



# Reviewing strategies



***Global Emerging Markets One-on-One Investor Forum***

***May 14-16, 2003***

***Key Largo, FL***

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## Disclaimer

Certain statements contained in this presentation are “Forward-Looking Statements” within the meaning of the US Securities Laws, and are thus prospective and subject to risks and uncertainties. “Forward-Looking Statements” are matters that are not historical facts and are beyond our control. For a discussion of risks and uncertainties as they relate to us, please refer to our 2000 Form 20F, and in particular Item 3 under “Key information - Risk Factors”.



## Agenda

- **New approach for Cemig**
- **Enhancing Operating Performance**
- **Preserving Financial Soundness**
- **Developments on the regulatory picture**
- **Closing remarks**

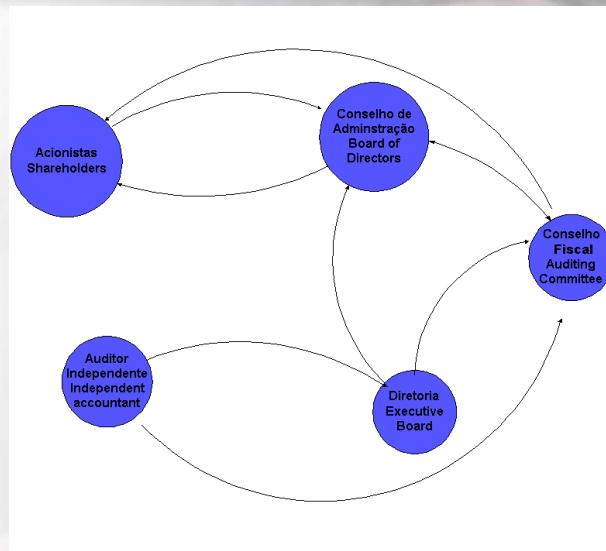


## MG has changed the way to approach...

- The international financial community
  - Rebuild the image
    - Friendly attitude
    - Efficiency
    - Attractiveness
  - Rethink the State administrative structure
    - Fiscal discipline
    - Increase revenues
    - Reduce operating cost
  - Address the Nation's most important concerns
    - Push for structural reforms
- The shareholders
  - Focus on
    - Value adding
      - Streamlined operations
    - Growth
      - Nationwide business opportunities
  - Corporate governance
    - Related party matters
      - Priority on CRC
      - Arms length policy
  - Social and environmental complied projects
  - Natural gas business development

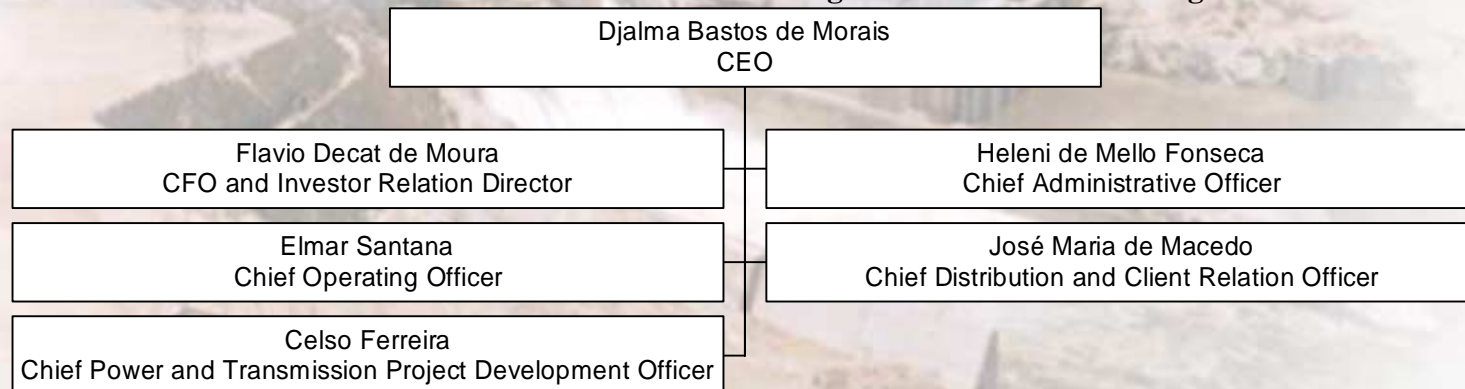


## Shareholder's meeting convened on February 27, 2003 to appoint new Board



- The Board of Directors
  - 11 members
  - 7 appointed by MG
  - 4 appointed by SEB
- The Auditing Committee\*
  - 5 members
  - 3 appointed by MG
  - 1 appointed by SEB
  - 1 appointed by PN holders

\* Organized under Brazilian legislation



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## The new administration

- Cemig has the right set of strategies
  - High return projects
  - State-of-art technologies
  - Vertical integration as risk management
  - Best managerial practices:
    - Governance
    - Company wide risk management
    - Focus on tax payments : long term planning
- What changes now is the emphasis in some aspects
  - Compete for market share outside Minas
  - Seek for business opportunities
  - Streamlined operations
    - Cost cutting

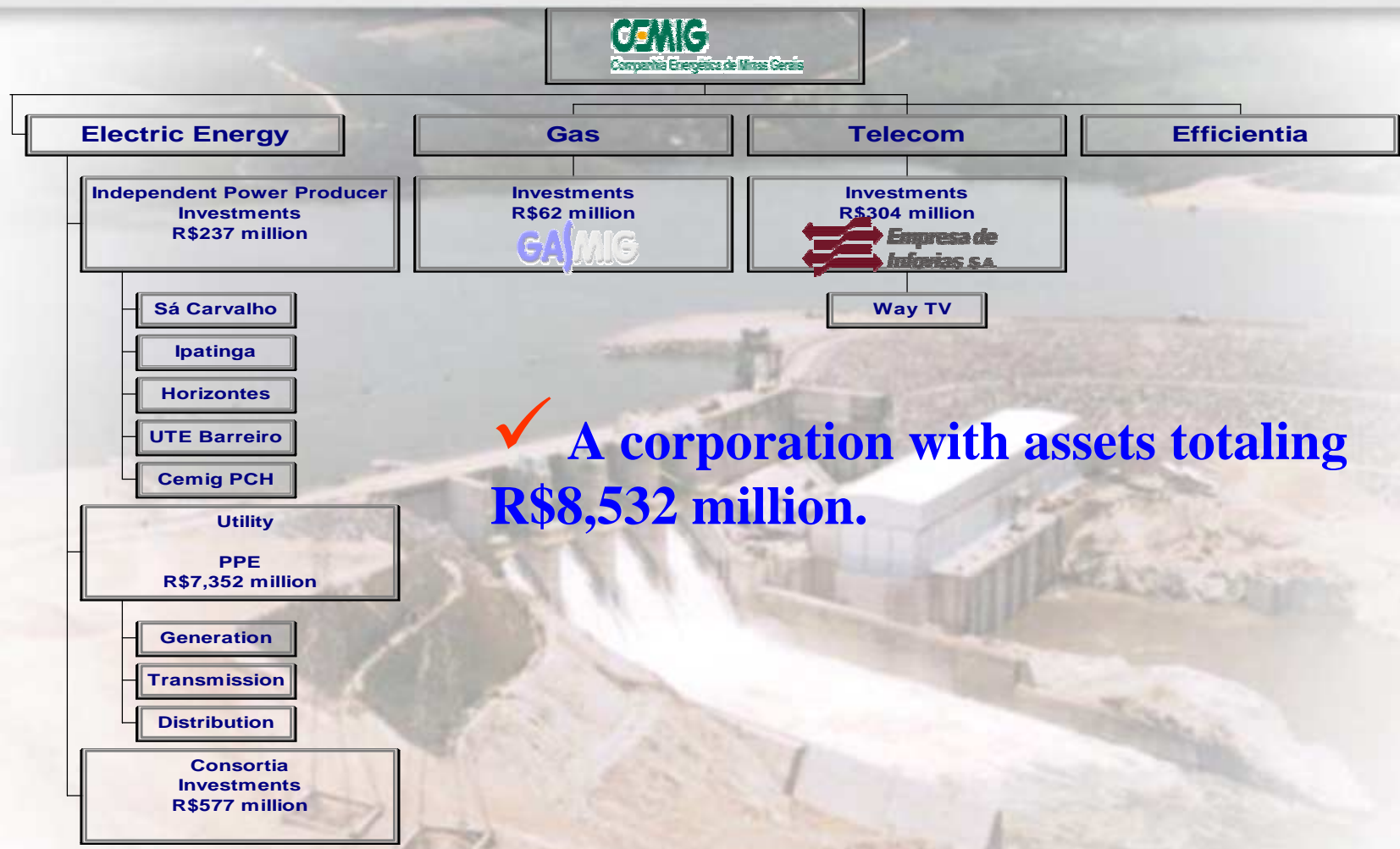


## Committed to the best corporate governance practices

- Listed in the leading stock exchanges
  - BOVESPA Level I: cmig3, cmig4
  - NYSE Level II : cig
  - LATIBEX: cmig4x
- Key executives are business minded and experienced
- Compliance with Sarbanes-Oxley Law
- Compliance with the Brazilian legislation



# CEMIG corporation



✓ A corporation with assets totaling R\$8,532 million.

