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2005 ADMINISTRATIVE REPORT

Dear Shareholders:

Cemig Distribuição S.A. ("Cemig Distribuição" or the "Company") submits to your appreciation the Administrative Report together with the Financial Statements and the reports by the Fiscal Council and Independent Auditors, concerning the fiscal year ending on December 31, 2005.

MESSAGE OF THE BOARD OF DIRECTORS

In 2005, we have achieved expressive results represented by our R$ 990 million net profit and by the generation of R$ 1,454 million in cash flow, as measure by EBT, positioning Cemig Distribuição not only as the largest electric power distributor in Brazil, but also as one of the largest in Latin America, whether in terms of profitability, number of consumers, size of our grid, or the volume of distributed power.

In the new regulation, in effect as of 2003 by the federal administration, we have sought to benefit from all growth opportunities identified, whether through candid and open negotiation with ANEEL, the regulatory agency responsible for establishing the compensation mechanisms for concession holders, whether by reducing our operating costs, which resulted in a higher value added to our shareholders' investments.

We have implemented some of the most effective managerial techniques used by high—end companies around the globe, which resulted in a substantial improvement to our operating indices, such as inspecting the grid by helicopters and controlling the maintenance crew by satellite. Our employees undergo intensive training in these techniques so as to achieve operational improvement but also to enhance the safety of the workers and the community we serve.

By employing management tools, such as BSC - Balanced Scorecard, whose aim is to permeate the entire corporate structure with the goals and strategies for achieving the company's plans, we maximize the company's performance.

In general, we have abided by all minimum operating requirements established by the regulatory agency as the service provision quality measurement factor for our clients, resulting in total payment of our concession agreement. In this aspect, we have sought to extend the understanding about the regulation to establish a trusting relationship with the regulatory agency, so as to ensure the best quality service to our clients.

Our administration aims to ensure sufficient funds are generated to finance our expansion, allowing us to fulfill commitments established by the concession agreement and also to achieve the market participation goals established in our Master Plan, as approved by the Cemig Holding's Board of Directors. Thus, in 2005, we have invested R$ 846 million to extend our service to our consumer base of over 6 million users with an emphasis on the Light For All Program, sponsored by the State and Federal administrations, with non-reimbursable funds or subsidized costs. The program's objective is to achieve 100% of low-income rural consumers connected to electric power by the end of 2006.

We reaffirm our commitment to manage the Company with social and environmental responsibility and aiming at the fulfillment of the long-term interests of our shareholders and also our employees, clients and the community we serve.

To achieve this, we have taken measures to ensure the sustainability of our activity, measures such as the careful selection of investments, reduction of operating costs, compliance to legal and regulatory decisions, implementation of modern management practices, as well as the fulfillment of the community desire by connecting new consumers and supplying low-cost electric energy to deprived communities.

We trust all the knowledge gained by the Company together with the focus on our business will generate huge benefits to our shareholders and all who interact with the Company.

REGULATORY ENVIRONMENT – ELECTRIC POWER COMPETITIVE BIDDINGS

This year witnessed the consolidation of the new model of the Brazilian electric sector. To Federal Administration held four competitive biddings to purchase electric energy in the Regulated Hiring Environment (ACR, *Ambiente de Contratação Regulada*), through the Brazilian Electricity Regulatory Agency

(ANEEL), the Electric Power Trading Chamber (CCEE). Three of these biddings related to existing enterprises and one pertained to new ones.

Several audiences and public consultations and the consequent issuing of resolutions by ANEEL regulating trading rules, have also contributed to this consolidation, which counted with heavy involvement by the agents and associations, such as Abradee, Abrage, Apine, Abrace, and Abracel.

Cemig Distribuição participation in the power auction

In 2005, Cemig Distribuição took part in the many power auctions held by the Regulated Hiring Environment (ACR). The first of these auctions was held by CCEE on December 7, 2004, with start of supply as of January 1, 2005. Cemig Distribuição acquired electricity to be delivered starting in 2005, 2006 and 2008. The duration of these agreements is of 8 years. The electricity purchase and sale results by Cemig Distribuição in the auctions of existing electric power promoted by CCEE can be found in the following table:

Existing Electric Power Auctions

	Year in Which Supply Starts			
	2005	2006	2007	2008
CEMIG-D (purchase)				
Volume (MW average)	530	919	-	105
Contract Duration (years)	8	8	-	8
Price (R$/MWh)	57.51	67.33	-	83.13

In the New Energy Auction, held on December 16, 2005, Cemig Distribuição has made purchases whose results can be found in the table below.

New Energy Auction

	2008	2009	2010
Hydraulics			
Volume (MW average)	4.5	3.2	92.0
Contract Duration (years)	30	30	30
Price (R$/MWh)	106.95	113.89	114.83
Thermal			
Volume (MW average)	35.3	58.8	89.0
Contract Duration (years)	15	15	15
Price (R$/MWh)	132.26	129.26	121.81
Total			
Volume (MW average)	39.8	62.0	181.0
Price (R$/MWh)	127.15	127.77	117.11

DEVERTICALIZATION

The concession contracts for electric power distribution, generation and transmission, signed in 1997 by CEMIG (the holding company of Cemig Distribuição), stipulated that the Company should restructure its operations by separating its generation, transmission and distribution business into fully-owned subsidiaries (“deverticalization”).

In addition, the Provisional Measure 144, dated December 11, 2003, and later converted into Federal Law 10.848, dated March 15, 2004, concerning the restructuring of the Brazilian electric energy sector model, determined that the activities of generation and transmission be separated from the activity of distributing electric power, thus generating distinct companies for each.

In this way, CEMIG’s distribution grids and lines and other assets and liabilities related to the electric energy distribution activities were transferred, as of January 1, 2005, to Cemig Distribuição.

ELECTRIC POWER SUPPLY

Service Policy

Cemig Distribuição continuously implements improvement actions in the customer service structure, to establish more efficient communication channels and service agility. Among these actions, we highlight:

- Continuous maintenance of the commercial venues register (pharmacies, rental businesses, and bakeries) to expand the collection points and provide other commercial services in areas in which Cemig Distribuição is not represented.

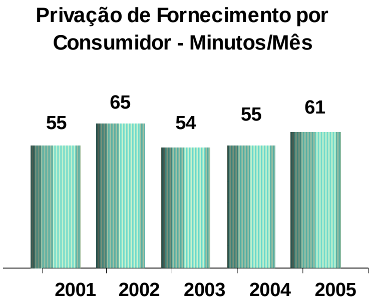
- Implementation of Cemig Postal, a channel developed for our clients in which pre-paid postage forms are used. These are available free of charge at identified points in the Cemig Fácil agents.

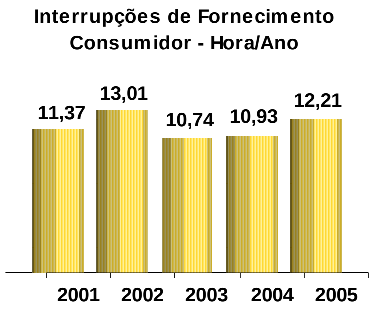
- Expansion and adequacy of the Customer Service Central “Fale com a Cemig” (Talk to Cemig) to the requirements set forth by ANEEL, which regulated this channel of communication between the client and the electric power concession holders. Today, “Fale com a Cemig” is structured with 357 service positions to serve our customers 24 hours per day, via telephone, Cemig Web portal, Chat and e-mail, allowing for more service efficiency and ensuring the convenience and comfort of our clients, who can request the services without leaving the house. Service capacity in excess of 60,000 calls/day, exceeding in atypical days the volume of 82,000 calls/day, without loss of service quality.

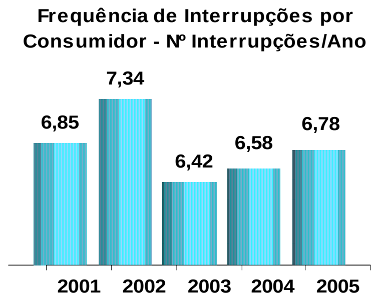
- Restructuring and modernization of the Customer Service Branches to make them compatible with a new relationship philosophy, with the installation of self-service areas and the installation of telephone lines with direct access to the “Fale com a Cemig” Customer Service Central.

Supply quality

The following graphics show the evolution of quality indicators.







Of all these indicators, approximately 20% refer to programmed shutdowns for improving the service quality. These shutdowns are notified in advance and, therefore, reduce the impact to the clients of the temporary electricity cut.

Tariff

Cemig Distribuição's tariffs were increased on average by 23.88% starting on April, 08, 2005. The effective tariff adjustment for each consumer type was different, with the objective of gradually reducing cross-subsidies among consumer types, as explained in an official note by ANEEL. In this way, residential consumers saw an 18.48% increase in their energy bills while high-voltage consumers experienced an increase of 25.14%.

Of the 23.88% average adjustment, 12.40% effectively refer to the annual tariff adjustment and 11.48% to the financial components external to the annual adjust, included for the amortization of regulatory assets still related to the rationing program, the 2003 tariff review and others.

FINANCIAL AND ECONOMIC PERFORMANCE

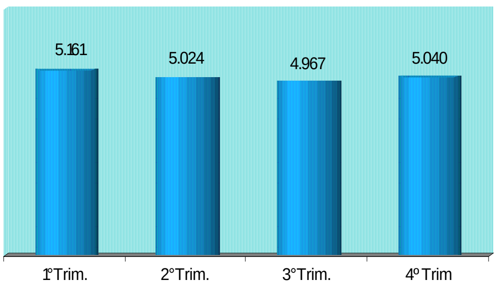
Net Profit

In fiscal year 2005, Cemig Distribuição presented R$990 million in net profit. The main items that make up this result can be found in the following table:

Operating Revenue

OPERATING REVENUE – R$ million		
		2005
Delivery to End Consumers		7,335
Delivery to Other Concession Holders and Electric Energy Transactions at CCEE/MAE		95
Gross Supply of Electric Power		**7,430**
Deferred Tariff Adjustment		591
Revenue from Use of Grid		1,201
Other Operating Revenue		53
		9,275

Revenue from electric power sales to end consumers:



The revenue from gross delivery of electric power to end consumers in 2005 was R$7,335 million, corresponding to 20,192 GWh, delivered to 6,010 million consumers. The most representative consumer classes are residential, industrial and commercial, representing 32.6%, 26.4% and 18.6% of the total consumption, respectively.

Revenue from electric power sales to resellers and transactions with unrestricted power at CCEE/MAE

This revenue is due, largely, from the purchase of excess electric power in relation to consumption and that was resold at CCEE.

Deferred Tariff Adjustment

In April 2005, the result of the Cemig Distribuição's period tariff review was published, retroactive to April 2003, resulting in the right to recompose the tariff at 44.41%.

The average tariff adjustment in April 8, 2003 was of 31.53%. To compensate Cemig Distribuição for the decrease in revenue from April 2003 to April 2005, ANEEL will include an additional percentage in the forecast tariff adjustments that will occur from 2005 to 2007.

The difference between the tariff restatement to which Cemig Distribuição is entitled and the tariff actually charged from the consumers between 2003 and 2005 was acknowledged as a regulatory asset that will compensate the fiscal year result, in the amount of R$591 millions.

Revenue from Use of Grid

The revenue from grid usage in 2005 was R$1,201 millions and refers to charges for use of distribution grid ("TUSD"), charged to unrestricted consumers substantially served by Cemig Geração e Transmissão.

Operating Costs and Expenses

	2005	Represent. %
Controllable Costs		
Personnel	595	11.2
Employee Participation	187	3.5
Post-Employment Obligations	111	2.1
Materials	73	1.4
Third Party Services	313	5.9
Depreciation and Amortization	364	6.9
Operating Provisions	133	2.5
Provision for Losses in Recovering RTE	82	1.5
Other Net Expenses	133	2.5
	1,991	**37.5**
Non-Controllable Costs		
Electric Power Purchased for Resale	1,890	35.6
Charges for Use of Water Resources	33	0.6
Quota for Fuel Consumption Account – CCC	387	7.3
Charges for Use of the Basic Transmission Grid	554	10.4
Energy Development Account – CDE	279	5.3
Energy Efficiency and Research and Development	173	3.3
	3,316	**62.5**
	5,307	**100.0**

Non-Controllable Costs

The non-controllable costs and expenses amounts recorded in the results refer to the amounts actually used to make the tariff calculation to be applied by Cemig Distribuição.

The differences between the sum of non-controllable costs (included in portion “A” of the tariff adjustment) that were included in the tariff adjustment calculation and the disbursements actually incurred are compensated in the subsequent tariff adjustments, by means of a mechanism called Compensation for Portion “A” Items Variation (CVA, *Compensação da variação dos itens da Parcela “A”*).

These differences are recorded in Current Assets and in Long Term Receivables as anticipated expenses, in case the Company disbursed values above what were considered in the tariff; otherwise, they are considered as liabilities in the Current and Fixed Liability.

As mentioned in the paragraph, the table below shows the CVA values included and excluded from the 2005 results.

	Operating expenses without CVA effects	CVA values included in the period’s results	CVA values excluded from the period’s results	Actual expenses recognized in the 2005 results
Electric Power Purchased for Resale	1,766	210	(86)	1,890
Charges for Use of Water Resources	-	34	(1)	33
Quota for Fuel Consumption Account – CCC	378	1	8	387
Charges for Use of the Basic Transmission Grid	458	109	(13)	554
Energy Development Account – CDE	251	28	-	279
Incentive Program for Alternative Electric Power Sources – PROINFA	4	-	(4)	-
Total	**2,857**	**382**	**(96)**	**3,143**

<u>Electric power purchase</u>

A representative portion of the electric power for resale is from the Itaipu plant, complemented by purchases through the energy auctions and other bilateral agreements.

The electric power purchase values in each item are shown in accompanying note 26 of the financial statements.

Charges for Use of the Transmission Grid

The charges for use of the transmission grid refer to the charges due by electric power distribution and generation agents for usage of the installations, basic grid components, in addition to investments made in the Brazilian basic transmission grid. These costs are transferred to consumers.

Quota for the Fuel Consumption Account – CCC

CCC refers to the costs of operating thermoelectric plants within the Brazilian interconnected and isolated systems, located primarily in the Northern region of Brazil, and that are shared among electric power concession holders, according to values published by ANEEL.

Energy Development Account – CDE

The objective of the Energy Development Account (CDE) is to promote the development of energy in the states and the competitiveness of alternative sources of electric power. The values to be paid by Cemig Distribuição are defined by ANEEL in a Resolution.

Charges for Use of Water Resources

The Charges for Use of Water Resources expense is essentially a result of energy generation, however, the values presented at Cemig Distribuição relate to the period prior to the Holding Company deverticalization.

Energy Efficiency and Research and Development

According to the electric energy sector regulation, distribution companies must invest 1.00% of their net revenue in energy efficiency programs and R&D. Some energy efficiency programs and R&D related to revenue from previous periods have not yet been finished by the electric energy sector agents, therefore, there are still expenses to be realized. This delay is a consequence of the time used in preparing the projects and their approval by ANEEL.

In conformity to ANEEL's instruction, Cemig Distribuição recognized as a 2005 fiscal year result expense the expenses still to be realized and for which CEMIG had already received the corresponding tariff in previous years, at the amount of R$173 millions.

