%, consisting of two components: (i) Structural component of 8.08% for non-manageable costs (Portion A) and manageable (Portion B) and (ii) Financial component of 2.39%, effective until April 2012. With the removal of the financial components considered in the tariff process in 2010, of 3.23%, the average effect felt by the Company's captive customers is 7.24%.

Tariff Review Light

On November 1, 2011, ANEEL approved the tariff adjustment of Light SESA for 2011. The result ratified by ANEEL represents a rate increase of 6.57%, consisting of two components: (i) Structural component of 7.21% for non-manageable (Portion A) and manageable (Portion B) costs

and (ii) Financial component, which be effective until October 2012, of -0.64%. Considering the removal of the financial component present in Light s rates in effect until this date, of -1.33%, the proposal represents an average rate increase for consumers of 7.82%.

**(b) Revenue from use of the electricity distribution grid TUSD**

A representative portion of the Large Industrial Consumers in the concession area of Cemig Distribuição and Light that are allowed to choose their power suppliers such as Cemig Geração e Transmissão and other power generating companies, also referred to as free consumers. Accordingly, the charges for the use of the distribution network ( TUSD ) of these free consumers are charged separately and recorded under this caption.

Table of Contents**(c) Revenue from use of the transmission system**

	2011	2010	2009
Revenue from use of the basic transmission system	1,293	1,091	764
Revenue from connection system	180	107	139
	<b>1,473</b>	<b>1,198</b>	<b>903</b>

For the old concessions, Revenue from use of the basic transmission system refers to the rate charged from the electric sector agents, including free consumers connected to the high tension system, for use of the basic transmission system, owned by the Company, together with the interconnected Brazilian system after deducting the amounts received that are used for amortization of the financial assets.

For the new concessions, including the portion received from the agents from the electric sector referring to the operation and maintenance of transmission lines and also the adjustment to present value of the financial assets of established transmission, for the most part during the period of construction of transmission enterprises. The rates used for restating the assets correspond to the remuneration of the capital invested in the projects, varying in accordance with the model of the enterprise and the cost of the investor's capital.

**(d) Construction Revenue**

Construction Revenue is fully offset by the construction costs and corresponds to the Company's investments in the period in assets of the concession, where the operating income, in some cases, also includes the profit margin involved in the operation. More details are presented in note 25 of the consolidated Financial Statements.

**(e) Other operational revenues**

	2011	2010 (Reclassified)	2009 (Reclassified)
Supply of gas	579	398	307
Charged service	14	16	17
Telecommunications services	158	131	115
Rendering services	105	179	129
Low-income subsidy (*)	56	133	265
Others	78	67	84
	<b>990</b>	<b>924</b>	<b>917</b>

(\*) Revenue recognized arising from the subsidy from Eletrobrás, for the discount given on tariffs charged to low-income consumers. The amounts were homologated by ANEEL and are reimbursed by Eletrobrás.





Table of Contents**(f) Taxes and charges levied on revenue**

	2011	2010	2009
<b>Income Taxes</b>			
ICMS	3,575	3,142	3,004
COFINS	1,496	1,310	1,252
PIS and PASEP	325	304	253
Others	6	12	4
	5,402	4,768	4,513
<b>Charges to the consumer</b>			
Global Reversion Reserve RGR	205	183	189
Energy Efficiency Program PEE	43	43	41
Energy Development Account CDE	516	423	408
Fuel Consumption Account CCC	718	532	493
Research and Development R&D	37	39	31
National Scientific and Technological Development Fund	32	34	30
Energy System Expansion Research EPE (Mining and Energy Ministry)	16	17	16
Emergency Capacity Charge		20	16
0.30% Surcharge (Law 12111/09)	28	36	
	1,595	1,327	1,224
	<b>6,997</b>	<b>6,095</b>	<b>5,737</b>

**25. OPERATING COSTS AND EXPENSES**

	2011	2010 (Reclassified)	2009 (Reclassified)
Personnel (a)	1,249	1,212	1,318
Employee and managers profit sharing	221	325	239
Post-employment obligations	124	107	150
Materials	98	134	114
Outsourced services (b)	1,031	923	819
Electricity purchased for resale (c)	4,278	3,722	3,199
Depreciation and amortization	939	896	895
Charges for use of water resources	154	140	154
Provisions (reversals) for operating losses (d)	257	138	124
Charges for the use of transmission facilities of the basic grid	830	729	853
Gas purchased for resale	329	225	167
Construction costs	1,529	1,328	1,410
Other operating expenses, net (e)	362	321	316
	<b>11,401</b>	<b>10,200</b>	<b>9,758</b>

Table of Contents**a) Personnel Expenses**

	2011	2010	2009
Salary and payroll charges	1,132	1,073	1,091
Supplementary pension contributions defined-contribution plan	67	66	44
Assistance benefits	132	133	128
	1,331	1,272	1,263
Temporary Voluntary Retirement Program PDV	20	40	206
( - ) Personnel costs transferred to construction in progress	(102)	(100)	(151)
	(82)	(60)	55
	<b>1,249</b>	<b>1,212</b>	<b>1,318</b>

## Retirement Incentive Program (PDP)

In November 2011, Cemig implemented its Retirement Incentive Program (PDP), which is permanent and available for free, voluntary rescissions of work contracts, pursuant to the Law 12506 issued in October 2011, which addresses prior notice of 1 to 3 months and thus closed the former Voluntary Retirement Program (PDV).

Among the program's main financial incentives are payments of one gross monthly wage and 6 months of contributions for health insurance after termination, the deposit of the 40% fine on the balance of the employee's accumulated severance funds (FGTS), payment of prior notice corresponding to at least one month's wages (30 days) up to a maximum of 3 months' wages (90 days), as determined by Law 12506 of 2011, and the payment of up to 24 months of contributions to the Pension Fund and Social Security (INSS) - after termination, in conformity with certain criteria established in the program's regulations. Until December 31, 2011, 38 employees had adhered to the program.

**b) Outsourced Services**

	2011	2010	2009
Collection agents / Meter readers / Bill delivery agents	176	136	119
Communication	90	79	69
Maintenance of electrical facilities and equipment	205	198	141
Building maintenance and cleaning	59	51	44
Contracted labor	60	54	47
Freight and airfares	12	13	12
Accommodation and meals	19	24	20
Security	23	20	16
Management consulting	27	3	35
Maintenance of furniture and fixtures	68	44	37
Vehicle maintenance	22	29	23
Disconnections and reconnections	53	62	27
Electricity	27	26	18
Others	190	186	211
	<b>1,031</b>	<b>923</b>	<b>819</b>



Table of Contentsc) **Electricity purchased for resale**

	2011	2010	2009
From Itaipu Binacional	919	910	1,087
Spot market	337	382	91
PROINFA	204	192	145
Bilateral contracts	538	315	433
Electricity acquired in Regulated Market auctions	1,965	1,873	1,489
Electricity acquired on the Free Market	637	348	162
PASEP and COFINS credits	(322)	(298)	(208)
	<b>4,278</b>	<b>3,722</b>	<b>3,199</b>

d) **Operating provisions (reversals)**

	2011	2010	2009
Pension plan premiums	5	(22)	41
Allowance for doubtful accounts receivable	163	105	94
Provision (reversal) for labor claims	13	(9)	(1)
Provision (reversal) for ANEEL administrative proceedings	4	(47)	17
Provision (reversal) for civil lawsuits - consumers	48	(54)	6
Provision (reversal) for civil lawsuits - tariff increases	9	139	(33)
Other provisions	15	26	124
	<b>257</b>	<b>138</b>	<b>124</b>

e) **Other operating expenses, net**

	2011	2010	2009
Leases and rentals	87	58	43
Advertising and publicity	24	30	26
Own consumption of electric power	19	10	15
Subsidies, grants and donations	34	40	43
ANEEL inspection charge	46	43	42
Onerous concessions	21	23	11
Taxes and charges (IPTU, IPVA and others)	26	21	18
Insurance	8	11	7
CCEE annual fee	6	5	5
License fee - TDRF ( * )	30	27	27
Net loss on deactivation and disposal of assets	22	26	31
FORLUZ - Current Administration expense	15	14	15
Other expenses	24	14	33
	<b>362</b>	<b>322</b>	<b>316</b>

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(\* )TDFR - License charge for use or occupation of land-adjoint highways.