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## 2002 Consolidated Result

Values in million of reais

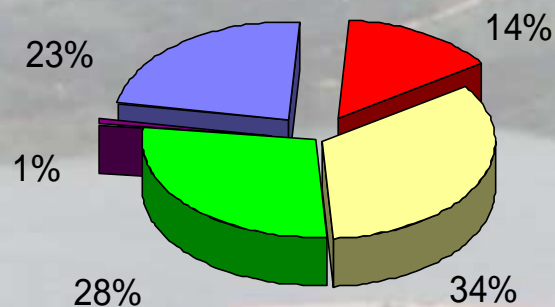
Item	Cemig	Ipatinga	Gasmig	Infovías	Sá Carvalho	Total
Net operating revenue	4,878	7	194	17	23	5,118
Operating expenses	4,373	6	163	45	5	4,593
EBIT	505	1	30	(28)	17	525
<b>Operating margin %</b>	<b>10</b>	<b>17</b>	<b>16</b>	<b>(163)</b>	<b>76</b>	<b>10</b>
Financial result	(574)	2	4	(50)	3	(615)
Non operating result	(27)	0	0	0	0	(27)
CRC loss provision	(1,045)	0	0	0	0	(1,045)
EBT	(1,141)	3	35	(78)	20	(1,163)
Taxes	(76)	(1)	(10)	19	(4)	(71)
Interest on equity reversal	220	0	(1)	13		232
<b>Net income (loss)</b>	<b>(997)</b>	<b>2</b>	<b>24</b>	<b>(47)</b>	<b>16</b>	<b>(1,002)</b>
<b>Net margin %</b>	<b>(20)</b>	<b>30</b>	<b>12</b>	<b>(272)</b>	<b>71</b>	<b>(20)</b>
<b>EBITDA</b>	<b>1,024</b>	<b>7</b>	<b>34</b>	<b>(9)</b>	<b>20</b>	<b>1,076</b>
<b>EBITDA margin %</b>	<b>21.0</b>	<b>97.3</b>	<b>17.6</b>	<b>(51.2)</b>	<b>87.5</b>	<b>21.0</b>

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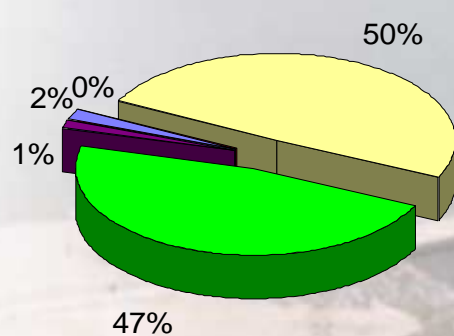


# Highlights

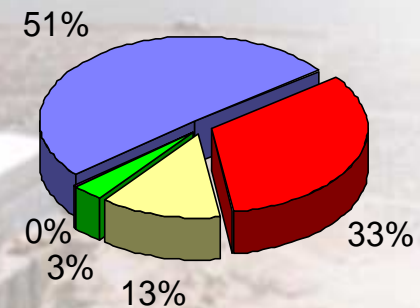
**TOTAL SHARES**



**PREFERRED SHARES**



**COMMON SHARES**



**CEMIG's SHAREHOLDING CAPITAL**  
As of Dec. 31, 2002

- State of Minas Gerais
- Southern Electric Brasil Part. Ltda.
- Private Investors and Other Shareholders
- Foreign Investors
- Others

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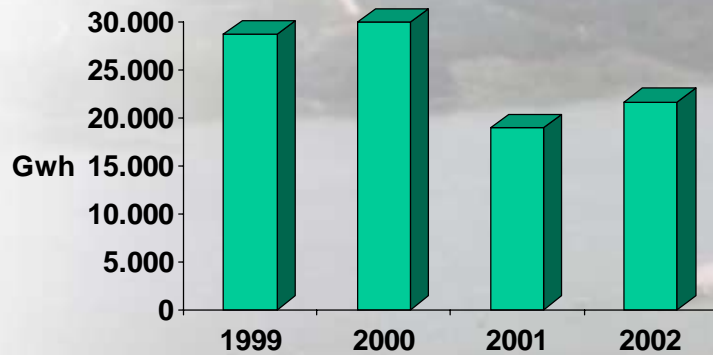
## Cemig Today

- Brazil's largest electricity distributor:
  - Consumers served: 5.6 million
  - Retail sales: 12.15% market share
  - Distribution network length
    - Subtransmission : 16.208 km
    - Urban and rural distribution grid : 330.394 km
- Sixth largest power generator:
  - Installed Capacity: 7.01% market share
  - Effective capacity : 3330 MW
  - Transformer capacity: 6.145 MVA
- Seventh largest transmission grid
  - Installed transformer capacity: 14.530 MVA
  - Transmission grid length: 4.875 km

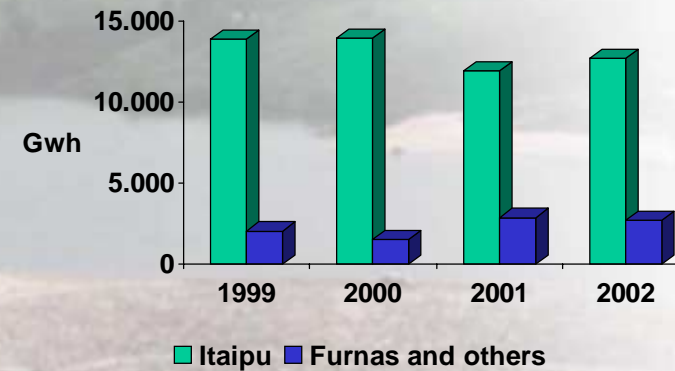


## As part of the National Grid, Cemig is committed to share hydro risk

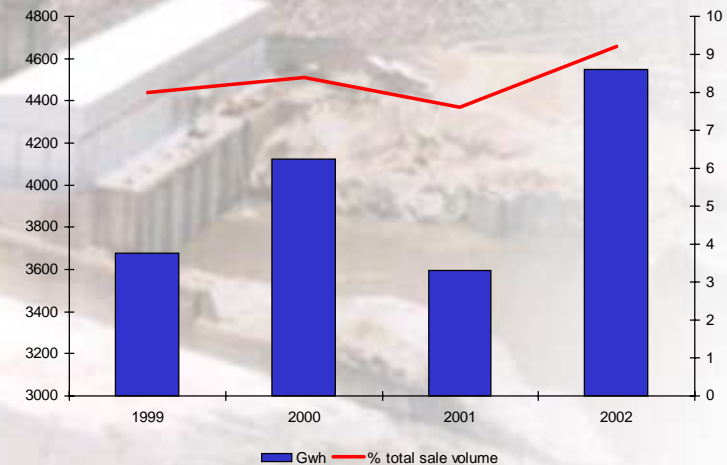
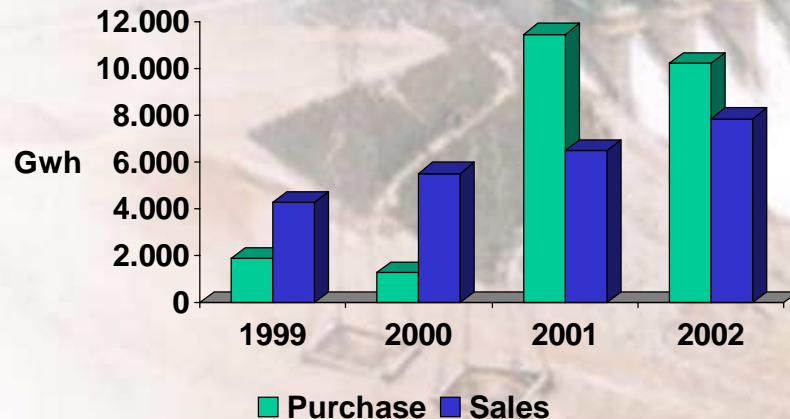
Cemig Power Plant Output