Controllable Costs

Personnel Expenses

The expenses with personnel represents the main controllable cost at the amount of R$595, representing 11.2% of the operating expenses. The personnel costs segregation is shown in accompanying note 26 of the financial statements.

Employee profit sharing

In general, Cemig Distribuição compensates the employee profit sharing program at 3% of the operating result defined by ANEEL, in the annual reports.

Additionally, the collective agreement of November 2005 signed with the Union stipulates the payment of an extraordinary amount of R$132 millions.

Post-employment benefits

These expenses represent basically the interest on the actuarial liabilities of Cemig Distribuição, minus the expected income from the plans assets, estimated by an external actuary.

Financial Income (Expenses)

The 2005 financial result, excluding the financial expense due to interest on equity, was net financial revenue of R$329 millions (R$883 million revenue against R$554 million expense). The most representative accounts that impacted the financial result were:

- Revenue from monetary variation of the general electric energy sector agreement in the amount of R$269 millions, representing 30.5% of the total fiscal year financial revenue.
- Revenue with monetary variation and interest on assets as result of the Deferred Tariff Adjustment in the amount of R$229 millions, representing 26.0% of the total fiscal year financial revenue.
- Expense with loans and financing charges in the amount of R$217 millions, representing 39.2% of the total fiscal year financial expenses.

Please see the financial revenue and expense composition in accompanying note 27 of the 2005 financial statements.

Income Tax and Social Contribution

In 2005, Cemig Distribuição settled Income Tax and Social Contribution expenses in the amount of R$398 millions in relation to the profit of R$1,167 millions, before taxes, a percentage of 34.1%. These actual taxes are reconciled with nominal taxes in accompanying note 11 of the 2005 financial statements.

Cemig Distribuição had a fiscal gain in 2005 in the amount of R$75 millions, due to payment of interest on equity, which replaced the minimum dividend requirement of the 2005 fiscal year.

LIQUIDITY AND CASH FLOW

The amount available at fiscal year end added up to R$533 millions.

The operating cash flow generation was R$959 millions, being positively affected primarily by the net profit adjusted by revenues and expenses that did not affect the cash flow, in the amount of R$849 millions, and by receiving RTE values in the amount of R$261 millions.

Financing activities represented a net cash input of R$420 millions, from obtained financings of R$709 millions against amortizations valued at R$289 millions.

Concerning investments, the Company invested R$846 millions in 2005, related largely to the Light For All Program (more details later in this document).

INVESTMENTS

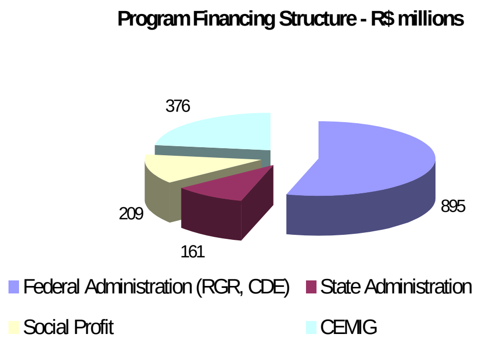
The Company's Construction Work Priorization Committee, whose function is to analyze expansion projects listed in the 5-year business plan, recommended to the Executive Board of Directors the undertaking of these projects and assured the minimum return required by the Board of Directors be met.

“Light For All” Program – Universalization of electric energy access and use

The Universalization of Electric Energy Access and Use became mandatory by Federal Law, which delegated to ANEEL the task to establish goals of universalizing the access to the electric power utility. According to these goals, new consumer units connections, with installed capacity of up to 50 KW, will be served with secondary voltage and must be made without charge of any kind to the requestor.

The Program, created by the Federal Administration in 2003 and called “Luz para Todos” (Light For All), aimed at anticipating the goal of completing 100% of Brazil’s electrification by 2008, without charges to the consumer.

In Minas Gerais, the signed subscription protocol establishes the deadline for the universalization in the State of Minas Gerais by 2006, which will require the connection of approximately 176 thousand rural consumers.



The Program’s budget estimated by Cemig Distribuição is R$1,641 millions, and requires the construction of 65 thousand kilometers of rural grid.

Federal Administration funds are non-reimbursable or have been subsidized and must be given by Eletrobrás.

As established by the Board of Directors, 5.00% of the annual net profit must be destined to making large scale and low profit social projects feasible. Cemig Distribuição will use part of these resources in the Light For All Program.

In June 2005, Cemig Distribuição signed agreements with contractors experienced in integrating large enterprises to connect approximately 140 thousand rural clients of the potential market identified in the concession area, as a partial enterprise. This measure will enable the achievement of the goal and schedule defined for finishing the Light For All Program in 2006.

On October 24, the second financing agreement was signed with Eletrobrás, in the amount of approximately R$376 millions, concerning the Federal Administration’s participation in the construction work performed for the Light For All Program. By the end of 2005, there had already been connected approximately 50 thousand rural clients.

Fields of Light Program

The goal of this Program is to encourage sports activities by lighting soccer fields, through a contract between Cemig Distribuição and the Administration of the State of Minas Gerais. In 2004 and 2005, 144 fields have been lit. In 2006, other 300 fields will receive lighting. The budgeted cost is R$18 millions, half of which is Cemig Distribuição's responsibility.

Public Lighting Improvement Projects

Cemig Distribuição has been conducting improvement construction work in the State’s public lighting, replacing the outdoor fixtures and mercury light bulbs for sodium vapor equipment.

The primary goal is to modernize Public Lighting systems by introducing more efficient technology, to reduce the electricity consumption at electric system peak times, and by reducing operational expenses. Plus, it aims at improving the safety and quality of life conditions in the State’s towns.

These projects are part of the Energy Efficiency Program (PEE), with investments from the application of 0.5% of the Company’s net revenue in the year, which are approved by the Brazilian Electricity Regulatory Agency (ANEEL).

Cemig Distribuição used the Violent Crime Index (ICV), provided by the Military Police of the State of Minas Gerais (PMMG), to define the order of service in the cities and the locations that will benefit from the program, establishing priorities for construction work. In addition, so that the maximum number of municipalities be served, Cemig Distribuição has established a maximum amount for the construction works, representing, on average, 4% of the electricity bill of the Municipal Administration, achieving a total investment of up to R$500 thousand per municipality.

In 2005, in the Efficiency Program, the Company replaced approximately 58 thousand fixtures, spread out in all regions of Minas Gerais, generating an economy in demand of close to 4.6 MWh, which represents 20,150 MWh of energy per year.

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In addition to complying to ANEEL's resolution, achieved with our own funds, Cemig Distribuição distributes to the State's municipalities Eletrobrás financing, through the Efficient Public Lighting National Program (*Reluz*). Created in 2001, it aims at complementing or enabling larger projects for the cities desiring to invest in public lighting energy efficiency.

Differently from the Company's energy efficiency projects, which are approved by ANEEL, *Reluz* releases loans only for public lighting, opening up a variety of options for these investments. Financing, which can be paid back in 36 fixed installments, with interest of 6% per year, can be obtained for several types of construction work and not only for replacement of mercury vapor light bulbs with sodium vapor bulbs.

In 2005, in the scope of the Reluz Program, 16,000 points of public lighting were modernized, primarily in Belo Horizonte, with investments of R$6 millions, enabling an annual reduction of 1,400 MWh in consumption.

<u>Grow Minas Program</u>

Approved by the Executive Directors and by the Board of Directors, the R$686 million "Grow Minas Program", to be completed within 3 years starting in 2006, aims at recovering the electric system conditions to serve the Minas Gerais market facing the economic growth as well as reestablishing operating conditions in the Transmission and Distribution System and maintaining service quality levels within the parameters regulated by continuity and voltage levels.

<u>Other distribution projects</u>

Several important highway lighting projects have been negotiated to provide more safety for users and for the people who live by the highways. Noteworthy are the lighting of 22.5 km in MG-010 highway, 22 km in BR-040 and 9.6 km in MG-030. The completion of the part relating to BR-040 and MG-030 highways occurred in February 2005 at the total cost of R$4.96 millions.

MG-010 lighting, comprising the stretch between Belo Horizonte and the International Airport Tancredo Neves ("Confins"), will enable the transfer of domestic flights from Belo Horizonte, from the Pampulha Airport to Confins, providing better infrastructure and more safety for users, in addition to extending the use of the region's dry dock. This project will last until 2006 with a total cost forecasted at R$4.17 millions.

RELATIONSHIP WITH INDEPENDENT AUDITORS

Our principle is not to hire consulting services from external auditors that might interfere with the auditing services independence.

In 2005, Cemig Distribuição independent auditors did not provide any kind of consulting service.

MANAGEMENT

Cemig Distribuição extended its processes certification by the International Norm – NBR ISO 9001:2000. The certification encompasses the areas of Engineering (operation, maintenance and expansion) and Sales (service, client relationship, billing and collections). In 2005, the Administrative Procedures Management process was certified. The scope of Service Points was also extended to all activities related to cuts, reconnections and inspections of consumer units in the entire State. The Company achieved the SGA Level 1 environmental certification in 11 management units. Furthermore, the Fields Services and Commercial Relationship Management of Montes Claros (DO/MC), whose activities cover a geographical area of 104,381 km^2, ensured the certification of the three Management Systems—Quality, Environment, Health & Safety.

These certifications include the entire Power Distribution and Commercialization Division, and involve more than 5,000 employees, bringing benefits for Society, Clients, Employees, Shareholders, etc. These accomplishments ensure:

- Increased level of standardization and introduction of best practices in all areas of the State;
- Improvement of processes interface;
- Improvement in process control;
- Agility in client service;
- Increased employee commitment; and
- Improved perception level in relation to the business;

Service Level Agreement (SLA)

With the goal of optimizing available resources by the internal service providers, Cemig Distribuição decided to implement Service Level Agreements (SLA) as part of its strategic direction. The goal is to reduce operating and administrative costs and redirect the efforts and assets to achieve higher operating and financial efficiency.

The methodology chosen to achieve these objectives was the Service Level Management (SLM), which involves the application of ABC (Cost-Based Activity) followed by the SLA's development. The result of this work offers subsidies to implement a Service Balanced Scorecard, to be monitored by the use of strategic performance indices.

Transportation Management

Cemig Distribuição has a Vehicle Fleet Renovation and Adequacy Policy that provide well-defined parameters and corporate guidance for the fleet management organisms, so as to optimize performance, reduce costs and standardize procedures.

Telecommunications and Information Systems

Integrated Management System Migration Project - ERP-SAP

Continuing the ERP-SAP migration project, strategic modules were deployed enabling:

- Simulation and execution of the expense and revenue budget planning integrated with SAP R/3 (Business Planning and Simulation - BPS),
- Automation of Balanced Scorecard maps in effect at Cemig Distribuição (BSC)
- Implementation of the planned cash flow (budgeted and simulated), committed and executed (Corporate Finance Management - CFM/LP).

Information Security Corporate Plan

In order to protect the Company's information against loss of confidentiality, integrity and availability, as well as to adhere to the Company's business legal and regulatory requirements, an Information Security Corporate Plan was developed.

Diagnostics were performed and the information risk index was calculated, serving as subsidy for specifying a new security topology for the Corporate Data Network. The plan also included the creation of the Information Security Committee, the review of the Information Security Policy, the development of the information classification rule, and the diagnostics necessary to prepare the certification of a process according to Norm BS-7799.

Materials and Services Management

On-Line Procurement Portal

In November 2005, we have implemented the new Cemig Distribuição's On-Line Procurement Portal. This action guarantees more agility in the materials and services purchase processes, as well as the modernization of contact with suppliers. Using the Auction and Electronic Quoting modalities, the Company is able to reduce acquisition costs, promoting a transparent and secure process.

SOCIAL RESPONSIBILITY

Human Resources

To allow HR processes, policies and practices to be more compliant to the Company's Strategic Plan, the Human Capital Alignment project was developed. The core elements are the strategic management of competencies, the employee value program and their commitment to the results of the organization. We highlight the Performance Management Process, which will guide HR processes, policies and practices.

The Company had 7,868 employees on December 31, 2005. During the year, we had 73 new hires and 138 employees left the Company.

Performance Management

This process feeds back and integrates the other People Management processes. The model adopted contemplates the treatment of Competencies (set of knowledge, skills and behaviors that generates superior results) and Results (objectives and goals) and will provide input for critical decisions related to people management. We seek to promote the strategic management of competencies, the employee value program and their commitment to the Organization's results, enabling solutions that add value to the business.

Performance Management, the basis for the other processes, will provide an opportunity to encourage the person to improve his/her performance and think about its role in professional growth. It includes the Individual Development Agreement, aiming at employee growth by detecting training needs and, globally, the alignment of the employees' competencies to Cemig Distribuição's Strategic Plan.

Training

Cemig Distribuição, with the purpose of hiring and retaining staff with a development level compatible to the Corporation needs and according to market requirements, has offered its employees, of several hierarchical levels, to participate in a number of courses, seminars, congresses, trade shows and other kinds and practices.

As a way to enlarge the horizon of possibilities, Cemig Distribuição created the Education Aid Program, implemented as clauses and conditions in the 2005/2006 Collective Agreement. This program allows for the reimbursement of expenses related to Undergraduate or Technical courses tuition fees, according to the Company's interest in facilitate the development of its staff.

At the Professional Improvement and Education Center, we held technical training sessions with an emphasis on the Recycling Program. Thousands of students took part, including over 300 employees from contractors. The purpose of these sessions was to make the Workers' Safety procedures available to all who act in the "Light For All" program.

Employee Well-Being

In the Organizational Climate Research conducted in 2005, approximately 90.0% of the employees answered the questionnaire.

The next step is to devise a Corporate Action Plan and its consequences in the Superintendences and Offices, with the purpose of completing Climate improvement projects. Currently, we are developing the Corporate Action Plan.

In 2005, we have held Retirement Preparation Seminars, which help the employees create a project for their lives after retirement. We also held the Social-Medical Guidance Course, which emphasizes on the issue of child-mother health to pregnant couples and which provides confidence during the pregnancy experience and facilitates the performance of parental activities.

Workers' Safety

The Cemig Distribuição 2005 Organizational Climate Research showed employees think the Company is actively engaged in relation to the workers' safety. These results made this topic the factor that most positively influences Cemig Distribuição's perception, placing it well above the general market.

We highlight the Third Party Safety Campaign, which was launched in June 2005 and is targeted at the external public (contractors, suppliers, clients, etc). It deals with the primary risk situations responsible for the majority of accidents that happened in the electric grid.

We also help the 3rd Cemig Distribuição Electricians Rodeo, coordinated by the Professional Improvement and Education Center with the purpose of stimulating electricians' skills, focusing on workers' safety.

Health and Quality of Life

Concerned with maintaining investments in programs relating to the quality of life, health promotion and disease prevention, in 2005, Cemig Distribuição extended the scope of the Vital Energy Program, with this modalities: REPENSAR – Obesity Control Program; PROLONGAR – Muscle Pain Prevention Program, and PROCOHAR – High Blood Pressure Control Program.