Operating leases

The Company has operating lease agreements related mainly to vehicles and buildings used in its operatingl activities which are not material in relation to the Company s total costs.

Table of Contents**26. NET FINANCIAL INCOME (EXPENSES)**

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>FINANCIAL INCOME</b>			
Income from financial investments	410	392	272
Charges on arrears of overdue electricity bills	151	137	170
Interest and monetary gains on account receivables from the the Government of the State of Minas Gerais	152	129	149
Foreign exchange gains	20	51	116
PASEP and COFINS on financial revenues	(42)	(39)	(40)
Gains on financial instruments	16		
Adjustment to present value		17	2
Monetary updating on Finsocial (note 9)	67		
Monetary updating on escrow account (note 11)	68		
Other income	153	154	163
	<b>995</b>	<b>841</b>	<b>832</b>
<b>FINANCIAL EXPENSES</b>			
Interest on loans, financings and debentures	(1,311)	(1,076)	(799)
Foreign exchange losses	(40)	(37)	(18)
Monetary losses loans, financing and debentures	(146)	(144)	(9)
Monetary losses onerous concessions	(21)	(42)	
Losses on financial instruments		(6)	(90)
Monetary losses and charges on post-employment obligations	(163)	(142)	(93)
Monetary losses on advance for capital increase (note 23)	(66)		
Other expenses	(305)	(219)	(178)
	<b>(2,052)</b>	<b>(1,666)</b>	<b>(1,187)</b>
<b>NET FINANCIAL EXPENSES</b>	<b>(1,057)</b>	<b>(825)</b>	<b>(355)</b>

PASEP and COFINS expenses are due on the interest on shareholders' equity.

Table of Contents**27. RELATED PARTY TRANSACTIONS**

The main balances and transactions with parties related to Cemig and its subsidiaries and jointly controlled subsidiaries are as follows:

ENTITIES	ASSETS		LIABILITIES		REVENUES		EXPENSES	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>Cemig Distribuição S.A.</b>								
<b>Current</b>								
Cooperation agreement (1)			4	2				
Dividends and interest on Capital	109	51						
<b>Non current</b>								
Cooperation agreement (1)	11	5						
TransfererEDpersonnel (2)	2							
<b>Cemig Geração e Transmissão S.A.</b>								
<b>Current</b>								
Dividends and interest on Capital		47						
<b>Non current</b>								
Cooperation agreement (1)	7	5						
Transferred personnel (2)	1							
<b>Cemig Capim Branco</b>								
<b>Current</b>								
Operations with electricity (1)			7	7	4	4	(73)	(86)
<b>Light S.A.</b>								
<b>Current</b>								
Dividends and interest on Capital	19	35						
<b>The Government of the State of Minas Gerais</b>								
<b>Current</b>								
Consumers and resalers (3)	7	9			89	84		
Recoverable or payable taxes VAT (4)	153	223	289	271	(3,575)	(3,142)		
<b>Non current</b>								
Account receivable from the Government of the State of Minas Gerais CRC (5)	1,830	1,837						
Recoverable taxes VAT (4)	243	85						
Consumers and resalers (6)	25	40						
Dividends and interest on Capital			266	251				
Debentures (7)			47	37			(10)	
Financings Minas Gerais Development Bank (BDMG)(8)			15	16				
<b>Forluz</b>								
<b>Current</b>								
Employee post-retirement obligations (9)			101	99			(124)	(107)
Personnel (10)							67	(66)

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Administrative costs (11)			(15)	(14)
<b>Non current</b>				
Employee post-retirement obligations (9)	2,187	2,062		
<b>Cemig Saúde</b>				
<b>Current</b>				
Health and Dental Plan (12)	21	19	(44)	(40)
<b>Andrade Gutierrez SA</b>				
<b>Current</b>				
Light for all program (13)		3		
<b>Non current</b>				
Light for all program (13)	1	1		

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The main conditions with respect to the business dealings between related parties are presented below:

- (1) Technical cooperation agreement between Cemig, Cemig Distribuição and Cemig Geração e Transmissão established by ANEEL Instruction 3924/2008;
- (2) Reimbursement of personnel expenses assigned by Cemig's to the companies of the Group;
- (3) Sale of electric power to the the Government of the State of Minas Gerais, where the transactions made in terms equivalent to those which prevail in the transactions with independent parties, considering that the price of the power is the price defined by ANEEL through a resolution referring to the Company's annual tariff adjustment;
- (4) The transactions with ICMS recorded in the financial statements refer to transactions for sale of electricity and are carried out in conformity with the specific legislation of the the State of Minas Gerais;
- (5) Injection of the credits from the CRC into a Receivables Fund in senior and subordinated quotas. For more information please see Note 12;
- (6) A substantial portion of the amount refers to the renegotiation of a debt originating from the sale of electricity to Copasa, with a forecast for payment not later than September 2012, and financial updating by the IGP M + 0.5% per month;
- (7) Private issue of non-convertible debentures for R\$120, restated by the IGP M, for completion of the Irapé hydroelectric power station, with redemption after 25 years from the date of issue. The amount at December 31, 2010 was adjusted to present value;
- (8) Financing of the subsidiaries Transudeste and Transirapé with maturity in 2019 (long-term interest rate (TJLP) + 4.5% p.a. and UMBndes 4.54% p.a.), and of Transleste, in 2017 and 2025 (rates of 5% p.a. and 10% p.a.);
- (9) Part of the contracts of FORLUZ is adjusted by the IPCA (Amplified Consumer Price Index) of IBGE (Brazilian Institute of Geography and Statistics), and part is adjusted based on the Salary Adjustment Index of the employees of CEMIG, Cemig Geração e Transmissão and Cemig Distribuição, excluding productivity factors, plus 6% p.a., with amortization up to 2024. For more information please see Note 21;
- (10) Cemig's contributions to the Pension Fund related to the employees participating in the Mixed Plan (see Note 21), calculated on the monthly payroll and salary expenses incurred in accordance with the fund's regulations;
- (11) Funds for annual current administrative costs of the Pension Fund in accordance with the specific legislation for the sector. The amounts are estimated as a percentage of the Company's total payroll;
- (12) Cemig's contributions to the employees' health and dental plans;
- (13) Contract related the Rural Electrification Program Light for All in the Cemig Concession Area, signed between Cemig Distribuição and the Iluminas Consortium, which Andrade Gutierrez is part of.

**Remuneration of Key Management Personnel**

The total remuneration paid to the members of the Board of Directors and the Chief Officers during 2011 and 2010 years is as follows:

	2011	2010
Remuneration	4	2
Profit sharing	1	1
Assistance benefits		1
<b>Total</b>	<b>5</b>	<b>4</b>

For more information on the main transactions, see Notes 8, 12, 18, 19, 21, 24 and 25.