Contractual Electricity Purchases



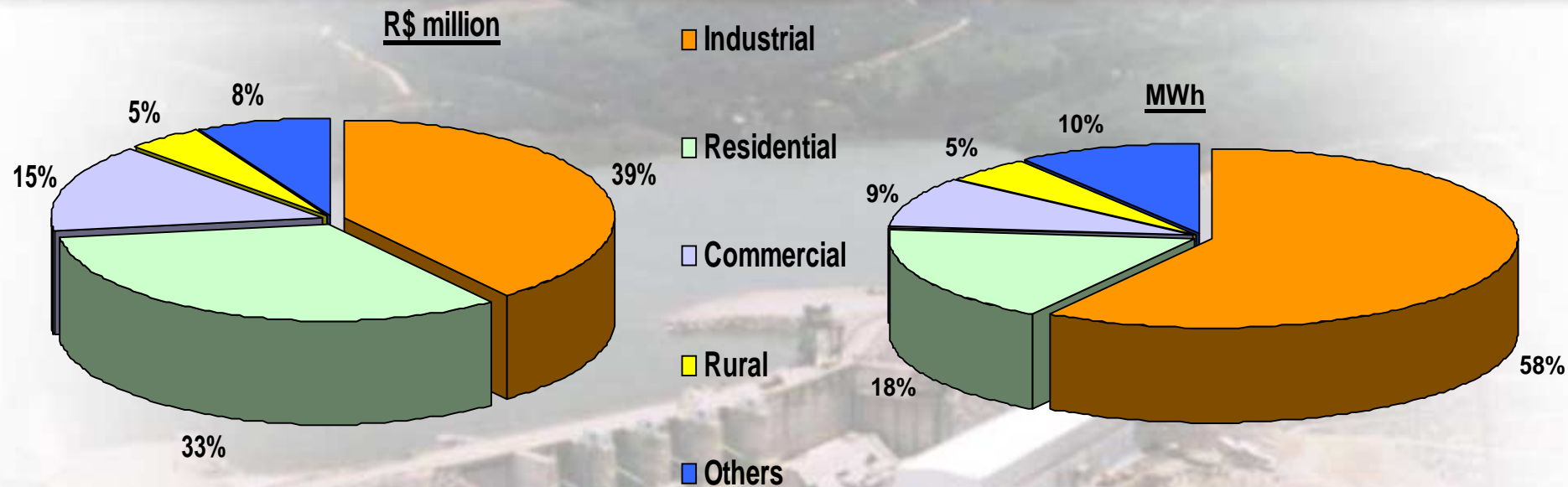
Energy reallocation mechanism



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# Energy sales



- More important factors influencing energy sale were:
  - Residential clients change the consumption pattern
  - Co-generation and power projects undertaken by industrial clients
  - Poor economic activity



## Retail sales

2003 estimated sales shows impact of industrial clients' self supply power projects

Values in GWh	2003( estimated)					2002	2001	2000
Category	Cemig	Sá Carvalho	Ipatinga	Out of MG	Total			
. Residential	6,625				6,625	6,360	6,475	7,576
. Industrial	20,366	482	315	522	21,685	21,906	21,351	22,219
. Commercial	3,372				3,372	3,283	3,269	3,584
. Rural	1,814				1,814	1,705	1,572	1,676
. Others	2,519				2,519	2,380	2,281	2,486
<b>Total</b>	<b>34,636</b>	<b>482</b>	<b>315</b>	<b>522</b>	<b>36,015</b>	<b>35,634</b>	<b>34,948</b>	<b>37,541</b>

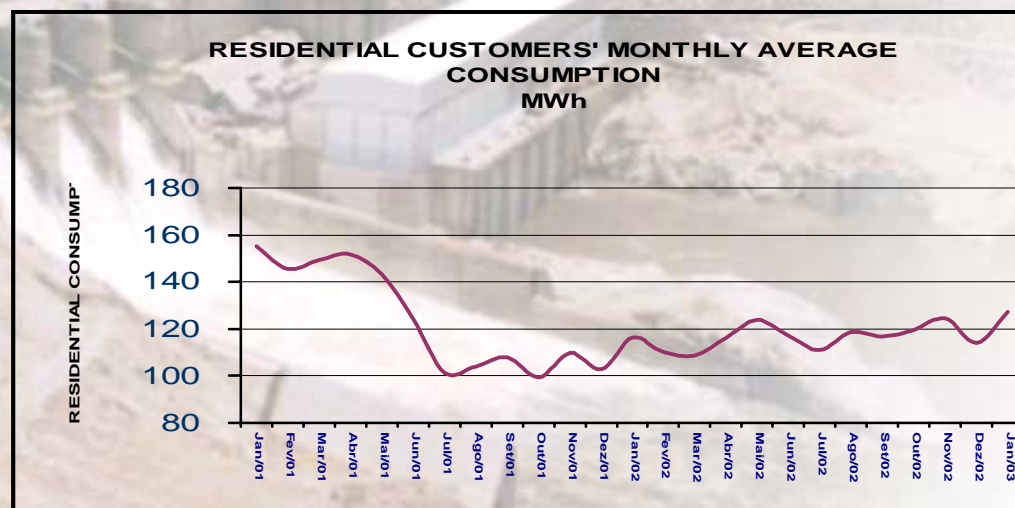
Growth rate			
Category	2003	2002	2001
. Residential	4.20%	-1.80%	-14.50%
. Industrial	-1.00%	2.60%	-3.90%
. Commercial	2.70%	0.40%	-8.80%
. Rural	6.40%	8.40%	-6.20%
<b>Total</b>	<b>1.10%</b>	<b>2.00%</b>	<b>-16.90%</b>



- Industrial Customers with IPP and Co-Generation projects reduced since 2000 its consumption by 35%. Other industrial customers present recovering.

Category	MWh		
	2002	2001	2000
Industrial	21,134,301	20,682,534	22,219,434
customers with IPP projects	1,529,725	2,067,153	2,326,270
Others	19,604,576	18,615,381	19,893,164
Residential	6,360,335	6,475,291	7,575,759
Commercial	3,283,429	3,268,696	3,584,067
Others	4,366,702	4,114,127	4,397,364
Total	35,144,767	34,540,648	37,776,624

- Residential average consumption presents recovering after sharp fall during rationing.