Environment

The commitment to the environment and quality of life of Society is one of the basic principles that guide Cemig Distribuição's operations. Through studies and actions, the Company seeks to make employees and partners aware of the environmental issue. This way of operating, provided for in Cemig Distribuição's Environmental Policy and present in all activities it performs, values employees, the Company itself and ensures sustainable development.

The implementation strategy of Environmental Management Systems and its results are evidence to the continuous improvement of the Company's social and environmental responsibility actions.

In 2005, Cemig Distribuição implemented several actions to make its activities compatible with the environment protection, investing over R$6 millions in environmental programs and studies.

Materials

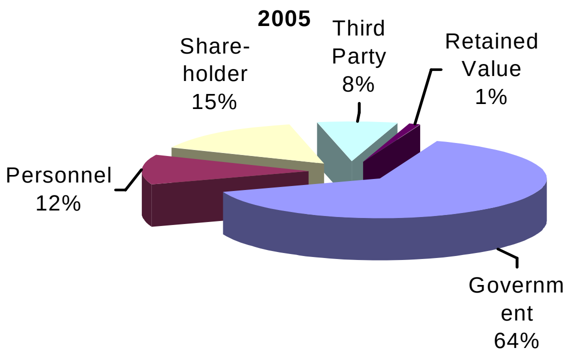
Continuing the Company's materials care, in 2005 we witnessed fluorescent lamp bulb recycling and public lighting in the entire concession area, totaling 240 thousand light bulbs. In addition, we regenerated approximately 850 thousand liters of insulation oil, removed from inoperative transformers.

Urban Landscaping

Following Cemig Distribuição guidelines to reduce interruptions to power supply caused by trees on the urban distribution grid, we have trained and enabled around 300 professionals from the Company, from hired contractors and from municipalities about urban tree pruning techniques and urban landscaping. In addition, continuing the partnership with the Belo Horizonte Municipal Administration, Viçosa Federal University and Paraná Federal University, we developed methodologies to assess trees at risk of falling. The purpose is to anticipate replacing these trees, avoiding damages to people, vehicles and the grid.

In 2005, Cemig Distribuição produced and supplied Municipal Administrations with 15,000 plants for urban landscaping.

Value Added



The Value Added Data (VAD) shows the Company's importance to Society, with R$6,484 millions of value added.

The distribution of Cemig Distribuição value added among the many segments can be found on the chart. Worth mentioning is the portion retained by the Government of the total distributed in 2005, corresponding to 64%.

Recognition - Awards

As a result of the efforts made by Cemig Distribuição in 2005, several Society segments have recognized the excellence of our activities, culminating in various awards, among which we highlight:

Minas Quality Award (PMQ, *Prêmio Mineiro da Qualidade*): Cemig Distribuição received the Minas Quality Award Trophy, PMQ, for its outstanding performance in relation to the other organizations participating in the evaluation process. It was also recognized with the Gold Ribbon, for presenting a management style compatible with the predefined quality criteria.

The Minas Quality Award allows an evaluation of the Management Model adopted by Cemig Distribuição, by measuring performance against excellence references of the Minas and Brazilian market, identifying and pointing out strengths and the opportunities for improvement in several of the items evaluated. The objective is to seek continuous improvement in serving the needs of clients, society, communities, shareholders, collaborators, suppliers and partners.

National Award for Conservation and Rational Use of Energy: In 2005, Cemig Distribuição was the winner of the National Award for Conservation and Rational Use of Energy in the category Large Scale Distribution Companies. Also known as the Procel Award for Prevention of Electricity Waste, the award is given by the Ministry of Mines and Energy as a public recognition of the effort and the results achieved by the many agents that operate in the prevention of electricity waste.

FINAL CONSIDERATIONS

The Administration of Cemig Distribuição is thankful to the Governor of the State, Dr. Aécio Neves da Cunha, for the trust and constant support evidenced throughout the year. It also thanks the other Federal, State and Municipal authorities, the communities served by Cemig Distribuição, the shareholders and other investors and, especially, the dedication of its qualified employees.

SOCIAL BALANCE SHEET

1) Calculation Basis	**2005**			**2004**		
	Value (Thousand Reais)			**Value (Thousand Reais)**		
Net Revenue (NR)	6,393,847			-		
Operating Result (OR)	1,089,926			-		
Gross Payroll (GPR)	562,619			-		
2) Internal Social Indicators	**Value (Thousand R$)**	**% of GPR**	**% of NR**	**Value (Thousand R$)**	**% of GPR**	**% of NR**
Food	32,112	5.71	0.50	-	-	-
Compulsory social contributions	156,382	27.80	2.44	-	-	-
Pension fund	111,189	19.76	1.74	-	-	-
Health care	19,312	3.43	0.30	-	-	-
Worker safety and medicine	2,176	0.39	0.03	-	-	-
Education	450	0.08	0.01	-	-	-
Culture	-	-	-	-	-	-
Professional development and qualification	9,812	1.74	0.15	-	-	-
Day care or day care aid	1,169	0.21	0.02	-	-	-
Profit sharing	187,477	33.32	2.93	-	-	-
Other	10,125	1.80	0.16	-	-	-
Total - Internal Social Indicators	530,204	94.24	8.28	-	-	-
3) External Social Indicators	**Value (Thousand R$)**	**% of OR**	**% of NR**	**Value (Thousand R$)**	**% of OR**	**% of NR**
Education	4,180	0.38	0.07	-	-	-
Culture	9,117	0.84	0.14	-	-	-
Other Donations/Grants/ASIN Project	18,860	1.73	0.29	-	-	-4,086
Total of Contributions to Society	32,157	2.95	0.50	-	-	-
Taxes (except social contributions)	4,188,978	384.34	65.49	-	-	-
Total – External Social Indicators	4,221,135	387.29	65.99	-	-	-
4) Environmental Indicators	**Value (Thousand R$)**	**% of OR**	**% of NR**	**Value (Thousand R$)**	**% of OR**	**% of NR**
Related to company operations and to external programs and/or projects	6,157	0.56	0.10	-		
Total of Investments in the Environment	6,157	0.56	0.10			
Concerning the definition of annual goals to minimize residues, consumption in general in production/operation and to increase efficiency in utilizing natural resources, the company:	(x) does not have goals ( ) achieves from 0 to 50%	( ) achieves from 51 to 75% ( ) achieves from 76 to 100%		( ) does not have goals ( ) achieves from 0 to 50%	( ) achieves from 51 to 75% ( ) achieves from 76 to 100%	
5) Staff-Related Indicators						
Nr. of employees at the end of the period	7,868			-		
Nr. of new hires during the period	73			-		
Nr. of outsourced employees	NA			-		
Nr. of trainees	441			-		
Nr. of employees older than 45	2,156			-		
Nr. of women working at the Company	981			-		
% of management positions held by women	7.32			-		
Nr. of African descendents working at the Company	2,439			-		
% of management positions held by African descendents	10.96%			-		
Nr. of employees with physical disadvantages or special needs	NA			-		
6) Relevant information for corporate citizenship	**2005**			**2006 Goals**		
Ratio between highest and lowest salary at the Company	16.93			-		
Total number of work-related accidents	176			-		
Social and environmental projects developed by the Company were defined by:	( ) senior management	(x) senior management and functional managers	( ) all employees	( ) senior management	(x) senior management and functional managers	( ) all employees
The standards for occupational health and safety were defined by:	( ) senior management and functional managers	(x) all employees	( ) All + CIPA	( ) senior management and functional managers	(x) all employees	( ) All + CIPA
Concerning union freedom, the right to collective negotiation and to internal workers representation, the Company:	( ) doesn't get involved	(x) follows ILO rules	( ) encourages and follows ILO	( ) will not get involved	(x) will follow ILO rules	( ) will encourage and follow ILO
The pension fund benefits:	( ) senior management	( ) senior management and functional managers	(x) all employees	( ) senior management	( ) senior management and functional managers	(x) all employees
Profit sharing benefits:	( ) senior management	( ) senior management and functional managers	(x) all employees	( ) senior management	( ) senior management and functional managers	(x) all employees
In selecting suppliers, the same ethical and social and environmental responsibility standards adopted by the Company:	( ) are not considered	( ) are suggested	(x) are required	( ) will not be considered	( ) will be suggested	(x) will be required
Concerning the employees participation in volunteering programs, the Company:	( ) doesn't get involved	( ) supports	(x) organizes and encourages	( ) will not get involved	( ) will support	(x) will organize and encourage
Total number of complaints and criticisms from consumers:	at Company ___NA____	at Procon ___NA___	in Court ___NA___	at Company_ ____-NA _	at Procon ___-NA __	in Court ___ NA ___
% of resolved complaints and criticisms:	at Company ____NA__%	at Procon _NA__%	in Court __NA___%	at Company ____ NA __%	at Procon ____ NA ___%	in Court __ NA ___%
Total value added to be distributed (in thousand R$)	In 2005:	6.464.630				
Value Added Distribution (VAD)	64,61% Government 14,51% shareholders	11,87% collaborators 8,25% third parties retained	0,76 %			
7) Other Information						

I. The generated residues are quantified and controlled according to corporate procedures for handling, transportation, storage and final destination. These procedures tend to evolve to the determination of annual goals for residue decrease.

II. Recycling of fluorescent lamps and public lighting in the Company's entire concession area totaled, in 2005, 240 thousand light bulbs. In addition, we regenerated e reused, also in 2005, approximately 850 thousand liters of insulation oil, removed from inoperative transformers.

II. Fuel and energy consumption quantification is done on an annual basis and does not have reduction goals. Cemig Distribuição Board of Directors and the Union representation of its employees have defined an indicator of the consumption of water per employee.

CEMIG DISTRIBUIÇÃO IN NUMBERS

Descriptions	2005
Service	
Number of consumers (thousands)	6,010
Number of employees	7,868
Number of consumers per employee	764
Number of villages served	5,415
Number of municipalities served	774
Market	
Concession area (Km^2)	567,740
Average residential consumption (KWh/year)	1,337
Average supply tariffs – including ICMS (R$/MWh)	
Residential	474.21
Commercial	410.81
Industrial	268.54
Rural	249.09
DEC (hours)	12.21
FEC (number of interruptions)	6.78
Supply deprivation per consumer – minutes/month	61
Operational	
Number of Substations	354
Sub-transmission lines (Km)	16,040
Distribution lines (Km)	
Urban	84,585
Rural	294,815
Financial	
Operating revenue – R$ million	9,275
Net operating revenue – R$ million	6,397
Operating margin - %	17.04
EBITDA - R$ million	1,454
Net profit - R$ million	990
Net profit per 1,000 shares R$	437.72
Net worth - R$ million	2,312
Net worth per thousand shares	1,022
Net worth earnings - %	74.93
Debt to equity - %	300.41
Current Liquidity	1.10
General Liquidity	0.87

MEMBERS OF BOARD OF DIRECTORS AND COUNCILS

BOARD OF DIRECTORS

Permanent Members	Substitute Members
Wilson Nélio Brumer	Fernando Lage de Melo
Djalma Bastos de Morais	Luiz Antônio Athayde Vasconcelos
Aécio Ferreira da Cunha	Eduardo Lery Vieira
Alexandre Heringer Lisboa	Franklin Moreira Gonçalves
Antônio Adriano Silva	Francisco Sales Dias Horta
Francelino Pereira dos Santos	Marco Antônio Rodrigues da Cunha
Maria Estela Kubitschek Lopes	Luiz Henrique de Castro Carvalho
Nilo Barroso Neto	Guilherme Horta Gonçalves Júnior
José Luiz Alquéres	Guy Maria Villela Paschoal
Carlos Augusto Leite Brandão	Fernando Teixeira Mendes Filho
Andréa Paula Fernandes	Rodrigo Bhering Andrade
Antônio Luiz Barros de Salles	Andréa Leandro Silva
José Augusto Pimentel Pessoa	Evandro Veiga Negrão de Lima
Haroldo Guimarães Brasil	Antônio Renato do Nascimento

FISCAL COUNCIL

Permanent Members	Substitute Members
Aristóteles Luiz Menezes Vasconcellos Drummond	Marcus Eolo de Lamounier Bicalho
Luiz Guaritá Neto	Ronald Gastão Andrade Reis
Luiz Otávio Nunes West	Augusto Cesar Calazans Lopes
Itamaury Teles de Oliveira	Ari Barcelos da Silva
Thales de Souza Ramos Filho	Aliomar Silva Lima

EXECUTIVE OFFICERS

Name	Function
Djalma Bastos de Morais	**Chairman and Chief Executive Officer**
Francisco Sales Dias Horta	**Vice-Chairman and Chief Executive Officer**
Celso Ferreira	**Planning, Projects and Construction Director**
Flávio Decat de Moura	**Finance, Participations and Investor Relations Director**
Elmar de Oliveira Santana	**Director**
José Maria de Macedo	**Distribution and Sales Director**
Heleni de Mello Fonseca	**Corporate Management Director**

INVESTORS RELATIONS

Investors Relations Superintendence
Telephones: +55 31 3299-3930 - 3299-4015
Fax: +55 31 3299-3934 - 31 3299-3933

Electronic address
Site: www.cemig.com.br , http://.ri.cemig.com.br
E-Mail: ri@cemig.com.br

BALANCE SHEETS

AS OF DECEMBER 31, 2005 AND 2004

ASSETS

(In thousands of reais)

	2005	2004
CURRENT		
Cash & Cash Equivalents	533,261	1
Consumers and Resellers	1,188,665	-
Extraordinary Tariff Recovery and Portion "A"	271,800	-
Energy Transportation	250,492	-
Recoverable Taxes	81,774	-
Advance Expenses – CVA	539,321	-
Tax Credits	51,883	-
Regulatory Assets - PIS-PASEP/COFINS	39,168	-
Deferred Tariff Adjustment	321,445	-
Inventories	13,766	-
Other	138,659	-
CURRENT TOTAL	3,430,234	1
FIXED		
Long Term Receivables		
Extraordinary Tariff Recovery and Portion "A"	1,001,305	-
Advance Expenses – CVA	46,549	-
Tax Credits	87,207	-
Recoverable Taxes	153,962	-
Deposits Linked to Lawsuits	17,343	-
Consumers and Resellers	64,190	-
Regulatory Assets - PIS-PASEP/COFINS	374,622	-
Deferred Tariff Adjustment	853,994	-
Other Credits	24,088	-
Total Long-Term Receivables	2,623,260	-
Investments	1,756	-
PP&E	3,199,925	-
Deferred	377	-
TOTAL FIXED	5,825,318	-
TOTAL ASSETS	9,255,552	1

The accompanying notes and appendices are integral part of the financial statements.

BALANCE SHEETS

AS OF DECEMBER 31, 2005 AND 2004

LIABILITIES

(In thousands of reais)

	12/31/2005	12/31/2004
CURRENT		
Suppliers	640,809	-
Regulatory Charges	158,634	-
Profit Sharing	55,493	-
Taxes, Fees and Contributions	438,340	-
Interest on Equity and Dividends	907,541	-
Loans and Financing	209,171	-
Wages and Social Contributions	123,106	-
Advance Expenses – CVA	208,195	-
Post-Employment Obligations	114,866	-
Other	261,931	-
CURRENT TOTAL	3,118,086	-
FIXED		
Suppliers	264,123	-
Advance Expenses - CVA	31,508	-
Loans and Financing	1,925,946	-
Taxes, Fees and Contributions	615,800	-
Contingency Provisions	2,885	-
Post-Employment Obligations	935,126	-
Other	50,574	-
TOTAL FIXED	3,825,962	-
SHAREHOLDERS' EQUITY		
Capital Stock	2,261,998	1
Revenue Reserves	49,506	-
TOTAL EQUITY	2,311,504	1
TOTAL LIABILITIES	9,255,552	1

The accompanying notes and appendices are integral part of the financial statements.