**28. FINANCIAL INSTRUMENTS**

The financial instruments of the Company, its subsidiaries and jointly-controlled subsidiaries are restricted to Cash and cash equivalents, marketable securities, accounts receivable from consumers and traders, accounts receivable from the Government of the State of Minas Gerais, financial assets of the concession, loans and financing, obligations with debentures and derivatives, where the gains and losses obtained in the transactions are fully recorded on an accrual basis.

The financial instruments of the Company, its subsidiaries and jointly-controlled subsidiaries were recognized at fair value and are classified as follows:

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- Loans and receivables: Cash, Receivables from consumers and traders, Concessionaires transport of Power, Receivables from the Government of the State of Minas Gerais and financial assets of the concession are encountered in this category. They are recognized at their face realization value and are similar to their fair values.
- Financial instruments at fair value through profit or loss: In this category cash and cash equivalents, marketable securities and derivative instruments (mentioned in item b) are encountered. They are stated at fair value, and the gains or losses are recognized directly in the income statement.
- Loans and financing, and obligations with debentures and suppliers. They are measured at amortized, using the effective interest rate method;
- Derivative financial instruments: These instruments are stated at fair value, and the gains or losses are recognized directly in the income statement.

Financial instruments categories	2011		2010	
	Book value	Fair value	Book value	Fair value
<b>Assets:</b>				
<b>Loans and receivables</b>				
Cash and bank accounts	157	157	95	95
Accounts receivable from consumers and traders	2,708	2,708	2,358	2,358
Concession holders transport of power	427	427	401	401
Account receivable from the Government of the State of Minas Gerais	1,830	1,830	1,837	1,837
Financial assets of the concession	9,898	9,898	7,941	7,941
	<b>15,020</b>	<b>15,020</b>	<b>12,632</b>	<b>12,632</b>
<b>Fair value through profit or loss:</b>				
<b>Held for trading</b>				
Cash equivalents - Short-term investments	2,705	2,705	2,885	2,885
Marketable securities	359	359	322	322
	<b>3,064</b>	<b>3,064</b>	<b>3,207</b>	<b>3,207</b>
<b>Liabilities:</b>				
<b>Stated at amortized cost</b>				
Suppliers	1,197	1,197	1,138	1,138
Concessions payable	137	137	118	118
Loans, financing and deentures	15,779	15,767	13,227	13,227
	<b>17,113</b>	<b>17,101</b>	<b>14,483</b>	<b>14,483</b>
<b>Fair value through profit or loss :</b>				
Derivative instruments - Contract swap	25	39	67	62

## a) Risk management

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Corporate risk management is a management tool that is part of the Company's corporate governance practices and is aligned with the planning process which defines the Company's strategic business objectives.

The Company has a Financial Risks Management Committee, the purpose of which is to implement guidelines and monitor the financial risk of transactions that could negatively affect the Company's liquidity and profitability, recommending hedge strategies to control the Company's exposures to foreign exchange rate, interest rate and inflation risks. These strategies are aligned with the Company's overall strategy.

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One of the most important objectives of the Financial Risks Management Committee is and to provide reasonable predictability to the Company's cash flow for a maximum future period of 12 months, considering the economic scenario disclosed by an external consultant.

The principal risks to which the Company is exposed are as follows:

*Exchange Rate Risk*

Cemig and its subsidiaries and jointly-controlled subsidiaries are exposed to market risk from adverse changes in foreign currency rates, especially the U.S. Dollar against the Brazilian Real, which could potentially have a significant impact on their indebtedness, profit and cash flow. In order to reduce its exposure to adverse changes in foreign currency rates, as at December 31, 2011 the Company held certain hedge contracts, which are described in more detail in item b below.

The tables below provide summary information regarding the exposure to the exchange rate risk:

EXCHANGE RATES EXPOSURE	2011	2010
<b>U.S. Dollar</b>		
Loans and Financing	319	176
(+/-) Contracted hedge/swap	(32)	(45)
	287	131
<b>Other foreign currencies</b>		
Loans and Financing Euro	37	13
Others	3	3
<b>Net liabilities exposed to exchange rate risk</b>	<b>40</b>	<b>16</b>
	<b>327</b>	<b>147</b>

*Exchange Rate Sensitivity Analysis*

Based on information received from its financial consultants, the Company estimates that in a probable scenario the depreciation of the exchange rates of foreign currencies against the Brazilian Real as at December 31, 2012 will be 11.82% for the U.S. Dollar (to US\$1=R\$1.65) and 8.22% for the Euro (to 1 = R\$2.23). In the table below, the Company has performed a sensitivity analysis to demonstrate the adverse financial effects which would occur in scenarios assuming an additional 25% appreciation and a 50% appreciation of the foreign currencies as compared to the increase assumed in the probable scenario. The Company has designated these alternative appreciation scenarios as Possible and Remote, respectively.

	Base scenario December 31,2011	Probable scenario	Possible scenario: Foreign currency appreciation of 25%	Remote scenario: Foreign currency appreciation of 50%
Foreign Exchange Rate Exposure				

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U.S. Dollar				
Loans and Financing	319	281	352	422
( ) Contracted hedge/swap	(32)	(28)	(36)	(43)
	287	253	316	379
Other Foreign Currencies				
Loans and Financing Euro	37	34	47	56
Euro	3	2	3	4
<b>Net liabilities exposed to exchange rate risk</b>	327	289	366	439
<b>Net effect</b>		38	(77)	(150)

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Table of Contents*Interest Rate Risk*

The Company and its subsidiaries and jointly-controlled subsidiaries is exposed to the risk of increase in international interest rates, affecting loans and financings in foreign currency with floating interest rates, especially the Libor, in the amount of R\$207 (R\$59 on December 31, 2010).

The table below presents the Company's net assets and liabilities exposed to a risk of an increase in domestic interest rates as of December 31, 2011 and December 31, 2010:

<b>EXPOSURE TO CHANGES IN DOMESTIC INTEREST RATES</b>	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Cash and cash equivalents (Note 6)	2,705	2,885
Marketable securities (Note 7)	359	322
	3,064	3,207
<b>Liabilities</b>		
Loans, financing and debentures (Note 19)	(9,275)	(7,655)
Contracted hedge/swap (interest rates)	(600)	
Contracted hedge/swap (exchange rates)	(32)	(45)
	(9,907)	(7,701)
<b>Net liabilities exposed to domestic interest rate risk</b>	<b>(6,843)</b>	<b>(4,493)</b>

*Interest Rate Sensitivity Analysis*

The Company estimates that, under a Probable scenario, the SELIC rate as at December 31, 2012 will be 9.5%. The Company has performed a sensitivity analysis to demonstrate the adverse financial effects which would occur in scenarios assuming an additional 25% and 50% increase assumed in the probable scenario. The Company has designated these alternative scenarios as Possible and Remote, respectively. The CDI rate follows the increase in the SELIC rate.

The following scenarios as of December 31, 2012 are presented in conformity with the Company's base, optimistic and pessimistic scenarios, as described in the Company's hedge policy.

<b>Domestic Interest Rate Risk Exposure</b>	<b>2011 Base scenario: SELIC 11%</b>	<b>Probable scenario: SELIC 9.5%</b>	<b>2012 Possible scenario: SELIC 11.88%</b>	<b>Remote scenario: SELIC 14.25%</b>
<b>Assets</b>				
Cash and cash equivalents (Note 6)	2,705	2,962	3,313	3,384
Marketable securities (Note 7)	359	393	440	449
	3,064	3,355	3,753	3,833
<b>Liabilities</b>				
Loans, Financings and Debentures (Note 19)	(9,275)	(10,156)	(11,362)	(11,603)
Contracted hedge/swap (interest rates)	(600)	(655)	(732)	(748)

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Contracted hedge swap (exchange rates)	(32)	(35)	(40)	(40)
	(9,907)	(10,846)	(12,134)	(12,391)
<b>Net liabilities exposed to interest rate risk</b>	<b>(6,843)</b>	<b>(7,491)</b>	<b>(8,381)</b>	<b>(8,558)</b>
<b>Net effect</b>		<b>(648)</b>	<b>(890)</b>	<b>(1,067)</b>

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*Credit Risk*

The risk resulting from the possibility of losses on doubtful receivables for CEMIG and its subsidiaries and jointly-controlled subsidiaries, arising from difficulties in receiving the amounts billed from its clients, is considered low. The Company has follow-up procedures that seek to reduce default on an individual basis. Negotiations are also established to make receipt of overdue receivable feasible.