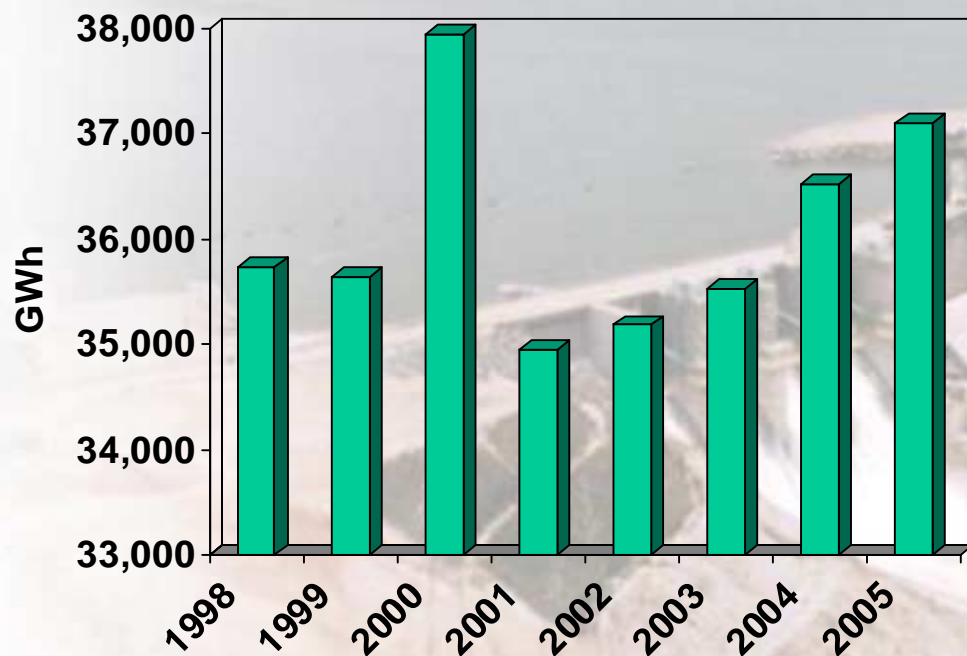






## Retail Sales Volume Growth Estimate Reflects Impact of 2001-2002 Rationing

### 2002-2005 Estimated Energy Retail Sales Growth



- Estimated annual growth rate in 2003-2005 is 2.2%
- 2000-2004 CAGR is -0.7%



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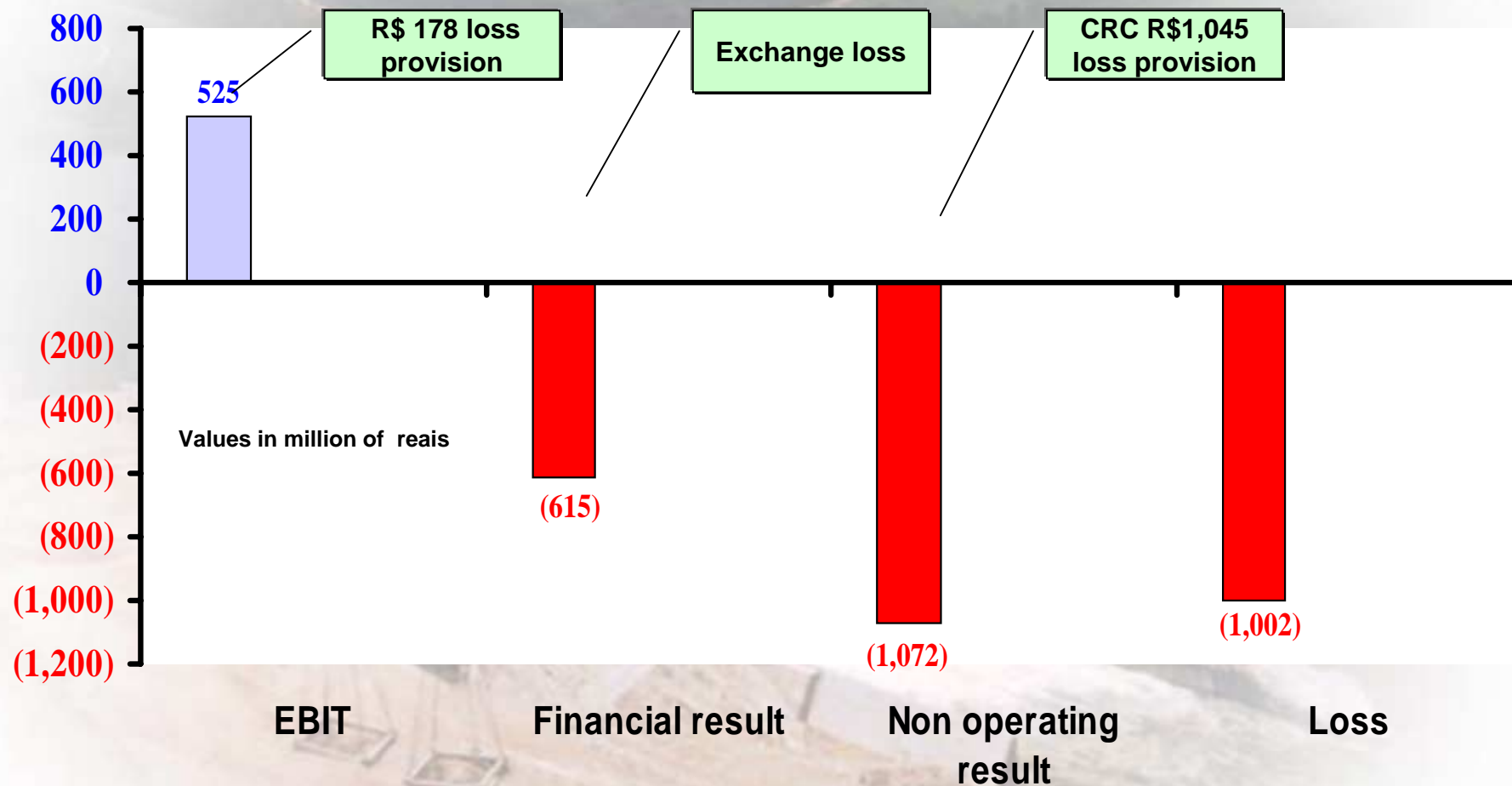


## Result shows impacts of non recurrent items...

- CRC loss provision
  - Contract to be negotiated with Federal Government: R\$1,045 million accrual
    - Contract of the overdue amount: dividends as guarantee
- Real Devaluation
  - Exchange loss reached R\$803 million
- Industry general agreement
  - MAE ( wholesale energy market) energy transactions
- Infovias controlling stake acquisition

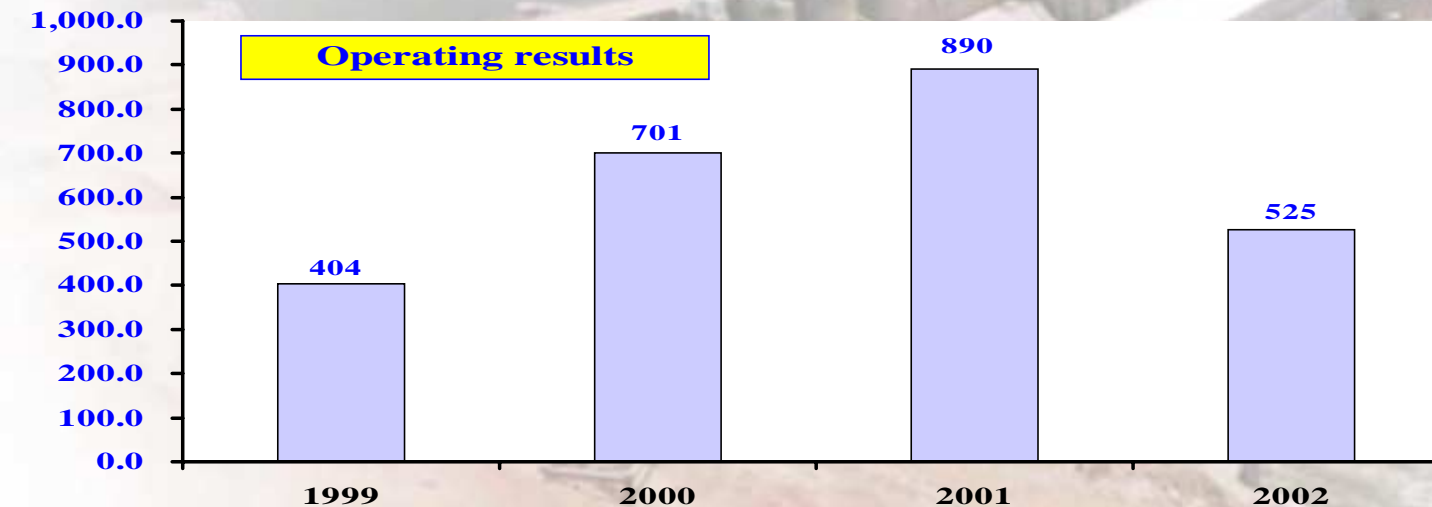
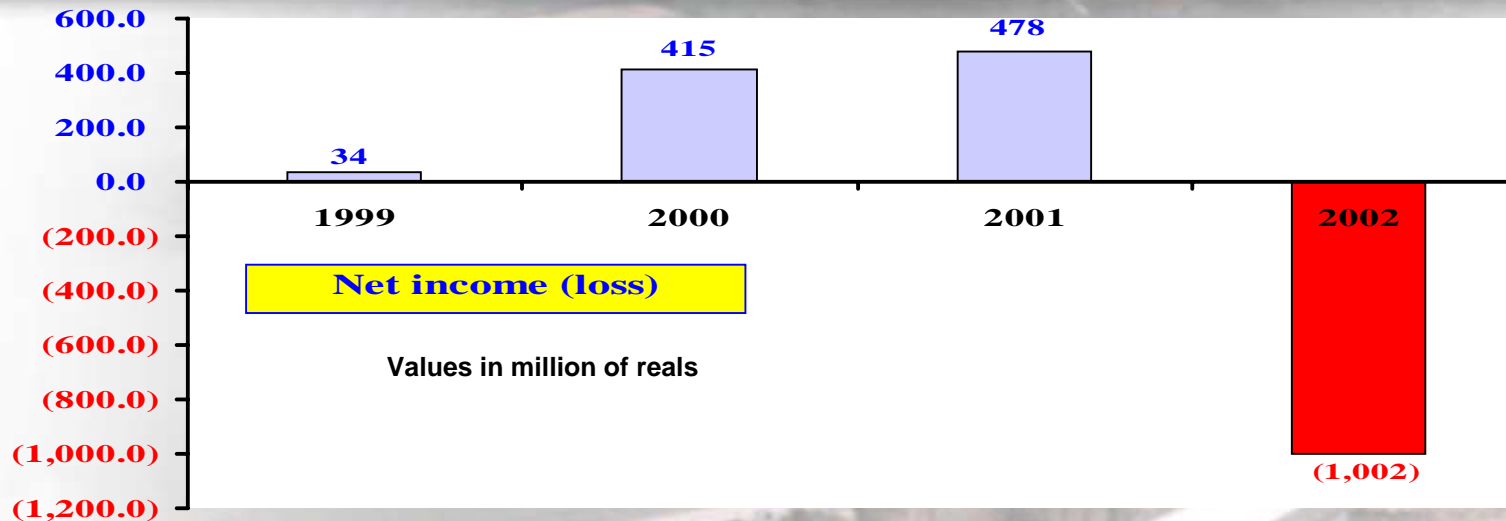
# 2002 consolidated Result