INCOME STATEMENT

FISCAL YEAR ENDING ON DECEMBER 31, 2005

(in thousands of reais, excluding net profit per 1000 shares)

OPERATING REVENUE	
Gross Supply of Electric Power	7,430,028
Deferred Tariff Adjustment	591,010
Revenue from Use of Grid	1,200,587
Other Operating Revenue	53,341
	9,274,966
Deductions from Operating Revenue	(2,878,119)
NET OPERATING REVENUE	6,396,847
OPERATING COSTS	
COST WITH ELECTRIC POWER	
Electric Power Purchased for Resale	(1,890,075)
Charges for Use of the Basic Transmission Grid	(554,363)
	(2,444,438)
TRANSACTION COST	
Personnel and Management	(762,639)
Private Pension Entity	(108,358)
Materials	(71,812)
Third Party Services	(280,628)
Depreciation and Amortization	(361,301)
Operating Provisions	(66,617)
Charges for Use of Water Resources	(32,790)
Quota for the Fuel Consumption Account – CCC	(387,126)
Energy Development Account - CDE	(279,025)
Provision for Losses in Recovering Amounts for the Extraordinary Tariff Adjustment	(82,285)
Energy Efficiency and Research and Development	(172,805)
Other	(81,526)
	(2,686,912)
TOTAL COST	(5,131,350)
GROSS PROFIT	1,265,497
OPERATING EXPENSE	
Sales Expenses	(119,930)
General and Administrative Expenses	(68,460)
Other Operating Revenue	12,819
	(175,571)
Operating Profit from Revenue and Financial Expenses	1,089,926
Net Financial Income	328,708
Interest on Equity	(220,544)
	108,164
Operating Profit	1,198,090
NON OPERATING RESULT	(30,716)
Earnings Before Income Tax and Social Contribution	1,167,374
Income Tax and Social Contribution	(397,789)
Earnings Before Reversal of Interest on Equity	769,585
Reversal of Interest on Equity	220,544
NET PROFIT FOR THE PERIOD	990,129
NET PROFIT PER 1000 SHARES - R$	437,72

The accompanying notes and appendices are integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

FISCAL YEARS ENDING ON DECEMBER 31, 2005 AND 2004

(in thousands of reais, excluding dividends per 1000 shares)

	Capital Stock	Capital Reserves	Revenue Reserves	Accrued Profit	Funds for Capital Increase	Total
BALANCES ON DECEMBER 31, 2004	1					1
Capital Increase	2,261,997					2,261,997
Net Income for the Period				990,129		990,129
Profit distribution proposed at the AGM:						
Legal Reserve			49,506	(49,506)		
Interest on Equity (R$97.50 per 1000 shares)				(220,544)		(220,544)
Supplementary Dividends (R$318.34 per 1000 shares)				(720,079)		(720,079)
BALANCES ON DECEMBER 31, 2005	**2,261,998**	**-**	**49,506**	**-**	**-**	**2,311,504**

The accompanying notes and appendices are integral part of the financial statements.

STATEMENT OF SOURCES AND APLICATIONS OF FUNDS

FISCAL YEARS ENDING ON DECEMBER 31, 2005 AND 2004
(In thousands of reais)

	2005	2004
SOURCES OF FUNDS		
From Operations		
Net Income for the Period	990,129	
Expenses (Income) not affecting Working Capital		
Depreciation and Amortization	363,672	
Net Disposal of Fixed Assets	26,141	
Post-Employment Obligations	111,189	
Interest and Long Term Monetary Variations	(497,961)	
Deferred Tariff Adjustment	(591,010)	
Deferred Federal Taxes	390,577	
Regulatory Assets - PIS-PASEP/COFINS	(76,244)	
Provision for Losses in Recovering Amounts for the Extraordinary Tariff Adjustment	82,285	
Provision for Operating Losses	2,885	
	801,663	
From Third Parties and Shareholders		
Loans	709,407	
Special Obligations	75,873	
Short Term Liquid Asset Transferred Through Capital Contribution	259,042	
Capital Increase	-	1
	1,044,322	1
Other Sources		
Total Long-Term Receivables Reduction	13,276	
Transfer of Long Term Receivables to Current Assets		
Advance Expenses - CVA	249,660	
PIS/COFINS	66,539	
Extraordinary Tariff Adjustment	205,109	
Deferred Tariff Adjustment	374,864	
Tax Credits	33,138	
Other	46,232	
	988,818	
TOTAL SOURCES	2,834,803	1
APPLICATION OF FUNDS		
Recoverable Taxes	51,636	
Advance Expenses – CVA	114,958	
In Investments	1,236	
In the PP&E	921,075	
Interest on Equity and Dividends	940,623	
Transfer from Fixed to Current		
Suppliers – Supply	70,591	
Post-Employment Obligations	156,705	
Taxes and Social Contribution transferred from Current Asset	236,409	
Other	29,423	
TOTAL APPLICATION	2,522,656	
INCREASE IN NET CURRENT LIABILITIES	**312,147**	**1**
DEMONSTRATION OF CHANGE IN NET CURRENT LIABILITIES		
At the end of the period		
Current Assets	3,430,234	1
Current Liabilities	(3,118,086)	-
	312,148	1
At beginning of period	1	-
INCREASE IN NET CURRENT LIABILITIES	**312,147**	**1**

The accompanying notes and appendices are integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2005 AND 2004
(In thousand Reais, unless otherwise indicated)

In thousand Reais, unless otherwise indicated.

1) – OPERATING CONTEXT

Cemig Distribuição S.A. ("Company or Cemig Distribuição") is a publicly held, closed company, wholly owned subsidiary of Companhia Energética de Minas Gerais – CEMIG ("CEMIG"), incorporated on September 8, 2004, operating as of January 1, 2005, as a result of CEMIG's activities dismemberment.

The concession contracts for electric power distribution, signed in 1997 by CEMIG (the holding company of Cemig Distribuição), stipulated that the Company should restructure its operations by separating its generation, transmission and distribution business into wholly owned subsidiaries ("deverticalization").

In addition, the Provisional Measure 144, dated December 11, 2003, and later converted into Federal Law 10.848, dated March 15, 2004, concerning the restructuring of the Brazilian electric energy sector model, determined that the activities of generation and transmission be separated from the activity of distributing electric power, thus generating distinct companies for each.

In this way, CEMIG's distribution grids and lines and other assets and liabilities related to the electric energy distribution activities were transferred, as of January 1, 2005, to Cemig Distribuição.

Cemig Distribuição concession area is of 567,740 Km^2, approximately 97.00% of the State of Minas Gerais, serving 6,009,860 consumers (not audited) as of December 31, 2005.

2) – DEVERTICALIZATION

CEMIG's Extraordinary GSM of December 30, 2004 authorized the transfer, as of January 1, 2005, of the assets comprising the Property, Plant and Equipment (PP&E) in Service and part of the obligations and rights related to the electric power distribution business, to Cemig Distribuição.

The transfer of the other rights and obligations was effected through an advance for future capital increase, on January 1, 2005. The incorporation of these values into the capital was approved by the Shareholders Meeting of July 29, 2005.

ANEEL ratified, on a definite basis, the transfer of the electric power distribution concessions.

The table below shows the separation of CEMIG's assets and liabilities that were invested in Cemig Distribuição on January 1, 2005:

	R$
ASSETS	
CURRENT	
Cash & Cash Equivalents	17,301
Consumers and Resellers	1,127,064
Extraordinary Tariff Recovery and Portion "A"	327,268
Advance Expenses – CVA	463,508
Recoverable Taxes	9,641
Inventories	11,901
Other Credits	61,180
CURRENT TOTAL	2,017,863
FIXED	
Long Term Receivables	
Advance Expenses – CVA	85,786
Regulatory Assets - PIS-PASEP/COFINS	361,082
Recoverable Taxes	102,326
Extraordinary Tariff Recovery and Portion "A"	1,032,601
Deferred Tariff Adjustment	437,759
Consumers and Resellers	78,022
Tax Credits	10,621
Other Credits	40,875
Total Long-Term Receivables	2,149,072
Investments	419
PP&E	4,557,550
Special Obligations	(1,813,035)
Deferred	499
TOTAL FIXED	4,894,505
TOTAL ASSETS	**6,912,368**
LIABILITIES	
CURRENT	
Suppliers	397,808
Taxes, Fees and Contributions	174,037
Regulatory Charges	34,347
Salaries and Social Contributions	89,412
Interest on Equity and Dividends	325,918
Loans and Financing	490,487
Post-Employment Obligations	144,710
Other Obligations	102,101
CURRENT TOTAL	1,758,820
FIXED	
Taxes, Fees and Contributions	351,908
Suppliers	245,873
Loans and Financing	1,233,130
Post-Employment Obligations	980,642
Other Obligations	79.997
TOTAL FIXED	2,891,550
SHAREHOLDERS' EQUITY	2,261,998
TOTAL LIABILITIES	**6,912,368**

3) – PRESENTATION OF FINANCIAL STATEMENTS

3.1) Presentation of Financial Statements

They were compiled and prepared according to Brazilian accounting principles, including: the Corporations Law; CVM (Brazilian securities and exchange commission) rules; and rules of the specific legislation applicable to electric power concession holders, determined by the Brazilian Electricity Regulatory Agency (ANEEL).

The Company decided to adopt in advance, as of December 31, 2005, the new publication procedures comprised in CVM Ruling 488, of October 3, 2005.

In addition, Cemig Distribuição provides in Appendices I and II the statements of cash flow and value added, respectively.

3.2) Main Accounting Practices

(a) Specific Accounting Practice for the Electric Sector

Management Expenses – These are appropriated monthly to the cost of PP&E under construction, by proportional distribution of 8% of direct expenditure on personnel and third-party services.

(b) General Accounting Practices

Cash & Cash Equivalents – These are stated at cost. The yields earned up to the date of the balance sheet are classified as Other Credits, in the Current Assets, at values not above realization values.

Consumers and Resellers – Supplies of electric power not invoiced as of the date of the balance sheet are booked on an accrual basis.

Provision for Doubtful Receivables – This is constituted in an amount considered sufficient to cover possible losses from consumers and resellers.

Inventories – These are valued at the average acquisition cost, materials in stock being booked in Current Assets and materials allocated to construction work being booked under Fixed Assets and not being depreciated.

Advance Expenses - CVA – As from October 26, 2001, the differences between the sums of non-controllable costs (also called “Portion A”), used as a reference in the calculation of future tariff adjustments, and the disbursements actually effected, are compensated in future tariff adjustments, being booked in Current Assets and Long Term Receivables, as advance expenses. After the tariff adjustment in question is made, these expenses are transferred monthly to the results, in proportion to the amounts received through electricity bills.

PP&E – The assets comprising PP&E are valued at the cost incurred on the date of their acquisition or formation, and those acquired or formed up to December 31, 1995 were monetarily restated up to that date. Interest, other financial charges and inflationary effects incurred, relating to financing obtained from third parties linked to Construction Work under Way, are attributed to PP&E Under Construction, during the period of construction.

Depreciation and Amortization - These are calculated on the balance of PP&E in Service, by the straight-line method, applying the rates stipulated by the ANEEL, which reflect the estimated useful life of the assets.

Special Obligations – These are assessed according to the value received from clients. Special obligations are not depreciated or amortized, and in the Balance Sheets are presented as reductions of PP&E.

Other Assets and Liabilities – Those subject to monetary variation by force of the legislation or contractual clauses are restated based on the rates stipulated in the respective provisions, so as to reflect the updated values as of the date of the balance sheets. Others are booked at the values incurred on the date of formation, minus provisions for losses, when applicable.

Post-Employment Obligations – In compliance with CVM Ruling 371/00, costs related to supplementing retirement pensions and the other post-employment benefits are recognized as obligations and booked based on actuarial calculations, using the Projected Credit Unit Method in order to determine the present value of the obligations.

Income Tax and Social Contribution – Credits are provisioned or constituted on tax losses and temporary additions, their effects being booked in the results for the year, taking into account the prospects for realizing same.

Results – These are calculated by the accrual method on an annual basis.

Net Profit per Thousand Shares – This is calculated based on the number of shares, as of the date of the balance sheets.

Use of estimates – The preparation of the financial statements requires Cemig Distribuição's Management to use estimates for booking certain transactions, which affect the Company's assets and liabilities, revenues and expenses, as well as the publication of information regarding data in their financial statements. The final results of these transactions and information, at the time of their effective realization in subsequent periods, may differ from such estimates. The main estimates related to the financial statements refer to the booking of the effects resulting from the Rationing Program, from the Electric Sector General Agreement, Electric Power Wholesale Market ("MAE"), succeeded by the *Câmara de Comercialização de Energia Elétrica ("CCEE/MAE")* (Electric Power Trading Chamber) in 2004, Provision for Doubtful Receivables, Advance Expenses – CVA, Tax Credits, Post-Employment Obligations, Uninvoiced Electric Power Supply.

4) – CONCESSIONS

Cemig Distribuição holds at ANEEL the following concessions for the State of Minas Gerais:

	Non-audited information	
	Date of Concession or Authorization	Expiry Date
North	04/1997	02/2016
South	04/1997	02/2016
East	04/1997	02/2016
West	04/1997	02/2016

The Company expects the concessions to be renewed, and therefore does not expect to suffer any loss due to non-renewal of the present concessions.

5) – CASH & CASH EQUIVALENTS

	12/31/2005	12/31/2004
Bank Accounts	27,954	1
Financial Investments		
Bank Certificates of Deposit	505,307	-
	533,261	**1**

The financial investments of Cemig Distribuição are remunerated based substantially on the variation of the CDI ("Inter-bank Certificate of Deposit") rate.

6) – CONSUMERS AND RESELLERS

Consumer Category	12/31/2005 Balances yet to Mature	Up to 90 days Overdue	Over 90 days Overdue	Total
Residential	354,068	45,551	71,460	471,079
Industrial	111,721	22,093	202,326	336,140
Commerce, Services and Others	158,826	21,340	54,011	234,177
Rural	48,674	7,042	12,964	68,680
Public Power	34,626	2,997	4,762	42,385
Public Lighting	64,755	3,566	6,749	75,070
Public Services	38,750	551	3,084	42,385
Subtotal – Consumers	811,420	103,140	355,356	1,269,916
Supply to Other Concessionaires	14,477			14,477
Provision for Unreliable Credits	-		(95,728)	(95,728)
	825,897	**103,140**	**259,628**	**1,188,665**

Amounts receivable, totaling R$64,190 and referring to the following clients, have been booked in the Long Term Receivables:

- Companhia de Saneamento de Minas Gerais (COPASA), a company controlled by the Government of the State of Minas Gerais: an amount of R$44,239. Cemig Distribuição renegotiated with COPASA the payment of the debit in 96 consecutive monthly installments, from October 2004 to September 2012. The installments are restated by the variation in the IGP-M inflation index, with the addition of interest at 0.5% per month.