The Allowance for Doubtful Accounts recorded in 2011, considered adequate in relation to overdue receivables of the Company and its subsidiaries and jointly controlled companies, was R\$164.

With regards to the risk of losses resulting from insolvency of the financial institutions at which the Company and its subsidiaries and jointly-controlled subsidiaries have deposits, a Cash Investment Policy was approved and has been effective since 2004, where each institution is analyzed for risk purposes according to criteria of current liquidity, degree of leverage, degree of default, profitability, and costs. Additionally, the Company takes into consideration the ratings given to the financial institutions by three financial risk rating agencies. The Company assigns each financial institution a maximum limit for allocation of funds, which is reviewed for appropriateness both periodically and also in the event of any change in the macroeconomic scenarios of the Brazilian economy.

Cemig manages the counterparty risk of financial institutions based on an internal policy approved by the Company's Financial Risk Management Committee.

This policy measures and scales not only the credit risks of the institutions, but also the liquidity risk and market risk of the investment portfolio and the operational risk of the Treasury.

All investments are made in fixed income financial securities that are always linked to the CDI. The Company does not perform operations that incorporate risk of volatility in their financial statements.

As a management tool, Cemig divides the investment of its funds in direct purchases of securities (own portfolio) and two investment funds, which total about 20% of the total portfolio. The investment funds invest the funds exclusively in fixed income products, where the only companies of the group are shareholders. They follow the same policy adopted for investments in their own portfolio.

The minimum assumptions for lending to financial institutions focus on three items:

1. Risk rating of two agencies
2. Minimum net equity exceeding R\$400

3. Basel index of more than 12.

Having passed these cutoffs, the banks are classified into three groups according to the value of their equity. From this classification, concentration limits are established by group and by institution:

<b>Group</b>	<b>Shareholder s equity</b>	<b>Concentration</b>	<b>Bank limit (% of shareholder s equity)**</b>
A1	Over R\$3.5 bilhion	Minimum of 80%	7.0%
A2	Between R\$1.0 bilhion and R\$3.5 bilhion	Maximum of 20%	Between 2.8% and 7.0%
B	Between R\$400 milhion and R\$1.0 bilhion	Maximum of 20%	Between 1.6% and 4.2%

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\*\* The percentage granted to each bank Will dependo n na individual examination of indexes, such as liquidity and quality of the credit portfólio, amongst others.

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In addition to these points, Cemig also establishes two concentration limits:

1. No bank can have more than 30% of the Group's portfolio;
2. No bank can have more than 50% of a company's portfolio.

*Risk of Scarcity of Power*

The Company primarily sells electricity that is generated by hydroelectric power stations. A prolonged period of drought could result in reduced water levels in the reservoirs of the power stations, compromising recovery of their volumes and resulting in losses due to increased costs or reduced revenues in the event of adoption of another rationing program, as occurred in 2001.

*Risk of Early Maturity of Debt*

The Company, its subsidiaries and jointly-controlled subsidiaries have contracts for loans and financings that include covenants, normally applicable to these types of transactions, related to complying with economic and/or financial indices, cash generation and other indexes. Non-compliance with these covenants could result in early maturity of debts.

As of December 31, 2011, the Company was not in compliance with three covenants. The Company obtained consent from its creditors, affirming that they would not exercise their rights to demand immediate or early payment of amounts owed. See Note 19.

*Risk of Non-Renewal of Concessions*

The Company, its subsidiaries and jointly-controlled subsidiaries hold concessions for commercial operation of generation and transmission of electric power, and its Management expects that the concessions will be renewed by the regulatory bodies, ANEEL and/or the Ministry of Mines and Energy. If the regulatory bodies do not grant the Company renewal rights for these concessions, or if they decide to renew the Company's concessions under conditions which would impose additional costs (onerous concessions), or if they set a price ceiling for power sales, the future levels of profitability and operational activity could be adversely impacted when compared to those experienced in prior years.

A definition by the Federal Government of the criteria for the renewal of concessions is expected for 2012, when it will be possible to determine the impact of these criteria on the Company's results.

The Company has not suffered any significant adverse impacts resulting from events related to the risks related to concession renewals as described above.

*Liquidity Risk*

Cemig's cash generation is sufficient to cover its short-term requirements and for its program for acquisitions and investments.

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At December 31, 2011, the Company presented a greater balance of current liabilities compared to assets in the consolidated amount of R\$3,637. This results basically from debts recorded in the short term, whose representative portion is being paid off in the 1st quarter of 2012 through its own resources generated in the period and also through the use of funds raised by issuing debentures of its subsidiary Cemig Geração e Transmissão on March 9, 2012, in the amount of R\$1,350, with maturities of more than seven years. For additional information see Note 35.

Just as important as the quality of the business's operating cash generation is the Company's liquidity risk management, which is performed using a set of methodologies, procedures and instruments that are aligned with the complexity of the business and are applied in permanent control of the financial processes, so as to guarantee appropriate risk management.

The corporate risk management processes interact with other management cycles, such as the Corporate Governance, Budget Prioritization, Power Risks Management, the Insurable Risks, Control and Management and Financial Risks Management Committees in compliance with the Sarbanes-Oxley Act and the Internal Audit.

The purpose of the Financial Risk Management Committee, in particular, is to implement guidelines for controlling the financial risk of transactions that could compromise the Company's liquidity and profitability.

CEMIG manages its liquidity risk by permanently monitoring its cash flow, in a conservative manner, from a budget-based perspective and it forecasts the monthly balances for each of its companies over a period of 12 months, and for the daily liquidity, which forecasts the daily balances for 180 days.

Short-term investments must also comply with rigid principles established in the Investment Policy, investing up to 20% of its funds in exclusive private credit investment funds, with no market risks, with the surplus margin invested directly in bank certificates of deposit (CDB) or repurchase operations which earn interest at the CDI rate.

When managing its investments, the Company seeks to obtain profitability on its transactions through a rigid analysis of the financial institutions credit, in accordance with operating limits with banks based on assessments of the financial institutions' ratings, risk exposures and equity position. It also seeks greater returns on investments by strategically investing in securities with longer investment maturities, while bearing in mind the Company's minimum liquidity control requirements.

The cash outflows from the Company's loans, financing and debentures, at floating and fixed interest rates, as of December 31, 2012 were as follows:

Consolidated	1 month or less	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>Financial instruments at:</b>						
<b>- Floating interest rates</b>						
Loans, financings and debentures	533	759	4,649	7,192	1,939	15,072

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Concessions payable	1	7	48	82	138
<b>- Fixed interest rates</b>					
Loans, financings and debentures	*(1)	110	598		707
	<b>533</b>	<b>759</b>	<b>4,766</b>	<b>7,838</b>	<b>2,021</b>
					<b>15,917</b>

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Parent Company	1 month or less	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>Financial instruments at:</b>						
<b>- Floating interest rates</b>						
Loans, financing and debentures			1,212	638		1,850

\*Cost of Transaction (as part of IAS 39), to be allocated monthly in the contractual period contract, where in these intervals there will be no payment of interest or principal.