## Major factors which affected the Results





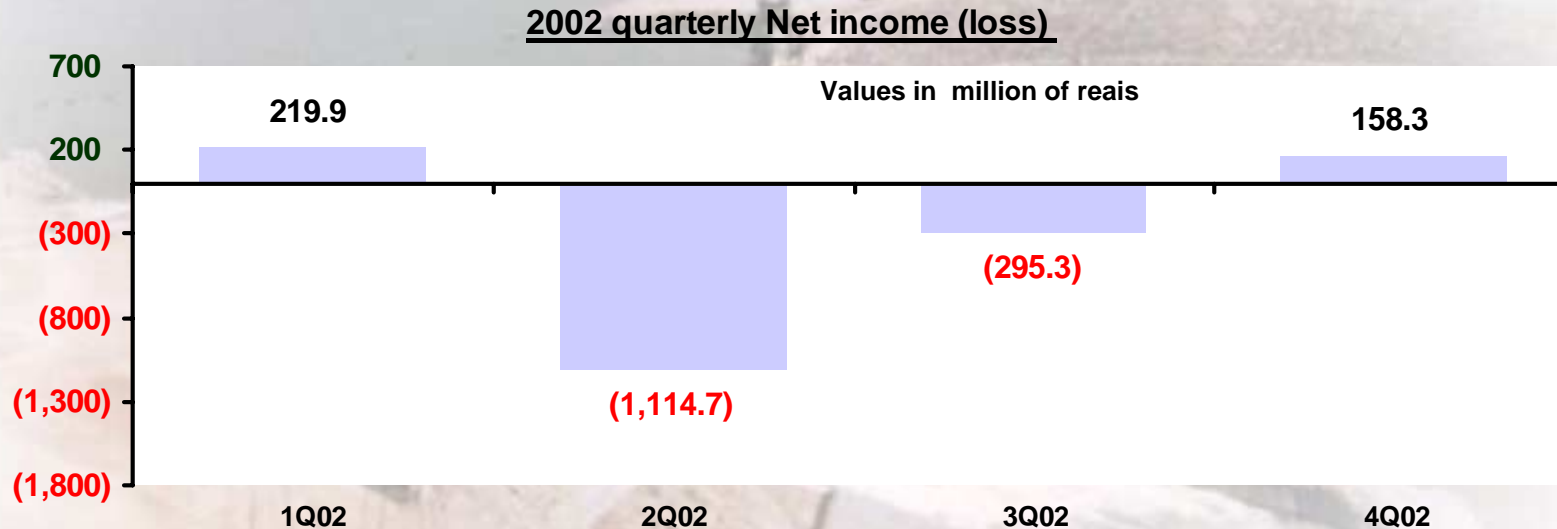
## Strong operating results record



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## Quarterly net income (loss)

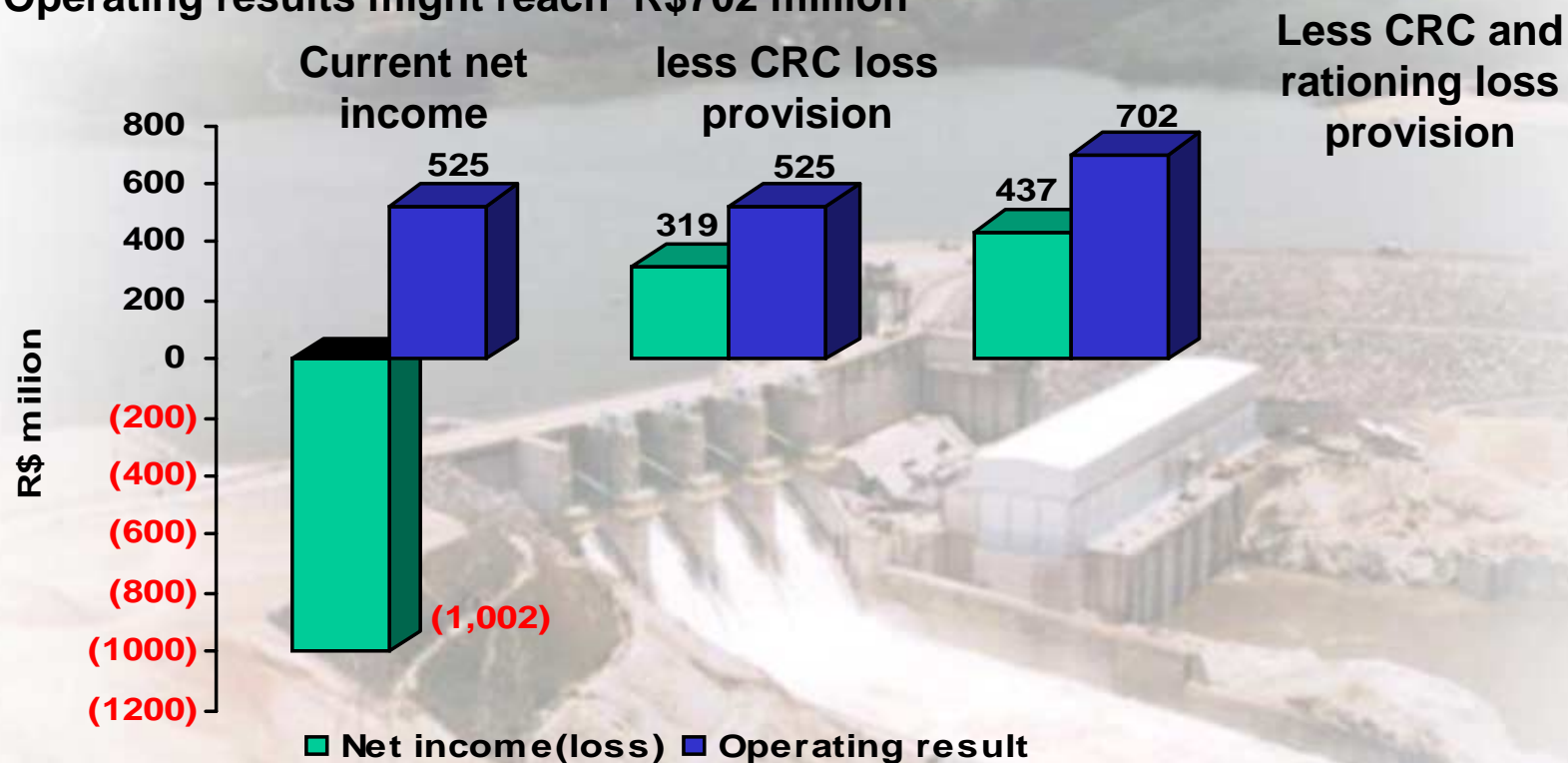
- Fourth quarter result shows a strong recovery with non recurrent loss provision