- Municipal Administration of Belo Horizonte: an amount of R$19,951 referring substantially to the supply of electric power for public lighting. The Municipality's debits were renegotiated for payment in 80 months, ending in March 2010 and restated in accordance with Cemig Distribuição's tariff adjustments.

The composition of the Provision for Doubtful Receivables, per consumer category, is as follows:

	12/31/2005
Residential	46,079
Industrial	16,459
Commerce, Services and Others	22,683
Rural	3,734
Public Power	1,858
Public Lighting	3,187
Public Services	1,728
	95,728

The movement in the Provision for Doubtful Receivables, during the year 2005, was as follows:

Constitution of provision	98,841
Write-off of accounts receivable	(3,113)
Balance on December 31, 2005	**95,728**

The criteria for the constitution of provisions, as stipulated by the ANEEL, are as follows: (i) for consumers with significant debits, an individual analysis of the balance is made, taking into consideration the default record, negotiations under way and the existence of real guarantees, (ii) in the case of other consumers, debits are fully provisioned when they are over 90 days overdue for residential consumers, over 180 days overdue for commercial consumers and over 360 days overdue for the other consumer categories.

7) – REGULATORY ASSETS AND LIABILITIES

The Electric Sector General Agreement, signed in 2001, and the new regulations for the electric power sector made it necessary to constitute various regulatory assets and liabilities, as well as deferring the federal taxes levied on these assets and liabilities (these taxes are settled as the assets and liabilities are received and /or paid), as shown below:

	12/31/2005
Assets	
Extraordinary tariff recovery and Portion "A" – Note 8	1,273,105
Deferred tariff adjustment – Note 12	1,175,439
PIS/COFINS and PASEP – Note 13	413,790
Advance expenses – CVA – Note 9	585,870
	3,448,204
Liabilities	
Suppliers – transferred to generators for the purchase of unrestricted power – Note 8	(362,000)
Amounts to be reimbursed in the tariff – CVA – Note 9	(239,703)
	(601,703)
Deferred federal taxes – Note 16	(843,364)
	(1,445,067)
	2,003,137

8) EXTRAORDINARY TARIFF RECOVERY AND PORTION "A"

The Federal Government, through the Electric Power Crisis Management Chamber – GCE, and the electric power distribution and generation companies signed, in December 2001, an agreement called the "General Electric Sector Agreement", which defines the criteria for the guarantee of the economic-financial balance of the concession agreement and for the recovery of the income and extraordinary losses regarding the validity period of the Rationing Program, by means of an Extraordinary Tariff Recovery ("RTE"), extended to the compensation of the non-manageable cost variations of Portion "A" occurred in the period from January 1st to October 25, 2001.

a) Extraordinary Tariff Recovery

Resolution 91 of the Electric Power Crisis Management Chamber (GCE), of December 21, 2001 and Act 10.438, of April 26, 2002, has established the procedures for the implementation of the RTE, which will enter in force as of December 27, 2001. The tariff adjustments were defined through Resolution 130 of the GCE, on April 30, 2002, as follows:

Adjustment of 2.90% for the consumers of the residential (excluding the low income consumers), rural and public illumination classes and the high-voltage industrial consumers, to which the electric power cost represents 18.00% or more of the average production cost and that fulfill certain requirements in respect to the power load and demand factor, specified in the Resolution.

- Adjustment of 7.90% for the other consumers.

The mentioned RTE is being used to compensate the following items:

- Income losses in the period from June 1st, 2001 until February 28, 2002, corresponding to the difference between Cemig Distribuição's estimated income, in case the Rationing Program had not been implemented and the actual income received under its validity period, according to the formula disclosed by ANEEL. In the assessment of such amount, eventual losses with consumer indebtedness were not included, which are not expected to be relevant, and the ICMS.

- Transfer to be carried out to the generation companies that bought power in the MAE, held in 2004 by the Electric Power Sales Chamber ("CCEE/MAE"), in the period from June 1st, 2001 until February 28, 2002, with price exceeding the amount of R$49.26/MWh ("unrestricted power"). As the Company only distributes the amounts received to the generation companies, such balance included the tributes and other regulatory charges levied on the income. When the transfer is made to the generation companies, the abovementioned taxes and regulatory charges are deducted.

The recovery of credits through the RTE, according to the Standardizing Resolution 45, of March 3, 2004, is carried out in the proportion of 64.29% and 35.71% for the credits regarding income and unrestricted power losses, respectively.

The RTE credits regarding rationing losses are being adjusted with the use of the SELIC until the actual month of the compensation.

Until the business year of 2004, 18.00% of the unrestricted power credits were not being updated due to many lawsuits filed by generation and distribution companies, including Cemig Distribuição, arguing about the amounts disclosed by the CCEE/MAE. Having in mind that Cemig Distribuição and the majority of the other companies cancelled their lawsuits in court, the Company started to, as of the 3rd quarter of 2005, fully adjust the RTE credits regarding unrestricted power.

These RTE credits regarding unrestricted power are adjusted according to SELIC plus interests of 1.00% a year, for the amounts to be transferred to the generation companies that had received loans from BNDES.

ICMS levied on the RTE's balance, corresponding to the income to be invoiced, which was estimated in R$180,805 in December 31, 2005, will only be due at the moment the respective electric power invoice is issued to the consumers. The Company is acting in this subject only as transferor of the mentioned tribute between the consumers and the State Revenue Service and, therefore, had not conducted the anticipated entry of the mentioned obligation.

Provision for losses

According to the Standardizing Resolution 1 of ANEEL, of January 12, 2004, the RTE from Cemig Distribuição had its maximum operation term changed from 82 to 74 months and will be in force in the period from January 2002 until February 2008. The Company prepared a study to check whether the established term of 74 months would be enough for the recovery of the amounts acknowledged by ANEEL. In the preparation of this study certain premises were considered, being the more relevant those related to the projections of tariff adjustments, inflation rates, SELIC and the growth of the power market.

Based on the study, the provision for losses in the realization of RTE values on December 31, 2005 was estimated in R$82,285.

ANEEL will hold on March 30, 2006, public hearing 044/05 with the purpose of gathering contributions from Society for the regulation of RTE billing procedures, regarding consumers that are presently unrestricted and that were loyal during the validity of the Rationing Program. Such change in criteria would represent a higher RTE payment by Cemig Distribuição. Therefore, the Company will review the presently established provision after the regulation by ANEEL of this new billing procedure and the resulting beginning of the payment of the amounts in the power bills.

b) Portion "A"

The items of Portion "A" are defined as the total sum of the differences, whether positive or negative, in the period from January 1st to October 25, 2001, between the amount of the non-manageable costs presented in the calculation basis for the determination of the last annual tariff adjustment and the disbursements actually occurred within the period.

Through Standardizing Resolution 1, of January 12, 2004, ANEEL defined that the amounts of the variations in the non-manageable items of Portion "A" would not be included in the limit of the RTE validity period, being its recovery immediately started after the end of the RTE validity, using the same recovery mechanisms, this means that the adjustment applied on the tariffs to compensate the RTE amounts will continue in force to compensate the items of Portion "A".

The Portion "A" credits are adjusted according to the SELIC variation up to the month of their actual compensation.

c) Composition of the RTE and Portion "A" balances

	12/31/2005		
	Principal	Adjustment by SELIC	Total
Recovery of income losses (1)	713,391	512,865	1,226,256
Amounts received	(458,128)	(329,353)	(787,481)
	255,263	183,512	438,775
Reimbursement of unrestricted power expenses of the generation companies (2)	442,717	208,596	651,313
Amounts received	(193,440)	(91,143)	(284,583)
	249,277	117,453	366,730
(-) Provision for Losses in the payment of RTE items	(47,870)	(34,415)	(82,285)
Total of the RTE	456,670	266,550	723,220
Compensation of Portion "A" items (3)	245,299	304,586	549,885
Total of the RTE and of Portion "A"	**701,969**	**571,136**	**1,273,105**
Current Assets			271,800
Long Term Receivables			1,001,305

The RTE amounts to be transferred to the generation companies regarding unrestricted power, entered into the Liabilities, in the Suppliers account, are as follows:

	12/31/2005		
	Principal	Adjustment by SELIC	Total
Amounts to be transferred to the generation companies (2)	419,229	200,078	619,307
(-) Transfers made	(174,179)	(83,128)	(257,307)
	245,050	**116,950**	**362,000**
Current Liabilities			97,877
Fixed Liabilities			264,123

(1) Amounts acknowledged through ANEEL Resolutions 480 and 481 of 2002 and 001 of 2004.
(2) Amounts acknowledged through ANEEL Resolutions 001 and 045 of 2004.
(3) Amounts acknowledged through ANEEL Resolutions 482 of 2002 and 001 of 2004.

9) – ANTICIPATED EXPENSES – CVA

The balance of the Compensation Account for the Variation of Portion "A" Items – CVA refers to the positive and negative variations between the estimate of the Company's non-manageable costs, used to define the tariff adjustment and the payments actually occurred. The assessed variations are compensated in the subsequent tariff adjustments.

ANEEL Standardizing Resolution 153, of March 14, 2005, established new criteria for the calculation of the CVA variations regarding power purchasing. The mentioned Resolution determined that, as of its validity date, retroactive to November 29, 2004, the variations regarding the purchase of power from Itaipu would no longer be calculated in a separate way. Therefore, as of the Resolution's validity date, the CVA variations regarding the total power purchase from the Company (Itaipu, initial agreements, power auction and other origins), are assessed.

The balance history is shown below:

	Balance on 01.01.05	Deferred Amounts (1)	Amortization (2)	Monetary Adjustment (3)	Balance on 12.31.05
Power Purchased for Resale	178,189	68,471	(119,128)	30,074	157,606
Quota for the Fuel Consumption Account – CCC	(31,347)	(7,882)	(785)	(346)	(40,360)
System's Service Charges – ESS	143,290	17,436	(91,124)	19,589	89,191
Electric power transport tariff from Itaipu	12,111	6,338	(8,046)	1,934	12,337
Tariff for the use of the transmission facilities belonging to the basic grid	169,507	6,964	(100,520)	20,686	96,637
Financial compensation for the use of water resources	44,113	1,384	(34,174)	5,651	16,974
Quota for deposit in the Energetic Development Account – CDE	33,431	(244)	(28,265)	5,097	10,019
Incentive Program for Alternative Electric Power Sources – PROINFA	-	3,726	-	37	3,763
	549,294	**96,193**	**(382,042)**	**82,722**	**346,167**

	31/12/2005
Current Assets	539,321
Long Term Receivables	46,549
Current Liabilities	(208,195)
Fixed Liabilities	(31,508)

(1) Refer to non-controllable cost variations that compose the CVA and which were not included in the adjustment calculation and, therefore, were excluded from the result.
(2) Refer to non-controllable cost variations that compose the CVA and which were transferred to the result due to its inclusion in Cemig Distribuição tariff adjustment calculation.
(3) Refers to adjustment according to the SELIC variation between the expense payment date and its actual compensation in the tariff adjustment.

From the balance on December 31, 2005, R$90,101 refer to CVA amounts assessed as of March 10, 2005 and that will be transferred to the tariff in the adjustment of April 8, 2006.

10) – RECOVERABLE TAXES

	12/31/2005
Current	
ICMS to be Recovered	1,625
Income Tax	60,576
Social Contribution	13,705
Other	5,868
	81,774
Non-Circulating	
ICMS to be Recovered	153,962
	235,736

The ICMS credits to be recovered, entered into the Assets - Long Term Receivables, are compensated in 48 months, according to the Complementary Act 102/00. Additionally, the amount of R$20,088 regarding the ICMS was entered, which compensation is under judicial discussions with the Administration of the State of Minas Gerais.

11) – INCOME TAX AND SOCIAL CONTRIBUTION

a) Tax Credits:

The Company has Income Tax credits which were booked as Current Assets and Long Term Receivables, calculated at a 25.00% rate, as well as Social Contribution, calculated at a 9.00% rate, as follows:

	12/31/2005
Tax Credits on-	
Provision for Unreliable Credits	40,097
Provision for Contingencies	981
Provision for Losses in Realizing Amounts for the Extraordinary Tariff Adjustment	27,977
Provision for PASEP/COFINS – Extraordinary Tariff Recovery	51,166
Other	18,869
	139,090
Current Assets	51,883
Long Term Receivables	87,207

The Board of Directors, in the meeting held on February 20, 2006, approved the technical study prepared by the Board for Finance, Participations and Relationship with Investors of Cemig Distribuição regarding the future profitability projection adjusted to its present value, which proves the payment capacity of the Deferred Fiscal Assets in a maximum period of 10 years, as defined in the CVM Instruction 371. Such study was also submitted to the Fiscal Council on March 8, 2006 for exam.

According to the individual estimates of Cemig Distribuição, the future taxable profits guarantee the payment of the Deferred Fiscal Assets, existing on December 31, 2005, according to the following estimate:

	12/31/2005
2006	51,883
2007	33,014
2008	41,311
2009	6,441
2010	6,441
	139,090

b) Conciliation of Income Tax and Social Contribution Expenses:

The conciliation of the nominal Income Tax (at 25%) and Social Contribution (at 9%) expenses with the actual expenses submitted in the results statement is as follows:

	12/31/2005
Profit Before Income Tax and Social Contribution	1,167,374
Income Tax and Social Contribution – Nominal Expenses	(396,907)
Fiscal Effects applied on:	
Fiscal Incentives	6,642
Non-Deductible Contributions and Donations	(4,843)
Not Acknowledged Fiscal Credits	(2,724)
Other	43
Income Tax and Social Contribution – Actual Expenses	(397,789)

12) – DEFERRED TARIFF ADJUSTMENT

ANEEL, through its Ratification Resolution 71, published retroactively to April 4, 2004, defined the results of the periodic tariff review of the Company.

The periodic tariff review comprises the restatement of the electric power supply tariffs to a level compatible with the preservation of the economic-financial balance of the concession agreement, thus providing enough income to cover the efficient operational costs and the adequate remuneration of the investments.

The average adjustment applied to the tariffs on April 8, 2003, on a temporary nature, was of 31.53%. However, as described in the mentioned resolution, the definitive tariff restatement should have been of 44.41%. The percentage difference of 12.88% will be compensated by an increase of R$301,334, with April 2003 amounts, in each one of the tariff adjustments foreseen to take place from 2004 through 2007, cumulatively.

The adjustment applied to the tariffs on April 8, 2004 includes an additional percentage of 2.91% that corresponds to R$159,388. As the amount of the 1st installment should have been of R$301,334, the difference of R$141,946 will be compensated in the tariff adjustments from 2005 through 2007.

The difference between the tariff restatement to which the Company is entitled and the tariff actually charged from the consumers was acknowledged as a regulatory asset that will compensate the business year result.

The amounts regarding the deferred tariff adjustment are monetarily adjusted according to the IGP-M plus interests of 11.26% per year.