**b) Financial Instruments Derivatives**

Cemig, its subsidiaries and jointly-controlled subsidiaries use derivative financial instruments to hedge its operations against exchange rate risk. Derivative financial instruments are not used for speculative purposes.

The amounts of the principal of operations with derivatives are not presented in the balance sheet, since they refer to transactions that do not require cash principal payments to be made. Only the gains or losses related to these instruments are actually recorded. As at December 31, 2011 the net result on these operations was a gain of R\$16 (loss of R\$6 at December 31, 2010) recorded under financial results.

The Company has a Financial Risk Management Committee, which was created to monitor the financial risks with respect to volatility and trends of the inflation indices, exchange rates and interest rates that affect its financial transactions and which could adversely affect liquidity and profitability. The committee implements action plans and sets guidelines to control the financial risk environment.

*Methodology of calculation of the fair value of positions*

The fair value of financial instruments has been calculated taking into consideration the market values of each security, or market information available to perform this calculation, as well as the future interest rates and foreign exchange rates of similar securities. The market value of the security corresponds to its value at maturity, discounted to present value using the factor obtained from the market yield curve in Reais.

The table below shows the derivative instruments contracted by the subsidiaries Cemig Distribuição and Madeira Energia as of December 31, 2011.

Cemig's right	Cemig's obligation	Maturity period	Trading market	Value of principal contracts according to contract					Unrealized loss		Accumulated effect	
				2011	2010	2011	2010	2011	2010	Fair value	Amount received	Amount paid

<b>Cemig</b>										
<b>Distribuição</b>										
<b>SA</b>										
US\$ FX rate										
+ 5.58% p.a.	R\$100% of CDI +	From 04/2009								
to 7.14% p.a.)	15% to 3.01% p.a.)	To 06/2013	Over-the-counter	US\$	17	US\$	27	(48)	(70)	(48) (64) (29)
Rate of	Taxa de 96% de									
11.47% p.a.	CDI	On 05/10/2013	Over-the-counter	R\$	600	R\$	600	22	1	8
<b>Cemig</b>										
<b>Geração e</b>										
<b>Transmissão</b>										
<b>S.A.</b>										
R\$106% of	R\$ or US\$48% of									
CDI	CDI or variation in	In 04/2010	Over-the-counter			R\$	75			
	dollar (the highest)									
<b>Madeira</b>										
<b>Energia S.A.</b>										
R\$ IGP-M	R\$ 5.86%									
	Fixed-rate	In 12/2012	Over-the-counter	R\$	120	R\$	120	1	2	1 2
Euro	Variation in Euro									
	FX rate	In 02/2012	Options	R\$	2	R\$	2			
<b>Total</b>								<b>(25)</b>	<b>(67)</b>	<b>(39) (62) (29)</b>



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- 1) The values are for 100% of the operation
- 2) Fair values show a gain for the Company
- 3) Amounts in thousands of reais
- 4) Amount received is the accumulated amount for the year (Jan/11 to Dec/11)

Cemig Distribuição and Madeira Energia hold these contracted foreign exchange hedge and swap derivative instruments with Banco Santander-ABN.

*Derivative Exposure Sensitivity Analysis*

The derivative instrument described above shows that the Company is exposed to variations in the CDI rate, which is directly related to the SELIC rate. The Company estimates that, under a Probable scenario, the SELIC rate at December 31, 2012 will be 9.5%. The Company performed a sensitivity analysis to demonstrate the adverse financial effects which would occur in scenarios assuming an additional 25% and 50% increase in the SELIC rate. The Company has designated these alternative SELIC rate increase scenarios as Possible and Remote, respectively.

The Company estimates that in the Possible and Remote scenario the CDI rate at December 31, 2012 will be 11.88% and 14.25% respectively.

a) **Risk: effect of changes in the CDI rate in relation to changes in US dollar**

	Base scenario: Dec 31, 2011 11%	Probable scenario: SELIC 9.5%	Possible scenario: SELIC 11.88%	Remote scenario: SELIC 14.25%
<b>Risk: Increase in Brazilian domestic interest rates</b>				
Contracts updated at 100,00% of CDI rate	32	35	36	37
<b>Net effect of the change in the CDI rate</b>		<b>(3)</b>	<b>(4)</b>	<b>(5)</b>
<b>Risk: Increase in US\$ exchange rate</b>				
Contracts updated at 100,00% of CDI rate	32	28	36	43
<b>Net effect of change in US\$</b>		<b>4</b>	<b>(3)</b>	<b>(10)</b>
<b>Net effect</b>		<b>(7)</b>	<b>(1)</b>	<b>6</b>

b) **Risk: effect of changes in the CDI rate in relation to changes in fixed rate of 11.47% p.a.**

	Base scenario: Dec 31, 2011	Probable scenario:	Possible scenario:	Remote scenario:
<b>Risk: Increase in Brazilian domestic interest rates</b>				
Contracts updated at 96% of CDI rate	600	655	668	682
<b>Net effect of the change in the CDI rate</b>		<b>(55)</b>	<b>(68)</b>	<b>(82)</b>
<b>Risk - Fixed interest rate</b>				
Contracts updated at 11.47% p.a.	600	669	669	669
<b>Net effect of change in the interest rate</b>		<b>(69)</b>	<b>(69)</b>	<b>(69)</b>
<b>Net effect</b>		<b>14</b>	<b>1</b>	<b>(13)</b>

*Value and type of margins given in guarantee*

The Company does not make margin deposits for derivative instruments.

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This table below shows the ratio of net debt to adjusted capital as of December 31, 2011 and December 31, 2010:

	2011	2010
Total liabilities	25,613	22,080
(-) Cash and cash equivalents	(2,862)	(2,980)
(-) Marketable securities	(359)	(322)
<b>Net liabilities</b>	<b>22,392</b>	<b>18,778</b>
Total Shareholders' equity	11,745	11,476
(-) Amounts accumulated in equity related to cash flow hedges	(5)	1
<b>Adjusted Capital</b>	<b>11,740</b>	<b>11,477</b>
Net liabilities / Adjusted Capital	1,91	1,66

**29. MEASUREMENT AT FAIR VALUE**

The Company measures its financial assets and liabilities at fair value. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. To increase consistency and comparability, the fair value hierarchy prioritizes the inputs used in measuring into three broad levels as follows:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

A summary of the instruments that are measured at fair value as of December 31, 2011 is presented below:

Item	Fair value at December 31, 2011			
	Balance at December 31, 2011	Active market quoted price (Level 1)	No active market Valuation technique (Level 2)	No active market Share capital (Level 3)

<b>Assets</b>			
<b>Cash and banks</b>	157	157	
<b>Cash equivalents</b>			
<b>Financial investments</b>			
Bank certificates of deposit	2,346		2,346
Financial Treasury Bills (LFT)	64	64	
National Treasury Notes (LTN)	26	26	
Bank Financial Bills	177	177	
	<b>2,613</b>	<b>267</b>	<b>2,346</b>
<b>Short-term investments</b>			
Bank certificates of deposit	359		359
<b>Liabilities</b>			
Swap contracts	25		25

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*Methodology for calculating the fair value*

a) The fair value of financial investments is calculated taking into consideration the market quotations of the security, or market information that makes this calculation possible, and future interest rates and FX rates applicable to similar securities. The market value of the security corresponds to its maturity value discounted to present value using the risk free interest rate by the discount factor obtained from the market yield curve in Reais.

b) Swap Contracts: The criteria for marking to market of derivative operations consists of establishing the present value of a transaction contracted in the past in such a way that its replacement provides the same results as a new operation. Swaps are priced by calculating the difference between the market values of each one of their end points, adjusted by their index. A swap contract based on the CDI (Interbank Certificates of Deposit) rate is priced as calculated from the start date of the transaction up to the specified future date, considering the future forecast for this index. Pricing of the dollar side of the swap is adjusted by the variation in the exchange rate, using a future expectation and an embedded risk premium.