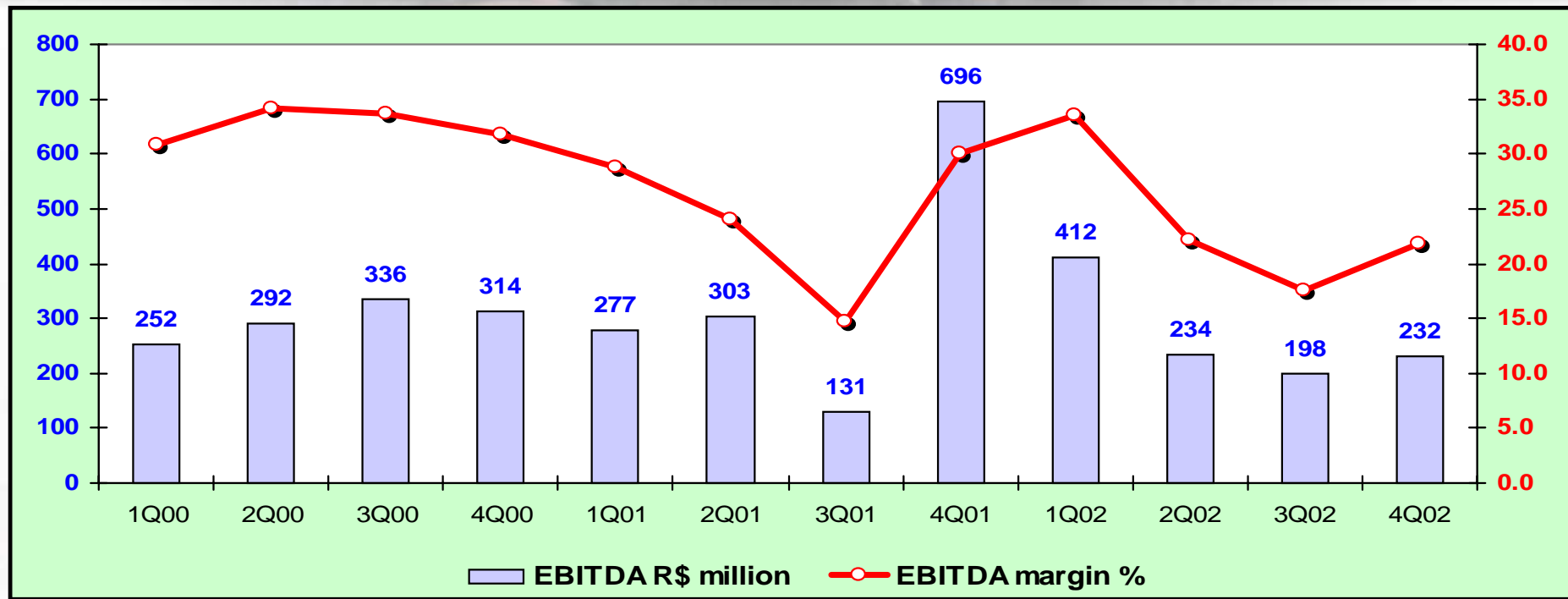
## Before non-recurrent items 2002 results are encouraging...

- Net income larger than R\$430 million
- Operating results might reach R\$702 million





## EBITDA shows a strong recovery in the fourth quarter ...



... even accruing a large loss provision for rationing revenue loss receivables





## Consolidated balance sheet

Values in million of reais

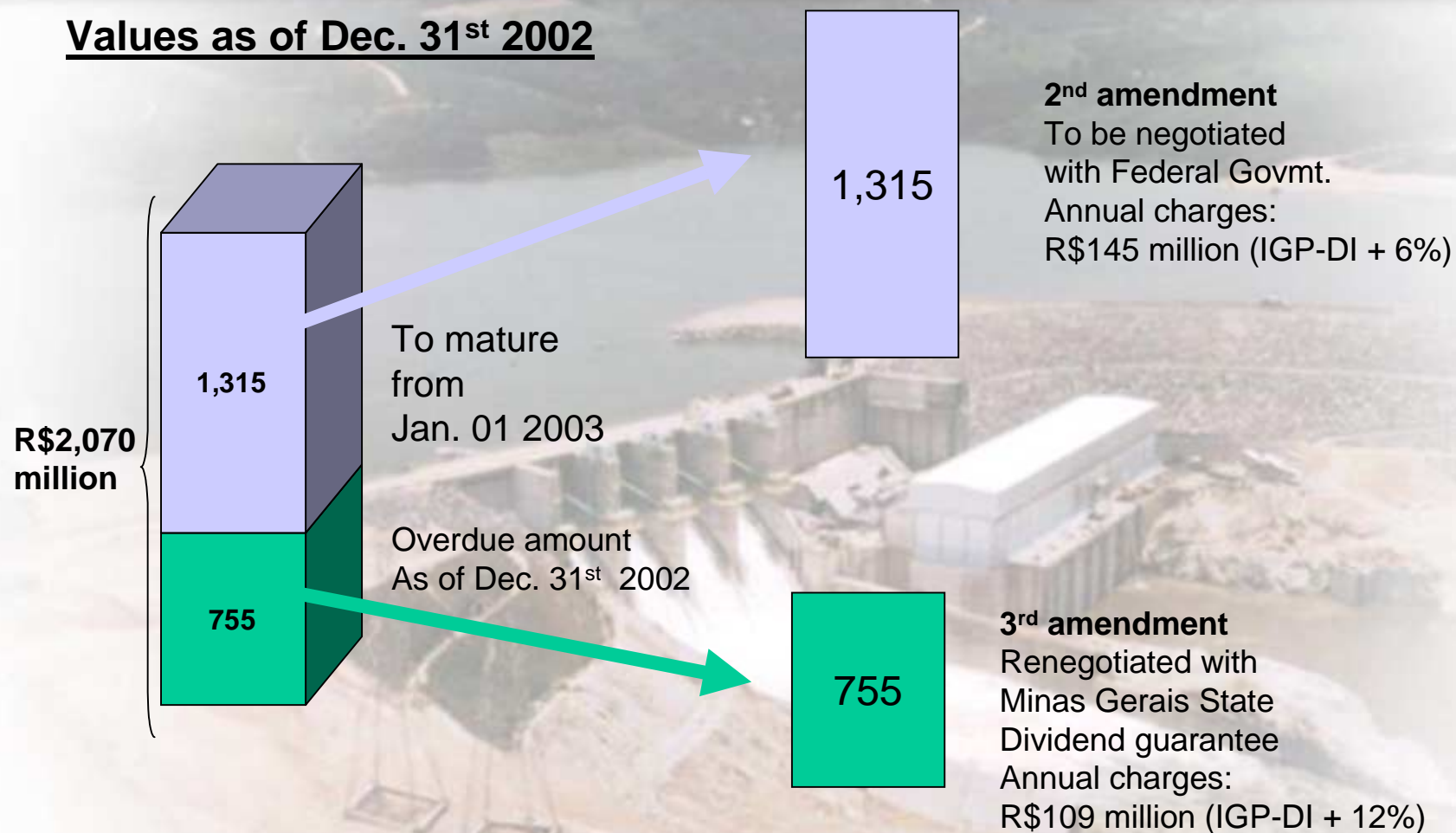
Item	2002	2001	Change %
<b>ASSETS</b>	<b>13,813.9</b>	<b>13,215.5</b>	<b>4.5</b>
Current	1,819.8	1,690.6	7.6
Long term receivables	3,462.6	3,525.9	(1.8)
PPE	8,531.5	7,999.0	6.7
<b>Liabilities and equity</b>	<b>13,813.9</b>	<b>13,215.5</b>	<b>4.5</b>
Current	2,960.6	1,776.2	66.7
Long term	5,143.3	4,521.9	13.7
Minority interest	29.1	15.3	90.2
Net Equity	5,680.9	6,902.1	(17.7)