	12/31/2005
Deferred Tariff Adjustment – Since 04/08/2003	869,175
Interest (defined by ANEEL – 11.26% a.y.)	206,795
Monetary Adjustment – IGP-M	99,469
	1,175,439
Current Assets	321,445
Long Term Receivable	853,994

Additionally, the deferred taxes applied on the entered income, which balance on December 31, 2005 was of R$508,377 were acknowledged.

13) – REGULATORY ASSETS – PIS-PASEP/COFINS

By means of Federal Acts 10.637 and 10.833 the calculation and rise basis of the PIS-PASEP/COFINS rates were changed. As a result of these changes, there was a growth in the expenses with PIS-PASEP, from December 2002 until March 2005, and in the expenses with COFINS, from February 2004 until June 2005.

In this way, the Company recorded, according to a criterion defined by ANEEL, the credits as an Asset and, to compensate, reduced the PIS-PASEP/COFINS expense.

Part of the Regulatory Asset, in the amount of R$155,619, will be reimbursed by the tariffs within 3 years, counted as of April 8, 2005. The criteria for the reimbursement of the remaining amounts will be yet defined by ANEEL.

14) – FIXED ASSETS

	2005		
	Historic Cost	Accrued Depreciation	Net Value
In Service	**7,738,325**	**(3,587,962)**	**4,150,363**
- Distribution	7,437,484	(3,395,906)	4,041,578
Intangibles	7,655	(430)	7,225
Land	15,744	-	15,744
Buildings, Civil Works and Improvements	222,140	(100,112)	122,028
Machinery and Equipment	7,139,209	(3,259,440)	3,879,769
Vehicles	42,151	(25,666)	16,485
Furniture and Utensils	10,585	(10,258)	327
- Administration	300,841	(192,056)	108,785
Intangibles	62,413	(31,690)	30,723
Land	1,145	-	1,145
Buildings, Civil Works and Improvements	42,044	(22,178)	19,866
Machinery and Equipment	146,429	(94,058)	52,371
Vehicles	29,803	(25,841)	3,962
Furniture and Utensils	19,007	(18,289)	718
Under construction	**938,470**	**-**	**938,470**
- Distribution	859,881	-	859,881
- Administration	78,589	-	78,589
Total Fixed Assets	**8,676,795**	**(3,587,962)**	**5,088,833**
Special Obligations Related to the Concession			(1,888,908)
Net Fixed Assets			**3,199,925**

The Special Obligations refer basically to consumer contributions for the execution of the necessary enterprises to fulfill the electric power supply orders, having in mind that the eventual settlement of such obligations depends on an ANEEL provision, at the end of the Distribution concessions, through the reduction of the residual amount of the Fixed Assets for the purpose of determining the amount that the Granting Power will pay to the Carrier. According to accounting practices and the specific regulations of the Brazilian electric sector, the referred amounts are not adjusted or subject to amortization or depreciation.

The primary annual depreciation rates, according to ANEEL Resolution 044, dated March 17, 1999, are as follows:

Distribution	(%)	Administration	(%)
System switch	6.70	Software	20.00
Concrete pole	5.00	Vehicles	20.00
Aluminum bare conductor	5.00	General equipment	10.00
Transformer	5.00	Building	4.00
Switch	3.00		

15) – SUPPLIERS

	12/31/2005
Current	
Electric Power Supply -	
Eletrobrás – Power from Itaipu	210,495
Furnas	35,927
CCEE/MAE	6,624
Cemig Geração e Transmissão S.A.	65,947
Transfer to Generation Companies	97,877
Other Generating and Distributing Companies	101,968
	518,838
Materials and Services	121,971
	640,809
Non-Circulating	
Electric Power Supply	
Transfer to Generation Companies	**264,123**
	904,932

16) – TAXES, FEES AND CONTRIBUTIONS

	12/31/2005
Current	
Income Tax	6,433
ICMS (State Vat)	164,108
COFINS	16,906
PASEP	3,671
INSS	10,065
Other	9,593
	210,776
Deferred obligations	
Income Tax	133,634
Social Contribution	48,108
COFINS	37,648
PASEP	8,174
	227,564
	438,340
Non-Circulating	
Deferred obligations	
Income Tax	376,542
Social Contribution	135,555
COFINS	85,204
PASEP	18,499
	615,800

Deferred obligations refer to assets and liabilities linked to the Electric Sector General Agreement and the Deferred Tariff Adjustment, which were due as these assets and liabilities are realized.

17) – LOANS AND FINANCING

FINANCERS	Principal Due Date	Annual Financial Charges (%)	Currencies	12/31/2005 Current	Non-Circulating	Total
FOREIGN CURRENCY						
ABN AMRO Bank - N. II.	2013	6.0	US$	78	117,35	117,13
ABN AMRO Real S.A. III	2009	6.5	US$	3,43	11,29	14,72
ABN AMRO Real S.A. IV	2009	6.5	US$	10,97	30,26	40,23
ABN AMRO Real S.A. V	2009	6.5	US$	3,74	9,55	13,29
Banco do Brasil S.A. – Several Bonuses (1)VI	1997/2024	Several	US$	19,63	138,64	157,27
Inter-American Development Bank - IBD II	1998/2006	7.7	US$+AU	2,32	-	2,32
B.N.P. – Paribas III	2008/2013	Libor +1.875	US$	405	28,76	29,81
KFW	2001/2016	4.0	EURO	1,26	18,64	20,90
UNIBANCO VII	2007	6.0	US$	153	105,804	105,957
UNIBANCO VIII	2009	5.0	US$	33	4,772	4,805
UNIBANCO IX	2009	5.0	US$	51	11,896	11,947
Other	1997/2007	Several	Several	1,996	1,409	3,405
Debt in Foreign Currency				**44,051**	**477,330**	**521,381**
NATIONAL CURRENCY						
Banco Credit Suisse First Boston S.A. III	2006	100.00 of CDI	R$	22,995	-	22,995
Banco do Brasil VII	2009	111.00 of CDI	R$	1,410	56,177	57,587
Banco do Brasil VIII	2013	CDI + 1.70	R$	1,842	20,000	21,842
Banco do Brasil IX	2013	107.60 of CDI	R$	11,594	96,000	107,594
Banco Itaú – BBA V	2008	IGP-M +10.48	R$	2,497	158,443	160,940
Banco Itaú – BBA VI	2008	CDI +2.00	R$	335	10,440	10,775
Banco Itaú – BBA VII	2013	CDI + 1.70	R$	11,893	132,433	144,326
Banco Votorantim S.A. III	2010	113.50 of CDI	R$	2,750	29,247	31,997
Banco Votorantim S.A. IV	2013	CDI + 1.70	R$	8,265	98,214	106,479
Bradesco III	2013	CDI + 1.70	R$	24,067	240,870	264,937
Debentures Obligations IV	2014	IGP-M +10.50	R$	15,031	248,885	263,916
ELETROBRÁS III	2008	FINEL + 8.50	R$	5,114	10,427	15,541
ELETROBRÁS IV	2023	UFIR.RGR + 6.00 to 8.50	R$	30,499	106,053	136,552
Large Consumers – C.V.R.D.	1993/2011	Several	R$	3,884	3,669	7,553
Santander do Brasil S.A. II	2013	CDI + 1.70	R$	380	49,959	50,339
UNIBANCO X	2013	CDI + 1.70	R$	7,455	130,222	137,677
Banco WestLB do Brasil	2008	IGPM +10.48	R$	2,290	39,611	41,901
Other	1994/2010	Several	R$	12,819	17,966	30,785
Debt in National Currency				**165,120**	**1,448,616**	**1,613,736**
Grand Total				**209,171**	**1,925,946**	**2,135,117**

(1) Interest rate variation: 2.00 to 8.00 % a year;
Half-yearly *libor* plus *spread* of 0.81 to 0.88 % a year.

The composition of the loans per currency and index is as follows:

	12/31/2005
Currencies	
US Dollar	496,795
Euro	20,090
Account Unit (basket of currencies)	2,732
Other	1,764
	521,381
Indexes	
General Price Index – Market – IGP-M	469,318
Internal Eletrobrás Index – FINEL	15,541
Reference Fiscal Unit – UFIR	136,552
Interbank Deposit Certificate – CDI	956,548
Other	35,777
	1,613,736
	2,135,117

The annual distribution of the long-term debt amortization, on December 31, 2005, is the following:

2007	186,967
2008	278,469
2009	129,653
2010	257,214
2011	222,202
2012	215,764
2013 and after	635,677
	1,925,946

The main currencies and indexes used to adjust monetarily the loans and financing had the following variations:

Currencies	**Accumulated variation in 2005 %**	**Indexes**	**Accumulated variation in 2005 %**
US Dollar	(11.82)	IGP-M	1.21
Euro	(23.50)	FINEL	0.24
Accounting Unit	(17.44)	CDI	18.15

The movement of loans and financing is as follows:

	12/31/2005
Balance at the beginning of the period	-
Transfer from Holding	1,723,617
Withdrawal from Linked Funds	11,164
Financing obtained	709,407
Monetary and currency variation	(81,708)
Provisioned financial charges	216,948
Paid financial charges	(155,236)
Financing amortization	(289,075)
Balance at the end of the period	**2,135,117**

The funds obtained during the fiscal year of 2005 are shown below:

Financers	**Principal Due Date**	**Annual Financial Charges**	**Amount Raised**
National Currency			
Banco do Brasil S.A.	2013	107.60% of CDI	96,000
Banco do Brasil S.A.	2013	CDI+1.70% a.y.	20,001
Banco Bradesco S.A.	2013	CDI+1.70% a.y.	33,448
Banco Itaú BBA	2013	CDI+1.70% a.y.	132,434
Banco Votorantim S.A.	2013	CDI+1.70% a.y.	98,214
Banco Santander do Brasil S.A.	2013	CDI+1.70% a.y.	49,958
Finep	2010	URTJ+10% a.y.	69
União de Bancos Brasileiros S.A. – UNIBANCO	2013	CDI+1.70% a.y.	130,224
			560,348
Foreign Currency			
Banco ABN Amro Real S.A.	2013	6.00% a.y.	117,745
BNP Paribas	2010	US$+libor+1.88% a.y.	31,314
			149,059
Total Funds Raised			**709,407**

Restrictive Agreement Clauses – Covenants

Cemig Distribuição has loans and financing with restrictive clauses (“covenants”). One of these restrictive clauses was not fulfilled, as shown below:

Restrictive Clause Description	**Index Required**	**Position in 12/31/2005**
Investment/EBITDA	Less or equal to 60%	64.73

The Company gained consent from creditors that they will not exercise their rights to request immediate or anticipated payment of the principals due by December 31, 2006. These financings are rated as Current and Fixed Liabilities, according to the original agreement terms, in view of the consent previously mentioned.

18) – REGULATORY CHARGES

	12/31/2005
Global Reserve for Reversal – RGR	8,191
Quota for the Fuel Consumption Account – CCC	2,046
Energy Development Account - CDE	20,801
Compulsory Loan – Eletrobrás	1,207
ANEEL Inspection Fee	1,765
Energy Efficiency	124,624
	158,634

19) – POST-EMPLOYMENT OBLIGATIONS

The Company is one of the sponsors of the Forluminas Social Security Foundation (FORLUZ), a non-profit corporate entity with the objective of providing its associates and participants, and their dependents and beneficiaries, with a monetary income to supplement their retirement and pension payments, pursuant the social security plan to which they are bound.

As of January 1, 2005, with the CEMIG deverticalization, FORLUZ pension funds were sponsored by Cemig Distribuição by means of a percentage participation in the plan's assets and liabilities in December 2004, at the percentage of 72.45%, determined as a function of the employees allocation at the Company.

FORLUZ makes available to its associates the following benefit plans to supplement retirement payments:

Mixed Plan of Social Security Benefits – A fixed contribution plan for retirement benefits, during a normal time and having the benefit defined to cover disability and death of the active participant. Cemig Distribuição's contribution is linked to the basic monthly contributions of the associates, being this one the only plan open to the adhesion of new participants.

Cemig Distribuição contributes 30% to this plan, for the Portion with defined benefit characteristics, regarding the coverage of disability and death of the active participant, thus being used for the amortization of the obligations defined through actuarial calculation. The remaining 70%, regarding the Portion of the plan with defined contribution characteristics, are acknowledged in the business year result, through the cash regime, under the Personnel Expenses category.

Therefore, the obligations with the payment of the Mixed Plan retirement supplement, with defined contribution characteristics, and its respective Assets, in the same amount of R$953,674, are not presented in this Explanation Note.

Balance Plan for Social Security Benefits ("Plan A") – Includes all the retired participants that have opted for this plan and the balances, on the option date, of the active participants that have opted for the migration from the Defined Benefit Plan to the Mixed Plan, previously described.

Defined Benefit Plan – A benefit plan adopted by FORLUZ until 1998, which paid a complementation of the average actual salary of the employee's last years of activity at the Company in respect to the amount of the Official Social Security benefit. As of December 31, 2005, this plan counts 16 active members.

Independently from the plans made available by FORLUZ, Cemig Distribuição also continues to make payments of part of the life insurance premium for the retired personnel and contributes to a health plan for employees, retired personnel and dependents, managed by FORLUZ.

Amortization of the Actuarial Obligations

Part of the actuarial obligation with post-employment benefits in the amount of R$1,104,487 on December 31, 2005 (R$1,554,943 on December 31, 2004) was acknowledged as an obligation to be paid by the Company and will be amortized by June 2024, through monthly installments calculated by the constant installment system (Price Table). Part of the amounts is adjusted annually based on the security index of the Defined Benefit Plan (salary adjustment index of Cemig Distribuição employees, excluding productivity), and for the Balance Plan, adjusted based on the IPCA of IPEAD, plus 6% a year.

The technical surplus that FORLUZ may present for the period of three consecutive years may be used to compensate part of the payable obligations acknowledged by the Company, as foreseen in the agreement.

Due to what was mentioned in the previous paragraph, the surplus obtained by FORLUZ in the business year of 2005, R$103,603 millions will be used to amortize the negative balance of the acknowledged debt.

Bearing in mind the possibility of reducing the debt negotiated with Forluz, the liabilities and the expenses acknowledged by the Company in connection with the Supplemental Plan for Retirement, Health Plan and Life Insurance, are adjusted according to the terms of deliberation CVM 371 and the report prepared by independent actuarial technicians.

The amounts acknowledged in the assets balance sheet in December 31, 2005, as mentioned in the report prepared by the independent actuarial technician, pursuant CVM Deliberation 371, of December 13, 2000, are presented below:

	Pension Plans and Retirement Supplement	Health Plan	Life Insurance
Present Value of the Actuarial Obligations with Expired Rights	3,156,911	234,291	134,765
Present Value of the Actuarial Obligations with Rights to Expire	457,275	75,004	78,649
Total Obligations with Post-Employment Benefits	3,614,186	309,295	213,414
Fair Value of the Plan Assets	(2,588,094)	(21,887)	-
Present Value of Not Covered Obligations	1,026,092	287,408	213,414
Actuarial Profits (Losses) not Acknowledged	(334,587)	(96,239)	42,315
Past Service Cost not Acknowledged	(74,361)	(7,031)	(7,019)
Net Liabilities in the Balance Sheet	**617,144**	**184,138**	**248,710**

The actuarial gains (losses) not acknowledged, regarding Life Insurance and Health Plan that exceeded 10.00% of the actuarial obligations in the amounts of R$20,974 and (R$65,310), respectively, will be acknowledged in the result in approximately 11 years, starting in 2006, being this the average future service time of the active participants.