**30. INSURANCE**

Cemig, its subsidiaries and jointly-controlled subsidiaries have insurance policies to cover damages to certain assets, in accordance with orientation by specialists, as listed below, taking into account the nature and the degree of risk, for amounts considered sufficient to cover any significant losses related to its assets and legal responsibilities. The assumptions for the risks involved, due to their nature were not part of the scope of the audit of the financial statements and, consequently, were not examined by the independent auditors.

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Assets Insured	Coverage	Effective period of coverage	Amount insured	Annual premium
<b>Cemig, Cemig D and Cemig Geração e Transmissão</b>				
Air transport Aircraft	Fuselage	29/04/2011 to 29/04/2012	US\$ 9	
	Third party liability	29/04/2011 to 29/04/2012	US\$ 24	
Air transport Aircraft mobile wing	Fuselage	24/08/2011 to 29/04/2012	US\$ 4	
	Third party liability	24/08/2011 to 29/04/2012	US\$ 10	
Stores, building facilities and telecom equipment	Fire	08/11/2011 to 08/11/2012	R\$ 898	
Operational risk generators, turbines, and power equipment	Total	07/12/2011 to 07/12/2012	R\$ 1,661(1)	R\$ 2
<b>Light</b>				
Chief Officers and Board members	Total	10/08/2011 to 10/08/2012	US\$ 20	
General third party liability	Total	25/09/2011 to 25/09/2012	R\$ 20	R\$ 1
Operational risk	Total	31/10/2011 to 31/10/2012	R\$ 3,674(2)	R\$ 2
<b>Taesa</b>				
Operational risk - plant (4)	Total (6)	19/09/2011 to 19/08/2012	R\$ 1,136	R\$ 1
Operational risk substations, stores, institutional buildings (5)	Total (7)	19/09/2011 to 19/18/2012	R\$ 884	R\$ 1
Electricity generation and distribution companies (Concession holders or not) (4)	Third party liability	19/09/2011 to 19/08/2012	LMI R\$ 10	
Electricity generation and distribution companies (Concession holders or not) (5)	Third party liability	19/09/2011 to 19/08/2012	LMI R\$ 10	
<b>Madeira</b>				
Guarantee of public liabilities	Obligations under the concession agreement	07/03/2008 to 11/10/2016	R\$ 455	R\$ 20
Engineering risk Construction, installation, assembly	Total	11/11/2008 to 03/11/2016	Various (3)	R\$ 129
Guarantee maintenance	RE / Risks All of the equipment over a period of maintenance / warranty. (6)	23/03/2011 to 30/11/2017	R\$ 4,515	R\$ 26
Comprehensive multi-risk	Warehouse materials	26/09/2011 to 26/09/2012	R\$ 71	
General third party liability	Works/employer (7)	06/04/2009 to 06/04/2012	R\$ 60	R\$ 2
National transportation	Damage to property and transportation of products (8)	31/01/2010 to 31/12/2015	R\$ 3,176	R\$ 2
Internacional transportation	Damage to property and transportation of products (9)	31/01/2010 to 31/12/2015	USD 310	
Third party liability - concessionaries	Third party liability	31/12/2011 to 31/12/2012	R\$ 50	
Third party liability directors and officers	Third party liability	15/08/2011 to 15/08/2012	R\$ 50	

(1) The maximum limit for compensation is R\$170.

(2) The maximum limit for compensation is R\$300.

(3) R\$10,000 for civil liability, R\$12,719 for engineering risks All Risk, R\$1,630 for ALOP (Loss of income for delays in the work due to loss from damage to property), R\$992 for Operational Risks: all the power station s permanent services.

(4) Amounts included only in the NVT, TSN, ETEO concessions and Taesa

(5) Amounts included for Taesa, NTE, BRASNORTE and ETAU.

(6) The maximum limit for compensation is R\$20, except for a policy for R\$231 of the subsidiary NTE which R\$50.

(7) The maximum limit for compensation is R\$50.

Cemig does not have general third-party liability insurance covering accidents, except for its aircraft, and has not requested proposals related to this type of insurance. The Company has not requested proposals for, nor does it carry, insurance coverage for major catastrophes affecting its facilities such as earthquakes and floods, for business interruption risks or system failures.

The Company has not undergone significant losses arising from the aforementioned risks.

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Cemig and its subsidiaries have contractual obligations and commitments which include amortization of loans and financing, contracts with contractors for construction of new ventures and purchase of electricity from Itaipu, amongst others, as presented in the following table:

	2012	2013	2014	2015	2016	2017 and after	Total
Loans and financings	5,904	3,051	2,503	1,596	786	1,939	15,779
Purchase of electricity from Itaipu	742	751	606	629	603	27,934	31,265
Transport of electricity from Itaipu	75	79	63	66	66	1,959	2,308
Purchase of electricity at auctions	2,260	2,119	1,889	2,314	2,440	79,292	90,314
Other electricity purchase contracts	939	1,250	1,527	1,214	1,128	21,864	27,922
Debt to pension plan FORLUZ	74	49	51	55	58	560	847
<b>Total</b>	<b>9,994</b>	<b>7,299</b>	<b>6,639</b>	<b>5,874</b>	<b>5,081</b>	<b>133,548</b>	<b>168,435</b>

**32. REVIEWS OF TRANSMISSION TARIFFS OF CEMIG GERAÇÃO E TRANSMISSÃO**

On June 8, 2010, ANEEL homologated the result of the Company's second Tariff Review. In it, ANEEL reassessed the RAP at a decrease of 15.88%, backdated to June 2009. Accordingly, a restitution of R\$76 to the users of the transmission system during the tariff cycle from July 2010 to July 2011 was calculated.