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## CRC receivables are to be negotiated with Federal Government

Values as of Dec. 31<sup>st</sup> 2002





## Assets and liabilities related to the industry general agreement

✓ **Assets: R\$2,217 million**

To be recovered on the long run

✓ **Liabilities: R\$1,238 million**

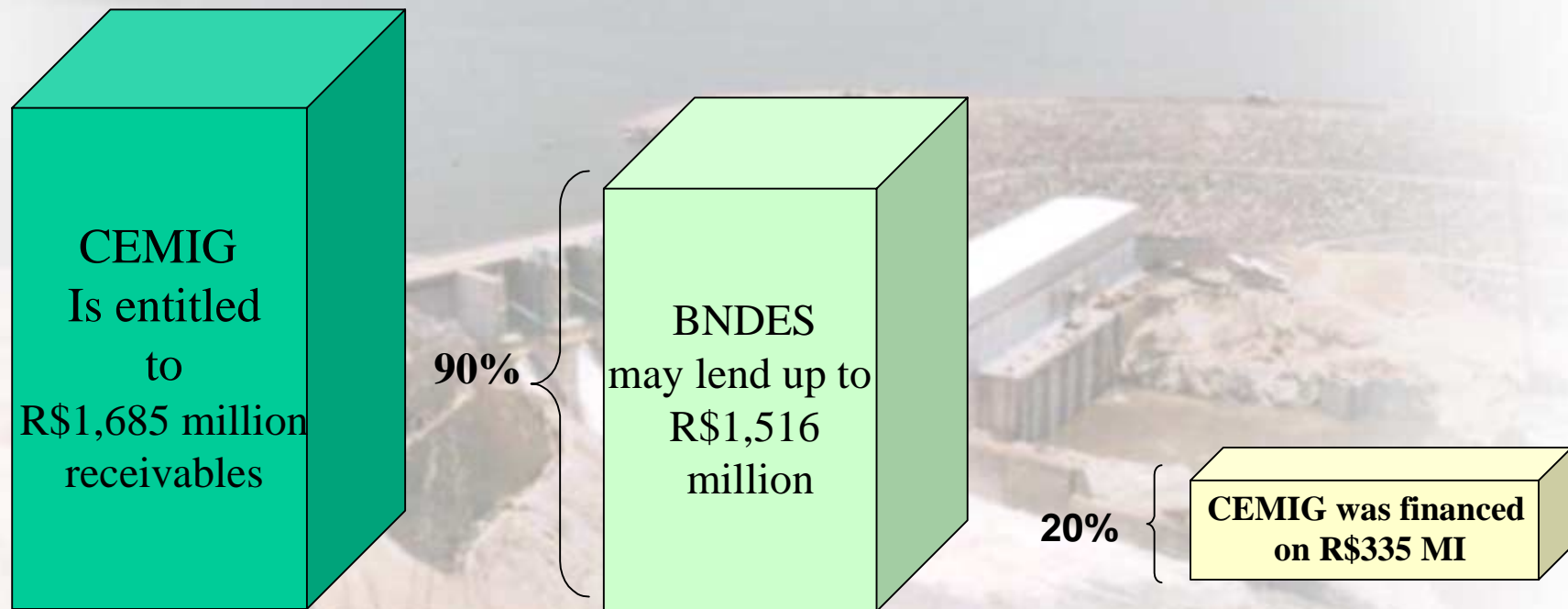
70% due at short term

According to the agreement, BNDES must finance funds needed to settle liabilities, through rationing receivables backed loans.



## Cemig is entitled to BNDES' financing

- ✓ According to the Industry General Agreement, BNDES should finance Cemig by R\$ 1,516 million.





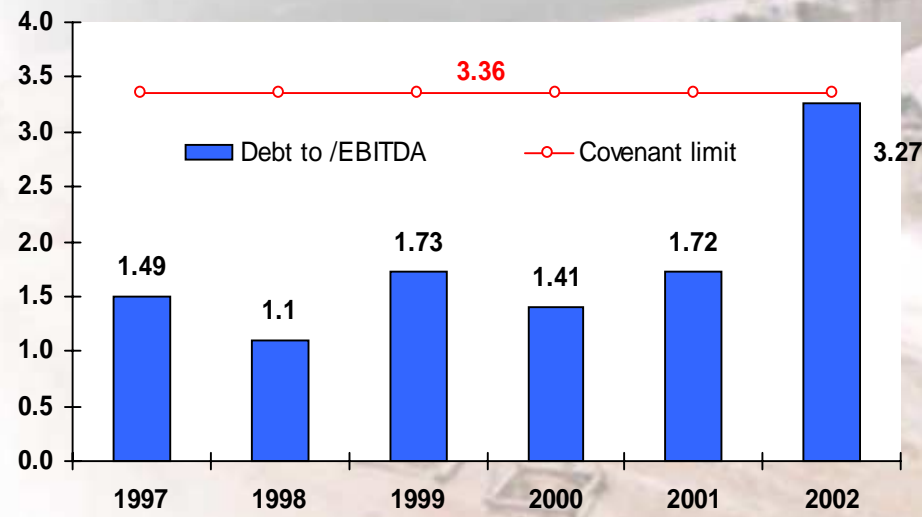
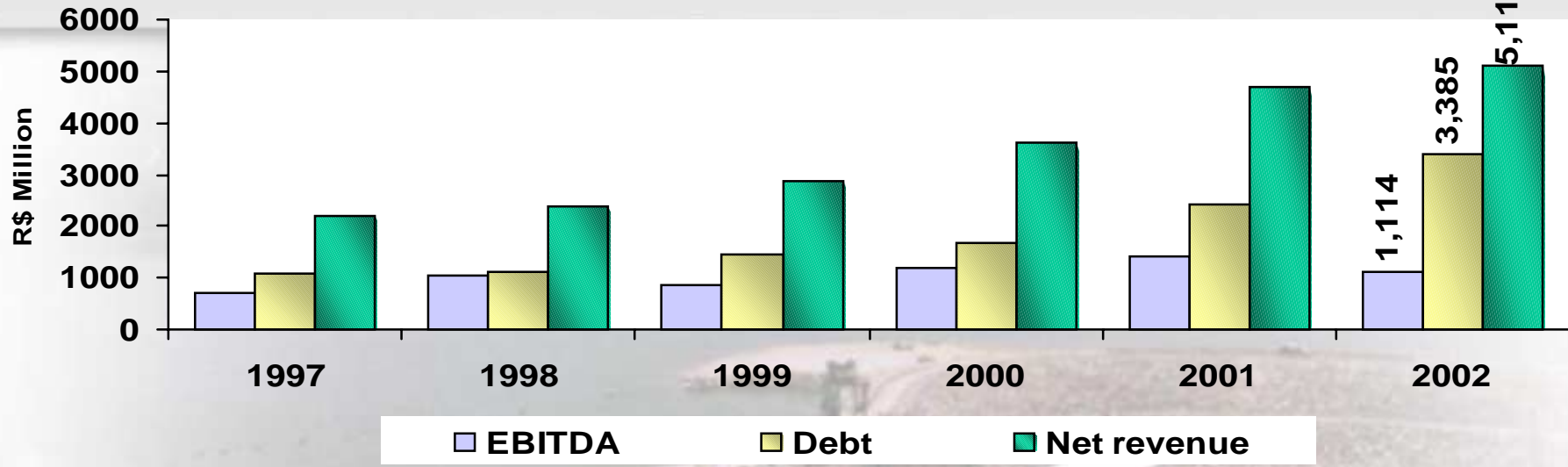
# Conservative cash management prevents crisis

	Consolidated	
	2002	2001
<b>From operations</b>		
Net income (loss)	(1002)	478
Depreciation and amortization	551	516
Rationing related receivables	(695)	(576)
Operating provisions	268	26
Post employment obligations	145	201
CRC receivable loss provision	1045	-
Others	477	88
<b>Cash generated by operations</b>	<b>790</b>	<b>733</b>
<b>Financing activities</b>		
Loans	502	1155
Debt repayment	(594)	(704)
Special obligations	157	174
Advance billings of electric power	(43)	(61)
Capital raise	12	-
Interest on equity	(215)	(170)
	(180)	394
<b>Total funds available</b>	<b>610</b>	<b>1127</b>
<b>Investment</b>		
New plants	(398)	(165)
PPE	(779)	(511)
Deferred assets	(15)	(503)
	(1193)	(676)
<b>Net variation on cash</b>	<b>(583)</b>	<b>451</b>
<b>Cash variation breakdown</b>		
As of Jan. 1st 2002	706	245
As of Dec. 31st 2002	123	696