The movements occurred in the net liabilities are as follows:

	Pension Plans and Retirement Supplement	Health Plan	Life Insurance
Transfer from CEMIG on January 1, 2005	736,314	165,559	223,479
Expenses Acknowledged in the Result	46,258	35,051	29,880
Contributions Paid	(165,428)	(16,472)	(4,649)
Net Liabilities on December 31, 2005	**617,144**	**184,138**	**248,710**
Current Liabilities	90,750	19,232	4,884
Fixed Liabilities	526,394	164,906	243,826

The amounts entered in current liabilities refer to contributions to be made by Cemig Distribuição in 2006 to amortize the actuarial obligations.

The amounts acknowledged in the results statement of 2005 are as follows:

	Pension Plans and Retirement Supplement	Health Plan	Life Insurance
Current Service Cost	5,304	19,135	3,547
Interest over the Actuarial Obligation	355,440	30,822	25,236
Expected Income over the Plan Assets	(316,581)	(3,907)	-
Actuarial Losses not Acknowledged	-	4,233	-
Losses Arising from Changes in the Plan	2,165	1,098	1,097
Employees Contribution	(70)	(16,330)	-
Expenses in 2005	**46,258**	**35,051**	**29,880**

The estimate of the independent actuarial technician for the expenses to be acknowledged for the business year of 2006 is as follows:

	Pension Plans and Retirement Supplement	Health Plan	Life Insurance
Current Service Cost	4,458	18,755	3,318
Interest over the Actuarial Obligation	394,360	32,721	23,797
Expected Income over the Plan Assets	(366,656)	(2,662)	-
Actuarial Profits (Losses) not Acknowledged	-	5,873	(1,886)
Past Service Cost not Acknowledged	10,049	1,099	1,097
Employees Contribution	(88)	(15,604)	-
Expenses in 2006	**42,123**	**40,182**	**26,326**

The main actuarial premises on the balance sheets date are as follows:

	12/31/2005	
	Actual	Nominal
Annual Discount Rate for the Actuarial Obligation Present Value	6.00%	11.30%
Annual Rate for Expected Earnings over the Plan Assets	9.00%	14.45%
Annual Long Term Inflation Rate	-	5.00%
Estimated Annual Index for Future Salary Increases	2.00%	7.10%
Actual Annual Growth Rate of the Continued Income Benefits	-	5.00%
General Biometric Mortality Table	AT - 83	
Biometric Table for Entrance into Disability	Light Medium	
Biometric Disabled Mortality Table	IAPB-57	
Expected Annual Rotation Rate	2.00%	

20) – RESERVE FOR CONTINGENCIES

The Company set up a provision for contingencies of the lawsuits with likelihood of loss. In this way, on December 31, 2005, the amount of R$2,885 was provisioned for labor contingencies.

CEMIG, Cemig Distribuição holding, has legal proceedings for which it considers possible or remote the likelihood of losing. A possible negative closure in these proceedings would affect Cemig Distribuição business. The main causes are described below:

- Various consumers and the prosecuting attorney of the State of Minas Gerais filed civil claims against CEMIG challenging tariff adjustments charged on previous years including: tariff subventions granted to low-income consumers, the special tariff adjustment and the inflation index based on which the electric power tariff was increased in April, 2003, and requiring double reimbursement for the amounts incorrectly charged by the Company. It is not possible, to date, to estimate the amount involved in these claims.

- CEMIG is the defendant in a suit challenging the charging of tax on public lighting. The Company believes it has sound arguments in defense of this claim and, therefore, has made no provisions for this suit. The Company considers possible an unfavorable outcome.

21) – SHAREHOLDERS' EQUITY AND SHAREHOLDERS' REMUNERATION

Cemig Distribuição capital stock is of R$2,261,998, represented by 2,261,997,787 nominative common shares, without nominal value, wholly owned by CEMIG.

(a) Dividends

Of the period's net profit, 50.00% will be distributed as compulsory dividends to the Company's shareholders.

Without loss to compulsory dividends, every two years as from fiscal 2005, or in a shorter period if cash is available, the Company may distribute extraordinary dividends, up to the limit of cash available, as established by the Board of Directors, subject to the guidelines of the Company's Directive Plan.

Declared dividends, compulsory or extraordinary, will be paid in two (2) equal installments, the first one by June 30, and the second one by December 30 of the year subsequent to the profit generation; it will be incumbent upon the Board of Officers, in due compliance with those terms, to establish the payment locations and process.

The calculation of the dividends proposed for distribution to shareholders referring to the fiscal 2005 results is shown below:

	12/31/2005
Compulsory Dividends	
Net Profit for the Period	990,129
Compulsory Dividend – 50.00% of net profit	495,065
Proposed Dividends-	
Interest on Equity	220,544
Supplementary Dividends	720,079
Total.	940,623
Dividends per 1,000 shares – R$	
Statutory Dividend	218.86
Proposed Dividends	415.84

Law No 9,249, Art. 9, of December 26, 1995, allows the deduction of Interest on Own Capital paid to shareholders; such interest, in the case of Cemig Distribuição was computed in 2005 based on the TJLP on the adjusted Shareholders' Equity. The date and terms of payment of interest on own capital will be further determined.

Fiscal benefits from paying Interest on Equity of R$220,544 were R$74,985, acknowledged in the period result.

(b) Legal Reserve

Cemig Distribuição used 5.00% of the FY 2005 net profit to make up Legal Reserve, in the amount of R$49,506.

22) – GROSS SUPPLY OF ELECTRIC POWER

The table below shows the supply of electric power, per class of consumers:

	(Not reviewed by Independent Auditors)		
	No. of Consumers	MWh	R$
	12/31/2005	12/31/2005	12/31/2005
Residential	4,927,966	6,589,664	3,125,036
Industrial	69,084	5,333,436	1,432,137
Commerce, Service and Other	537,656	3,754,005	1,542,184
Rural	417,026	1,940,701	483,493
Public Power	47,731	570,536	224,308
Public Lighting	2,224	1,022,433	250,656
Public Services	7,400	981,016	236,980
Subtotal	6,009,087	20,191,791	7,294,794
Own Consumption	769	28,897	-
Grant for Low-Income Consumers	-	-	116,359
Unbilled Supply, Net	-	-	(76,545)
	6,009,856	20,220,688	7,334,608
Supply to Other Concessionaries	4	88,115	54,195
Energy transactions at CCEE/MAE	-	-	41.225
	6.009.860	**20.308.803**	**7.430.028**

Tariff Adjustment

Cemig's Distribution Tariffs were increased by an average 23.88% starting on April, 08, 2005. The effective tariff adjustment for each consumer type was different, with the objective of gradually reducing cross-subsidies among consumer types, as explained in an official note by ANEEL. To exemplify, the increase for residential consumers was 18.48%, while the increase for high-voltage consumers (consumption above 230 KV) amounted to 25.14%.

Low-Income Consumers

The Federal Government, through Centrais Elétricas Brasileiras – "ELETROBRAS" reimburses distributors for billing losses incurred from 2002 resulting from the new Low Income Residential Sub-Class classification criteria established for low income consumers due to the lower tariff applied thereto.

23) – INCOME FROM THE USE OF GRID

As from January 2005, a significant portion of great consumers came to be "unrestricted" consumers on account of the sale of electric power to them through Cemig Geração e Transmissão. Therefore, charges relating to the use of the distribution grid ("TUSD") by such unrestricted consumers started to be charged separately by Cemig Distribuição, being recorded under "Income from the Use of Grid".

24) – OTHER OPERATING REVENUE

	12/31/2005
Taxed Service	11,167
Other Service Rendering	13,455
Rental and Leasing	28,223
Other	496
	53,341

25) – DEDUCTIONS FROM OPERATING REVENUE

	12/31/2005
ICMS (State Vat)	1,889,870
COFINS	645,964
Global Reserve for Reversal – RGR	24,396
PIS-PASEP	148,528
Emergency Capacity Charge	168,907
Other	454
	2,878,119

Cemig Distribuição pays the ICMS on the RTE based on the electric power bills amounts.

26) – OPERATING COSTS AND EXPENSES

	12/31/2005
Personnel	595,275
Employee Participation	187,477
Post-Employment Obligations	111,189
Materials	73,444
Third Party Services	312,477
Electric Power Purchased for Resale	1,890,075
Depreciation and Amortization	363,672
Royalties	32,790
Operating Provisions	133,240
Quota for the Fuel Consumption Account – CCC	387,126
Charges for Use of the Basic Transmission Grid	554,363
Energy Development Account - CDE	279,025
Provision for Losses in Recovering Amounts for the Extraordinary Tariff Adjustment	82,285
Energy Efficiency and Research and Development	172,805
Other Net Expenses	131,678
	5,306,921

PERSONNEL EXPENSES	12/31/2005
Salary and payroll charges	562,619
Contributions to retirement Complementation – Defined contribution	48,097
Plan Benefits	62,722
	673,438
(-) Personnel costs transferred to construction in progress	(79,549)
	593,889
Redundancy-with-Incentives Program	1,386
	595,275

EMPLOYEE PROFIT SHARING

The Company used as a general criterion for sharing profit with employees the results of fiscal year 2005 at a percentage of 3% of the operating result, adjusted by some items defined by ANEEL at the Annual Rendering of Accounts (PAC). Furthermore, the November 2005 collective agreement signed with the Unions stipulates the payment of an additional amount of R$131,981 millions.

Conforming the agreements mentioned, profit sharing of the Company's 2005 results, including the contribution to the pension fund on the participation values, corresponded to R$187,477. The additional amounts mentioned in the foregoing paragraph were paid during the pertinent fiscal year.

SERVICE FROM THIRD PARTIES	12/31/2005
Reading of electricity measurement devices/Delivery of bills	84,254
Communication	40,877
Maintenance and Conservation of Facilities and Electric Equipment	50,240
Conservation and Cleaning of Buildings	16,028
Hired labor	11,126
Freights and Travel Tickets	1,671
Accommodation and Food	10,571
Vigilance	4,226
Consulting	5,541
Maintenance and Conservation of Furniture and Equipment	16,300
Maintenance and Conservation of Vehicles	3,930
Power Cut and Reconnection	16,362
Other	51,351
	312,477

ELECTRIC POWER PURCHASED FOR RESALE	12/31/2005
Itaipu Binacional	825,030
Electric Power traded on the Spot Market	17,708
System Services Charge	67,156
Initial Contracts	150,873
Initial Contracts - Cemig Geração e Transmissão	441,936
Energy Purchased at the Electric Power Auction	369,646
Other	17,726
	1,890,075

OPERATING PROVISIONS	12/31/2005
Retirement Premium	8,303
Provision for Unreliable Credits	98,841
Labor Contingencies	2,885
Other	23,211
	133,240

ENERGY EFFICIENCY AND RESEARCH & DEVELOPMENT ("R & D")

According to the electric energy sector regulation, electric power generation and distribution companies must invest 1.00% of their net revenue in energy efficiency programs and R&D. Some energy efficiency programs and R&D related to revenues from previous periods have not yet been finished by the electric energy sector agents, therefore, there are still expenses to be realized. This delay is a consequence of the time used in preparing the projects and their approval by ANEEL.

In conformity to ANEEL's instruction, Cemig Distribuição recognized as a 2005 result expense the expenses still to be realized and for which the company had already received the corresponding tariff in previous years, at the amount of R$155,397 millions.

OTHER OPERATING EXPENSES	12/31/2005
Leases and Rentals	22,744
Advertising and Publicity	26,658
Own Consumption of Electric Power	11,525
Grants and Donations	18,860
ANEEL Inspection Fee	19,792
Taxes and Fees (IPTU, IPVA and others)	19,785
Contribution to MAE	217
Insurance	865
Other Net Expenses	11,232
	131,678

27) - FINANCIAL INCOME (EXPENSES)

	12/31/2005
FINANCIAL INCOME	
Income from Financial Investments	85,139
Moratorium Additions to Energy Bills	79,065
Monetary Variation of CVA	125,142
Monetary Variation – General Electric Sector Agreement	269,371
Monetary Variation – Deferred Tariff Adjustment	229,131
Currency Fluctuation	95,136
PASEP and COFINS on Financial Income	(28,329)
Profits with Financial Instruments (note 32)	517
Other	27,335
	882,507
FINANCIAL EXPENSES	
Charges on Loans and Finance	(217,296)
Monetary Variation – General Electric Sector Agreement	(92,126)
Monetary Variation of CVA	(42,420)
Currency Fluctuation	(12,469)
Monetary Variation – Loans and Financing	(7,254)
C.P.M.F.	(41,471)
Losses with Financial Instruments (note 32)	(86,334)
Other	(54,429)
	(553,799)
Net Financial Income	**328,708**
Interest on Equity	(220,544)
NET FINANCIAL RESULT	**108,164**

28) – NON OPERATING RESULT

	12/31/2005
Net Loss on Deactivation and Sale of Assets	(21,091)
FORLUZ – Administrative Cost	(9,242)
Other Net Expenses	(383)
	(30,716)

29) – ICMS (State Vat) LEVIED ON THE TARIFF FOR USE OF THE DISTRIBUTION SYSTEM

Cemig Distribuição did not use to charge its unrestricted consumers for the ICMS levied on the Tariff for Use of the Distribution System ("TUSD") and connection charges because it considered that there was no originating event, other than the lack of legal provision, to include such amounts in the ICMS calculations basis.

However, in 2005 the State Treasury Office of Minas Gerais ("SEF/MG") required that the ICMS be levied on the TUSD, retroactive to 2000, under penalty of filing a tax deficiency notice against the Company.

Preventively, the Company calculated the ICMS values levied on the TUSD and connection charges for the period from July 2000 through May 2005, the principal amount of which totaled R$174,905, and when added by fines and interest in the amount of R$45,999 totaled R$220,904.

Considering that any issuance of a tax deficiency notice by SEF/MG would imply substantial increase in the fine amount, the Company resolved to take the following steps:

- To collect the ICMS values required by SEF/MG, in the amount of R$220,904;
- To discriminate the ICMS in the TUSD invoices as of June 2005; and,
- To issue invoices against its unrestricted consumers for the purpose of collecting ICMS on the TUSD, exclusive of interest and fines, retroactive to July 2000, setting forth conditions to settle the debt in installments.

Furthermore, Cemig Distribuição filed a judicial order aiming at challenging the collection of the ICMS on the TUSD and connection charges, requesting repayment of the amounts paid to the State of Minas Gerais as fines and interest, and also of those amounts not paid by customers.

ICMS-related amounts to be received from consumers are recorded in the Energy Transportation Receivable Account.