Table of Contents**33. STATEMENT SEGREGATED BY COMPANY**

DESCRIPTION	HOLDING	CEMIG - GT	CEMIG-D	LIGHT	ETEP, ENTE, ERTE, EATE, ECTE	GASMIG	CEMIG TELECOM	SÁ CARVALHO	ROSAL O
<b>ASSETS</b>	<b>14,465</b>	<b>15,681</b>	<b>10,735</b>	<b>2,862</b>	<b>1,328</b>	<b>854</b>	<b>420</b>	<b>175</b>	<b>147</b>
Cash and cash equivalents	227	1,550	527	202	33	45	84	10	8
Accounts receivable		635	1,923	438	37	166		5	4
Marketable securities - Short-term investments	180	170	5	2					
Taxes	521	719	1,204	307	13	76	36	1	
Other Assets	1,541	335	1,254	163	48	30	32	4	
Investments/Property/Intangible/Financial Assets	11,997	12,273	5,822	1,751	1,197	537	269	155	135
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>14,465</b>	<b>15,681</b>	<b>10,735</b>	<b>2,862</b>	<b>1,328</b>	<b>854</b>	<b>420</b>	<b>175</b>	<b>147</b>
Suppliers and supplies	12	184	753	197	8	37	10	1	2
Loans, Financing and Debentures	1,030	8,348	3,511	1,085	406	131	98		
Interest on capital and dividends	1,243		109	19	14	22	7	2	
Employee post-retirement benefits	100	438	1,393	286					
Taxes	36	1,028	1,279	160	114	33	10	46	1
Other Liabilities	299	597	1,033	275	32	184	8	2	2
Shareholders Equity	11,745	5,086	2,656	840	754	445	288	124	142
<b>STATEMENT</b>									
<b>Net Operating Income</b>		<b>4,557</b>	<b>8,510</b>	<b>1,810</b>	<b>307</b>	<b>458</b>	<b>126</b>	<b>50</b>	<b>39</b>
<b>Operating Costs and Expenses</b>	<b>(92)</b>	<b>(2,102)</b>	<b>(7,281)</b>	<b>(1,582)</b>	<b>(55)</b>	<b>(379)</b>	<b>(104)</b>	<b>(13)</b>	<b>(13)</b>
Electricity bought for resale		(583)	(2,936)	(874)				(1)	(1)
Charges for the use of the basic transmission system		(245)	(672)	(124)					(3)
Gas bought for resale						(329)			
Construction Cost		(92)	(1,175)	(207)	(23)				
Personnel	(37)	(303)	(767)	(64)	(10)	(19)	(28)	(1)	(1)
Employees and manager profit sharing	(15)	(52)	(148)				(2)		
Post-employment obligations	(8)	(28)	(87)						
Materials	(0)	(23)	(64)	(7)		(1)			
Outsourced services	(13)	(164)	(681)	(107)	(15)	(6)	(21)	(3)	(3)
Royalties for use of water resources		(148)						(2)	(1)
Depreciation and amortization		(366)	(384)	(95)	(3)	(18)	(35)	(5)	(4)
Operational provisions	2	(12)	(161)	(78)			(1)		1
Other Expenses, net	(20)	(86)	(205)	(26)	(5)	(5)	(16)	(1)	
<b>Gross Profit</b>	<b>(92)</b>	<b>2,455</b>	<b>1,230</b>	<b>228</b>	<b>252</b>	<b>79</b>	<b>21</b>	<b>36</b>	<b>26</b>
<b>Equity gain (loss) on subsidiaries</b>	<b>2,520</b>	<b>(1)</b>							
Financial Income	173	277	310	45	17	26	11	2	1
Financial Expenses	(167)	(968)	(526)	(165)	(58)	(16)	(13)		
<b>Profit before income taxes</b>	<b>2,434</b>	<b>1,763</b>	<b>1,013</b>	<b>108</b>	<b>211</b>	<b>88</b>	<b>19</b>	<b>37</b>	<b>27</b>
Income tax and Social Contribution tax	(143)	(469)	(355)	(27)	(34)	(20)	(6)	(13)	(2)
Deferred income tax and Social Contribution tax	125	(25)	61		2		5	1	(0)
<b>Profit for the Year</b>	<b>2,415</b>	<b>1,269</b>	<b>720</b>	<b>81</b>	<b>179</b>	<b>68</b>	<b>18</b>	<b>26</b>	<b>25</b>



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**34. SUBSEQUENT EVENTS**

**a) Acquisition of Gás Brasileiro Distribuidora**

On February 9, 2012, CEMIG and Gaspetro signed, an investment agreement, under which the CEMIG will make new capital investments in Gas Brasileiro Distribuidora (GBD) and acquire a 40% equity interest. Prior to this investment, GBD was fully owned by Gaspetro, which is a company controlled by Petrobras. Furthermore, the implementation of the agreement and the execution of the resulting contracts are subject to approval by the regulatory authorities. The conclusion of the investment transaction is forecasted to occur by the end of the year 2012.

**b) Light's acquisition of a 51% interest in four Small Hydroelectric Power Plants in Minas Gerais**

On February 10, 2012, Light acquired 51% of the capital of Guanhães Energia for R\$25 million, resulting in joint control with Cemig Geração e Transmissão, which holds 49% of the shares. The total estimated investment in the construction of power plants is R\$269, of which R\$118 will be a transfer of the capital of the shareholders of Guanhães. Financial resources in the amount of R\$60.2 will be paid in by Light.

The closing of the transaction is subject to prior approval by the National Agency of Electric Power (ANEEL) and will be submitted to the Council for Economic Defense. Light, which bought an interest in Investminas Participações will be a partner with Cemig Geração e Transmissão, which holds 49% of Guanhães.

**c) Light set up a consortium for a solar plant in Maracanã stadium**

On February 10, 2012, Light announced that it approved the establishment of a joint venture between its subsidiary Light Esco and EDF Consultoria em Projetos de Geração de Energia Elétrica Ltda. (EDF Consultoria), with interests of 51% and 49%, respectively, for the development, construction and operation of a photovoltaic plant with a capacity of 391 kW, to be installed on the roof of the Maracana stadium. The total estimated investment for the project is R\$7 million and the power generated will be sold on the free market. After the recovery of invested capital, Light Esco and EDF Consultoria will donate the assets of the plant to the State of Rio de Janeiro. The construction of the plant is forecasted to be completed no later than December 2012.

**d) Debenture issued by Cemig Geração e Transmissão**

In March 2012, Cemig Geração e Transmissão S.A. concluded its 3rd issuance of debentures in which 1,350,000 non-convertible, unsecured debentures were issued in three series with a unit par value of R\$1 on the date of issuance. The net proceeds obtained from the issuance of the debentures were used to pay debts from the Company's fourth issuance of promissory notes, issued on January 13, 2012, at their total face value

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of R\$1,000, plus compensatory interest. The Company issued 480,000 first series debentures, 200,000 second series debentures, and 670,000 third series debentures with maturities of 5, 7 and 10 years from the date of issuance, respectively. Owners of the first series debentures are entitled to interest of CDI + 0.90%, and owners of the second and third series debentures will have their unit face value updated for inflation (using IPCA-IBGE) and are entitled to interest of 6.00% and 6.20% per year, respectively. This third public issuance of debentures is guaranteed by CEMIG.

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e) **Madeira Energia S.A. (Madeira)**

In the Extraordinary General Meeting on January 18, 2012, Madeira's shareholders approved its capital increase in the amount of R\$350 million. After the increase, the Company's fully subscribed and paid-in capital is R\$2,531 million. There was no dilution of the capital.

f) **Santo Antônio Energia (SAESA)**

In the Extraordinary General Meeting on January 18, 2012, the capital increase of the Company in the amount of R\$350 was approved. After the increase the Company's fully subscribed and paid-in capital is R\$4,075. There was no dilution of the capital.

g) **Review of useful life**

On February 7, 2012, ANEEL established Regulatory Resolution 474, which set the new depreciation rates for granted assets in service in the electric sector. The new depreciation rates are to be used starting on January 1, 2012. The Company is currently assessing the impacts of this change on their financial assets and intangible assets.