- Points to take in account
  - R\$625 million debenture raised in late 2001
  - Acquisition of the Infovias controlling stake
  - Loss provisions:
    - CRC
    - Rationing related receivables



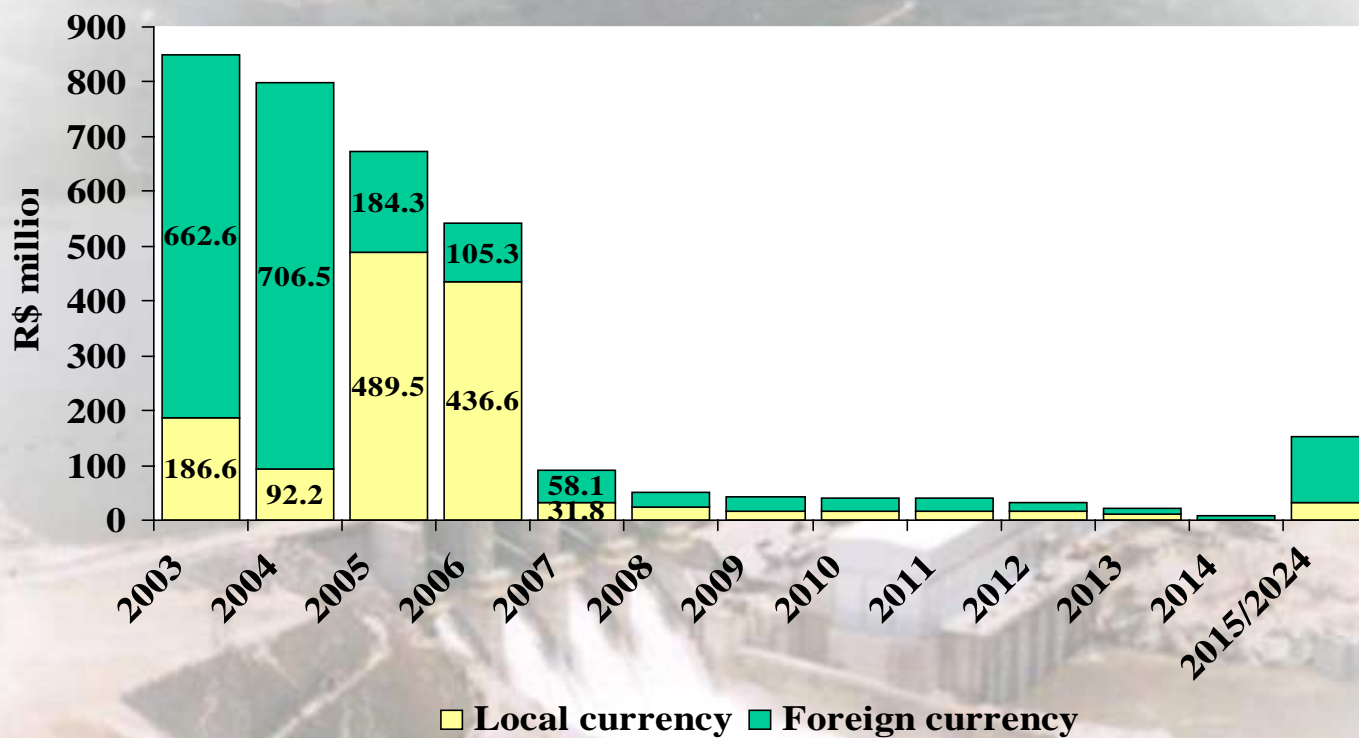
# Debt



Loans and financing		
R\$ million	2001	2002
. Local currency	1,046	1,252
. Foreign currency	1,335	1,968
<b>US\$ Million</b>	<b>566</b>	<b>557</b>



## Debt maturity schedule



- Short-term concentration shows poor market conditions lacking long term financing



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## The Federal Administration : addressing risks

- The regulatory framework to be proposed by the new Federal Administration aims at reducing risk exposure for the generators:
  - A pool, or a state owned company, would buy electricity from all generators:
    - Different prices for different assets
      - Depreciated assets
      - Non depreciated assets
    - New power projects would have the price established by public bidding process ( capacity auctions?)
    - Long term contracts
    - Low risk-low return basis ( how low?)
    - Guarantees?
  - The same entity would sell the power to distributors at a fixed price:
    - at an uniform price?



## Pricing is the key for investor attractiveness

- Regulated business
  - Pretty much the current structure
    - Distribution:
      - Operating cost plus return approach
        - » Benchmark
        - » WACC
    - Transmission
      - Fixed revenues
        - » Low risk
        - » Revenue set by the concession auction
        - » guarantees
- Non regulated business
  - Proposed pool ( not disclosed yet)
    - Bidding rules may change
      - Least price
  - One buyer
  - One seller
  - Lesser risky

### Impact on Cemig?

Maybe, Cemig generation arm might sell electricity to the pool at price ranging from R\$ 45 per Mwh to R\$ 106 per Mwh ( VN reference price)

### Cemig's response?

Pursue for a price close to VN

## Other key issues to be addressed

- **Unbundling**
  - Required or not?
  - Cost incurred?
    - Taxes
    - Benefits
- **Self-dealing**
  - Restrictions on intercompany transactions
  - Change the current 30% limit?
  - Does it make sense in a pool approach?
- **Limits on ownership**
  - Few investors
  - International players are divesting
- **Initial contracts**
  - Extended?
  - What to do with the 25% capacity phased out this year?
- **Energy auctions**
  - Fair price
  - Distributors and big consumers
- **Thermal power projects**
  - Still on hold
  - Gas price : subsidies?
  - Dollar denominated contract?
  - Take or pay contract?
  - Base load operation or supplementary role to hydro projects?
- **Wholesale energy market**
  - Only for big consumers?



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## Capital expenditure

4 year plan amounts to R\$3.4 billion

Itens	Actual			Estimated			
	2000	2001	2002	2003	2004	2005	2006
Power projects	144	169	448	390	340	225	274
Transmission	9	47	76	57	74	104	98
Subtransmission	41	31	79	38	69	67	62
Distribution	292	348	324	297	319	334	344
Other facilities	17	7	35	43	49	45	42
Non electric facilities	19	33	189	131	60	0	0
<b>TOTAL</b>	<b>521</b>	<b>635</b>	<b>1,151</b>	<b>956</b>	<b>911</b>	<b>775</b>	<b>820</b>

Values in million of reais



# Major Projects

## Outlook

Generation Capacity Expansion (MW)

PLANT	2002	2003	2004	2005	2006	CEMIG' Stake (%)
<b>Hydro Power Plants</b>						
<b>In Operation</b>	5.434					
<b>Under Construction</b>						
<b>FUNIL</b>	180					49,00
<b>QUEIMADOS</b>		105				82,50
<b>AIMORÉS</b>		330				49,00
<b>IRAPÉ</b>				360		
<b>CAPIM BRANCO I</b>			240			21,05
<b>CAPIM BRANCO II</b>					210	21,05
<b>Thermal Power Plants</b>						
<b>In operation</b>	171					
<b>Under construction</b>						
<b>SULMINAS</b>			500			31,00
<b>BARREIRO</b>		13				
<b>IGARAPÉ</b>			219			
<b>Others</b>	1					
<b>Cemig's total capacity</b>	<b>5.694</b>	<b>6.175</b>	<b>6.380</b>	<b>6.740</b>	<b>6.784</b>	



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## Keys to our success

- Unchanged business focus
- Low risk business model
- Pursue financial strength
- Careful evaluation of non regulated business opportunity
- Highest standards of corporate governance and integrity



**Committed to the best practices of Corporate governance**

**CIG  
LISTED  
NYSE**



- **BOVESPA Level I: CMIG3 e CMIG4**
- **NYSE Level II ADR: CIG**
- **Latibex : XCMIG**
- **Dow Jones Sustainability Index 2000, 2001 e 2002**

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