30) – TRANSACTIONS WITH RELATED PARTIES

The principal balances and transactions with Cemig Distribuição related parties are as follows:

	12/31/2005			
Companies	**ASSETS**	**LIABILITIES**	**REVENUE**	**EXPENSE**
CEMIG				
Obligations with Associated and Controlled Companies or Holding Companies	1	6,552		
Interest on Equity and Dividends		907,541		
Cemig Geração e Transmissão S.A.				
Credits with Associated and Controlled Companies or Holding Companies	6,273			
Suppliers		65,947		
Electric Power Purchased for Resale				(484,913)
Government of the State of Minas Gerais				
Consumers and Resellers	1,311		50,806	
Taxes – ICMS	1,625	164,108	(1,889,870)	
Recoverable Taxes - ICMS	102,326			
Consumers and Resellers	44,239			
FORLUZ				
Post-Employment Liabilities - Current		114,866		(111,189)
Post-Employment Liabilities - Fixed		935,126		
Other		25,638		
Personnel Expenses				(48,097)
Administrative Costing				(9,242)
OTHER				
Associated and Controlled Companies or Controlling Companies	7,005			

For more information about the major transactions made, please see Notes 6, 10, 15, 16, 19, 22, 25, 26-28.

31) –RISK EXPOSURE AND MANAGEMENT

As a concessionaire of the Brazilian electric power sector, Cemig Distribuição operates in environments where factors such as company restructuring, regulations issued by governmental bodies, technological improvement, globalization, and variations in the consumer market are risk factors.

The Company has implemented a Corporate Risk Management project with the goal of understanding any event which may lead to loss of value to shareholders, and of structuring the company to operate pro-actively as regards its risk environment.

The main market risks that affect Cemig Distribuição's businesses are listed below:

a) Exchange rate risk

The Company is exposed to the risk of valuation of the US dollar in relation to the Real, with a significant impact in debt, results and cash flow. With the purpose of reducing the exposure of Cemig Distribuição to increased exchange rates, as of December 31, 2005 the Company made hedging operations in the amount of R$278,377, corresponding to US$118,929, in which the variation of the US dollar was replaced, and this was added by interest calculated according to the CDI variation (refer to accompanying note 32).

The net exposure to the exchange rate is as follows:

EXPOSURE TO EXCHANGE RATES	**12/31/2005**
US Dollar	
Loans and Financing	496,795
(-) Contracted hedge/swap operations	(278,377)
	218,418
Other foreign currencies	
Loans and Financing	
Euro	20,090
Other	4,496
	24,586
Exposed Net Liabilities	**243,004**

b) Interest rate risk

Cemig Distribuição is exposed to the risk of increased foreign interest rates, with an impact on loans and finances in foreign currency with floating interest rates (especially Libor), in the amount of R$99,644, as of December 31, 2005.

As regards the risk of increased domestic interest rates, the Company believes that such risk has been mitigated in virtue of the assets which are also indexed to the interest rates, as shown below:

EXPOSURE TO DOMESTIC INTEREST RATES	**12/31/2005**
Assets	
Financial investments	505,307
Regulatory assets	1,858,975
	2,364,282
Liabilities	
Loans and Financing	(956,548)
Regulatory liabilities	(601,703)
Contracted hedge/swap operations	(278,377)
	(1,836,628)
Assets exceeding obligations	**527,654**

c) Credit risk

The risk of Cemig Distribuição incurring losses as a result of difficulties in collecting amounts billed to their customers is considered low. A significant part of the gross supply of energy is scattered among a large number of consumers. The Company's procedures to reduce overdue bills include issuing a notice informing that bills are overdue, telephone calls, and negotiations aimed at the collection of bills in arrears. After all of the possibilities to settle past due bills have been attempted, the Company will interrupt energy supply.

d) Debt Acceleration Risk

The Company has signed loan and financing agreements with restrictive clauses ("covenants") usually applicable to these kinds of transactions, relating to economic and financial indexes, cash flow generation, and other indicators. Failure to comply with such clauses could imply debt acceleration. One of these restrictive clauses was not met and for which the Company obtained the formal consent ("waiver") from creditors (please see accompanying note 17) that they will not require anticipated payment of the debt.

32) – FINANCIAL INSTRUMENTS

Cemig Distribuição's financial instruments are restricted to Cash and Cash Equivalents, Consumers, and Resellers, Loans and Financing, Debentures Obligations and currency swaps, in which profits and losses obtained in the transactions are fully recorded, according to the accrual method.

a) Market Value

The market value of the derivative instruments is shown below:

	12/31/2005	
	Book value	**Market value**
Assets		
Financial investments	505,307	505,307
Liabilities		
Loans and Financing	2,135,117	2,010,823
Contracted hedge transactions	77,816	86,423
	2,212,933	**2,097,246**

b) Derivative instruments

The derivative instruments contracted by the Company are intended to hedge Cemig Distribuição's transactions against risks resulting from exchange variation, and are not used for speculation purposes.
The principal amounts of derivative transactions are not recorded in the balance sheet, as these transactions do not involve cash flow, but rather the gains earned or losses incurred. Realized and not realized net results in these operations amounted to losses, from January to December 2005, of R$ 85,817, booked in the financial results.

The acknowledgment of the unrealized net results in the transactions with derivative instruments is made on accrual basis of fiscal years, which may result in differences when compared to the estimated market value of such instruments. This difference is due to the fact that the market value includes acknowledgment, at present value, of future gains or losses to be incurred in the transactions, depending upon the market expectation when the market value is calculated.

The table below shows the derivative instruments contracted by the Company, the unrealized gains (losses) recorded, and the respective estimated market value of these instruments as of December 31, 2005:

Cemig Distribuição Right	Cemig Distribuição Obligation	Maturity Period	Principal amount contracted-thousand	12/31/2005 Unrealized Gain (Loss) Book Value	12/31/2005 Unrealized Gain (Loss) Estimated Market Value
US$ exchange variation + rate (5.58% p.a. at 7.14% p.a.)	R$ 100% of CDI + rate (2.00% p.a. at 3.01% p.a.)	From 12/2005 to 06/2013	US$126,949	(77,824)	(86,431)
R$ 100% of CDI	R$ or US$ 60% of CDI or exchange variation (whichever is higher)	On 10/2006	(US$8,020)	8	8
				(77,816)	(86,423)

33) – INSURANCE

Cemig Distribuição maintains insurance policies intended to cover damages in certain items of its assets, as shown below:

Assets	Coverage	Effective Date	Amount Insured	Annual Premium
Aeronautical – Aircraft	Hull	2/28/05 to 2/28/06	15,986	251
Supplies, Facilities and Telecommunications equipment	Fire	7/10/2005 to 7/10/2006	347,168	73
Operating Risk – Power Equipment	Total	2/4/2005 to 5/5/2006	185,622	367

Cemig Distribuição maintains no insurance policies to cover casualty insurance, and it is not currently requesting proposals for this type of insurance. Furthermore, the Company has not requested proposals and holds no policies in effect against events which could affect its facilities, such as earthquake and flood, system failures, or risk of business disruption.

Cemig Distribuição has not experienced significant losses as a result of the aforementioned risks.

34) – CONTRACTUAL OBLIGATIONS

The Company has contractual obligations and covenants, including amortizations of loans and financing, agreements with contractors for the construction of new developments, purchase of electric power from Itaipu and other suppliers, as shown in the table below:

	2006	2007	2008	2009	2010	2011 onwards	Total
Loans and Financing	209,171	186,967	278,469	129,653	257,214	1,073,643	2,135,117
Purchase of Electric Power from Itaipu (1)	1,082,544	1,082,544	1,082,544	1,082,544	1,082,544	2,616,148	8,028,868
Transportation of Electric Power from Itaipu (1)	74,244	74,244	74,244	74,244	74,244	179,423	550,643
Light for All Program	845,901	396,877	-	-	-	-	1,242,778
Pension Plan Debt - FORLUZ	90,750	90,912	69,165	73,315	75,183	705,162	1,104,487
Purchase of Energy - Auction	776,110	776,111	900,352	967,777	1,148,386	8,083,311	12,652,047
Total	**3,078,720**	**2,607,655**	**2,404,774**	**2,327,533**	**2,637,571**	**12,657,687**	25,713,940

(1) Agreement with Furnas, in US dollar, for the purchase of electric power from Itaipu up to May, 2013.

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(Original signed by Officials below)

Djalma Bastos de Morais
Chairman and Chief Executive Officer

Francisco Sales Dias Horta
Vice-Chairman and Chief Executive Officer

Flávio Decat de Moura
Finance, Participations and Investor Relations Director

Heleni de Mello Fonseca
Corporate Management Director

Elmar de Oliveira Santana
Director

José Maria de Macedo
Distribution and Sales Director

Celso Ferreira
Planning, Projects and Construction Director

Pedro Carlos Hosken Vieira
Controller

Leonardo George de Magalhães
Accounting Manager
Accountant – CRC-MG-53.140

EXHIBIT I

STATEMENT OF CASH FLOW

	31/12/2005	31/12/2004
TRANSACTIONS		
Net Profit for the Period	990,129	-
Expenses (Income) which do not affect Cash Flow -		
Depreciation and Amortization	363,672	-
Net Disposal of Fixed Assets	26,141	-
Interest and Long Term Monetary Variations	(497,961)	-
Deferred Income Tax and Social Contribution	338,694	-
Provisions for Operating Losses	101,726	-
Provision for Extraordinary Tariff Adjustment	82,285	-
Regulatory Asset – PIS-PASEP and COFINS	(76,244)	-
Post-Employment Obligations	111,189	-
Deferred Tariff Adjustment	(591,010)	-
	848,621	-
(Increase) Reduction of Assets-		
Consumers and Resellers	(160,442)	-
Extraordinary Tariff Adjustment	260,577	-
Recoverable Taxes	(123,769)	-
Energy Transportation	(250,492)	-
Other Current Assets	(9,295)	-
Advance Expenses – CVA	88,075	-
Other Long-term Receivables	74,458	-
	(120,888)	-
Increase (Reduction) of Liabilities-		
Suppliers	172,410	-
Taxes and Social Contribution	(5,189)	-
Salaries and Social Contributions	33,694	-
Regulatory Charges	124,287	-
Loans and Financing	7,759	-
Post-Employment Obligations	(186,549)	-
Advance Expenses – CVA	179,009	-
Other	(93,788)	-
	231,633	-
CASH GENERATED BY TRANSACTIONS	959,366	-
FINANCING ACTIVITY		
Capital Increase	-	1
Loans	709,407	-
Payments of Loans	(289,075)	-
	420,332	1
TOTAL INFLOW OF FUNDS	1,379,698	1
INVESTMENTS		
In Investments	(1,236)	-
In the PP&E	(921,075)	-
Special Obligations – Contributions from Consumers	75,873	-
	(846,438)	-
NET VARIATION OF CASH	533,260	1
STATEMENT OF THE VARIATION IN THE CASH FLOW		
In the beginning of the fiscal year	1	-
At the end of the period	533,261	1
	533,260	1

EXHIBIT II

STATEMENT OF VALUE ADDED

FISCAL YEAR ENDED AS OF DECEMBER 31, 2005
(In thousands of reais)

	12/31/2005	
REVENUES		
Operating Revenue	9,274,966	
Provisions for Bad Debts	(98,841)	
Non Operating Result	(30,716)	
	9,145,409	
INPUTS PURCHASED FROM THIRD PARTIES		
Electric Power Purchased for Resale	(1,890,075)	
Charges for Use of the Basic Transmission Grid	(554,363)	
Third Party Services	(312,477)	
Materials	(73,444)	
Operating Provisions	(116,684)	
Energy Efficiency	(172,805)	
Other Operating Costs	(89,149)	
	(3,208,997)	
GROSS VALUE ADDED	5,936,412	
RETENTIONS		
Depreciation and Amortization	(363,672)	
NET VALUE ADDED	5,572,740	
VALUE ADDED RECEIVED FROM TRANSFER		
Financial Income	910,836	
	910,836	
VALUE ADDED TO BE DISTRIBUTED	**6,483,576**	
DISTRIBUTION OF VALUE ADDED		
Personnel and Charges	769,397	12%
Taxes, Fees and Contributions	4,188,978	64%
Financial Expenses and Leases	535,072	8%
Interest on Equity and Dividends	940,623	15%
Retained Earnings	49,506	1%
	6,483,576	**100%**

INDEPENDENT AUDITORS REPORT

To the Shareholders and the Board of Directors of
Cemig Distribuição S.A.
Belo Horizonte - MG

1. We have examined Cemig Distribuição S.A. balance sheets, prepared on December 31, 2005 and 2004, and the corresponding statements of results, of changes in equity and the sources and destinations of funds, for the period ending on December 31, 2005, which were prepared under the responsibility of your Administration. Our responsibility is to express an opinion about these financial statements.

2. Our assessments were conducted according to the Brazilian auditing rules and were comprised of: (a) planning of the work, considering the relevance of the balances, the transactions volume and the Company's accounting system and internal controls; (b) the assessment, based on tests, of the evidences and records supporting the published amounts and bookkeeping information; and (c) the evaluation of the most representative practices and accounting forecasts adopted by the Company Management, as well as the presentation of the financial statements together.

3. In our opinion, the financial statements mentioned in paragraph 1 above adequately represent, in all relevant aspects, the equity and financial situation of Cemig Distribuição S.A. as of December 31, 2005 and 2004, and the result of its operations, the changes in equity and the sources and destinations of funds concerning the period ending on December 31, 2005, according to the Brazilian accounting practices.

4. Supplemental information in Exhibits I and II, concerning, respectively, the statement of cash flow and the statement of value added of Cemig Distribuição S.A. for the period ending on December 31, 2005, is presented with the purpose of allowing further analysis and are not required as part of the basic financial statements. We have examined this information, according to the auditing procedures mentioned in paragraph 2 above and, in our judgment, they are adequately presented, in all relevant aspects, in relation to the financial statements as a group.

5. As mentioned in accompanying note 12 of the financial statements, as a result of the periodic tariff review stated in the concession agreements of the electric power distribution companies, ANEEL has temporarily fixed, on April 7, 2004, the Company's tariff restatement at 37.86%, applied on the electric power supply tariffs retroactive to April 8, 2003. On April 7, 2005, ANEEL has definitely changed this percentage to 44.41%. This change resulted in the increase of gross revenue in the amount of R$ 591,010 thousand and an increase in net profit for the period ending on December 31, 2005 of R$ 335,398 thousand, free of taxes.

Belo Horizonte, March 8, 2006.

DELOITTE TOUCHE TOHMATSU

Independent Auditors

CRC-2SP 011.609/O-8 S/MG

Gilberto Grandolpho

Accountant

CRC-SP 139.572/O-5 S/MG

REPORT OF THE FISCAL COUNCIL

The members of the Cemig Distribuição S.A. Fiscal Council, signed below, in the performance of their legal and statutory functions, assembled on this date, at the head offices on Av. Barbacena, 1.200, 17th floor, Ala A1, in Belo Horizonte-MG, have examined the Administration Report and the Financial Statements, for the period ending on December 31, 2005, and the respective supplemental documents. After verifying the above mentioned documents reflect the economic and financial situation of the Company and considering, also, the explanations given by the Company's Administration representatives and its independent auditors (Deloitte Touche Tohmatsu), the members of the Fiscal Council have unanimously agreed favorably to the approval of the aforementioned by the next General Shareholders' Meeting.

Belo Horizonte, March 8, 2006.

(s) Thales de Souza Ramos Filho
Itamaury Teles de Oliveira
Luiz Guaritá Neto
Aristóteles Luiz Menezes Vasconcellos Drummond
Luiz Otávio Nunes West

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