(Original report signed by the signatories below)

**Djalma Bastos de Morais**  
Chief Executive Officer

**Arlindo Porto Neto**  
Vice Chief Executive Officer

**Luiz Fernando Rolla**  
Diretor of Finances, Investor Relations and  
Financial Control of Equity Interests

**Frederico Pacheco de Medeiros**  
Director of Corporate Management

**Fernando Henrique Schüffner Neto**  
Director of Business Development and  
Corporate Control of Subsidiaries and  
Affiliated Companies

**Luiz Henrique de Castro Carvalho**  
Director of Generation and Transmission

**Fuad Jorge Noman Filho**  
Director of Gas

**José Raimundo Dias Fonseca**  
Commercial Director

**José Carlos de Matos**  
Director of Distribution and Trading

**Luiz Henrique Michalick**  
Director of Institutional Relations and  
Communication

**Maria Celeste Moraes Guimarães**  
Legal director

**Leonardo George de Magalhães**  
Superintendent of the Controller's  
Department

**Mário Lúcio Braga**  
Accounting Manager

Accountant CRC-MG-47.822



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**INDEPENDENT AUDITORS REPORT ON THE FINANCIAL STATEMENTS**

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<b>Exhibit Number</b>	<b>Document</b>
1	Corporate by-laws of CEMIG, as amended and in effect since December 21, 2011.
2.1	Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs filed on August 20, 2001 (File No. 333-13826)).
2.2	Shareholders Agreement, dated June 18, 1997, between the State Government and Southern, relating to the rights and obligations of owners of our shares (incorporated by reference to Exhibit 2.1 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
2.3	Amendment No. 1 to the Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs filed on June 11, 2007 (File No. 333-143636)).
2.4	Deposit Agreement, dated as of June 12, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the common share ADSs filed on May 7, 2007 (File No. 333-142654)).
4.1	Contract of Concession for Generating Electric Energy, dated July 10, 1997, between the Federal Government and us, relating to the provision of electric energy generation services to the public (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.2	Contract of Concession of Electric Energy Transmission Services, dated July 10, 1997, between the Federal Government and us, relating to the transmission of electric energy to the public (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.3	Second Amendment to the Electricity Transmission Concession Contract, dated September 16, 2005 (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
4.4	Third Amendment to the Electricity Transmission Concession Contract, for the Northern, Southern, Eastern, and Western geographic areas, dated April 13, 2010 (incorporated by reference to Exhibit 4.4 to our Registration Statement on Form 20-F filed on June 30, 2010 (File No. 1-15224)).
4.5	Contracts of Concession of Public Service for Distribution of Electric Energy, dated July 10, 1997, between the Federal Government and us, relating to the provision of electric energy distribution services to the public (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.6	First Amendment to the Electricity Distribution Concession Contract, dated March 31, 2005 (incorporated by reference to Exhibit 4.5 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
4.7	Second Amendment to the Electricity Distribution Concession Contract, dated September 16, 2005 (incorporated by reference to Exhibit 4.6 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
4.8	Contract for the Assignment of CRC Account, dated May 31, 1995, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.4 to our Registration Statement on Form 20-F filed on August 13, 2001 (File No. 1-15224)).
4.9	First Amendment to the Contract for the Assignment of CRC Account, dated February 24, 2001, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.5 to





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<b>Exhibit Number</b>	<b>Document</b>
4.10	Second Amendment to the Contract for the Assignment of CRC Account, dated October 14, 2002, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.6 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).
4.11	Third Amendment to the Contract for the Assignment of CRC Account, dated October 24, 2002, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.7 to our Annual Report on Form 20-F filed on March 26, 2003 (File No. 1-15224)).
4.12	Fourth Amendment to the Contract for the Assignment of CRC Account, dated January 23, 2006, between the State Government and us, relating to amounts due to us from the State Government (incorporated by reference to Exhibit 4.14 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
4.13	Announcement of Start of Public Distribution of Senior Units under CRC Account Securitization Fund, dated as of January 26, 2006 (incorporated by reference to Exhibit 4.15 to our Registration Statement on Form 20-F filed on June 30, 2006 (File No. 1-15224)).
4.14	Summary of Indenture Covering Public Distribution of Non-Convertible Unsecured Debentures, dated August 24, 2006, between Cemig Distribution and Unibanco União dos Bancos Brasileiros S.A. (incorporated by reference to Exhibit 4.18 to our Registration Statement on Form 20-F filed on July 23, 2007 (File No. 1-15224)).
4.15	Summary of Indenture Covering Public Distribution of Non-Convertible Unsecured Debentures, dated April 17, 2007, between Cemig Generation and Transmission and Unibanco União dos Bancos Brasileiros S.A. (incorporated by reference to Exhibit 4.19 to our Registration Statement on Form 20-F filed on July 23, 2007 (File No. 1-15224)).
4.16	Summary of Indenture Covering the Second Issuance of Debentures, dated December 19, 2007, between Cemig Distribution and BB Banco de Investimento S.A. (incorporated by reference to Exhibit 4.20 to our Annual Report on Form 20-F filed on June 30, 2008 (File No. 1-15224)).
4.17	Share Purchase Agreement, dated April 23, 2009, between Cemig Generation and Transmission, Terna Rete Elettrica Nazionale S.p.A., and CEMIG (incorporated by reference to Exhibit 4.22 to our Registration Statement on Form 20-F filed on June 19, 2009 (File No. 1-15224)).
4.	18English Summary of Share Purchase Agreement between Companhia Energética de Minas Gerais CEMIG and Andrade Gutierrez Concessões S.A., dated December 30, 2009 (incorporated by reference to Exhibit 4.18 to our Registration Statement on Form 20-F filed on June 30, 2010 (File No. 1-15224)).
4.19	English Summary of Share Purchase Agreement between Companhia Energética de Minas Gerais CEMIG and Fundo de Investimento em Participações PCP, dated December 30, 2009 (incorporated by reference to Exhibit 4.19 to our Registration Statement on Form 20-F filed on June 30, 2010 (File No. 1-15224)).
4.20	English Summary of Put Option Agreement between Companhia Energética de Minas Gerais CEMIG and Enlighted Partners Venture Capital LLC, dated March 24, 2010 (incorporated by reference to Exhibit 4.20 to our Registration Statement on Form 20-F filed on June 30, 2010 (File No. 1-15224)).
4.21	English Summary of Share Purchase Agreement among Transmissora Aliança de Energia Elétrica S.A., Abengoa Concessões Brasil Holding S.A. and Abengoa Participações Holding S.A., dated June 2, 2011.
4.22	English Summary of Share Purchase Agreement among Transmissora Aliança de Energia Elétrica S.A., Abengoa Concessões Brasil Holding S.A., Abengoa Construção Brasil Ltda., NTE - Nordeste Transmissora de Energia S.A. and Abengoa Participações Holding S.A., dated June 2, 2011.
4.24	English Summary of Share Purchase Agreement between Transmissora Aliança de Energia Elétrica S.A. and Abengoa Concessões Brasil Holding S.A. dated March 16, 2012.

- 4.25 English Summary of Investment Agreement among RR Participações S.A., Light S.A. and Renova Energia S.A. dated July 8, 2011.

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<b>Exhibit Number</b>	<b>Document</b>
4.26	English Summary of Put Option Agreement between Parati S.A and Fundação de Seguridade Social Braslight dated July 15, 2011.
4.27	English Summary of Share Purchase and Sale Agreement entered into between Amazônia Energia Participações S.A. and Construtora Queiroz Galvão S.A., Construtora OAS Ltda., Contern Construções e Comércio Ltda, Cetenco Engenharia S.A., Galvão Engenharia S.A. and J. Malucelli Construtora de Obras S.A., for shares in Norte Energia S.A. dated October 25, 2011.
4.28	English Summary of Share Acquisition Agreement between CEMIG and the State of Minas Gerais dated December 27, 2011.
4.29	Summary of Indenture Covering the Public Distribution of Non-Convertible Unsecured Debentures, dated March 13, 2012, between Cemig Geração e Transmissão S.A., HSBC Corretora de Títulos e Valores Mobiliários S.A., Banco BTG Pactual S.A. and Banco do Nordeste do Brasil S.A.
8	List of Subsidiaries (incorporated by reference to Exhibit 8 to our Annual Report on Form 20-F filed on May 25, 2005 (File No. 1-15224)).
11	Code of Ethics (incorporated by reference to Exhibit 11 to our Annual Report on Form 20-F filed on July 1, 2004 (File No. 1-15224)).
12.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 26, 2012.
12.2	Chief Financial Officer, Investor Relations Officer and Control of Holding Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 26, 2012.
13.1	Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 26, 2012.
13.2	Chief Financial Officer, Investor Relations Officer and Control of Holding Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 26, 2012.