Cemig Distribuição S.A.

REPORT OF MANAGEMENT FOR 2007

Dear Stockholders,

Cemig Distribuição submits for your consideration the report of management, the financial statements and Opinions of the Audit Board and the external auditors on the business year ended December 31, 2007.

MESSAGE FROM MANAGEMENT

THE ECONOMIC CONTEXT

2007 was a year of improvement in practically all the indicators of the Brazilian economy.

The economy grew significantly in the year, with GDP posting growth of 5%, according to financial market estimates, led by the strength of the domestic market.

The gradual and continuous reduction in interest rate contributed to the growth of the Brazilian economy in the year – the Selic rate was reduced from 13.25% p.a. at the end of 2006 to 11.25% at the end of 2007.

Continuation of the process of reduction of interest rates in 2008 will mainly depend on the behavior of inflation, the increase of which has caused some concern over the last few months – though at the end of December 12-month IPCA inflation was 4.46%, within the target established by the country's monetary authorities.

Brazil continues to achieve a significant trade surplus – among the largest in the world: R$ 40 billion in 2007, although this was 14.1% less than in 2006. Exports grew 17% in the year, boosted by the increase in prices of exported basic products, while imports increased faster, by 32%, from 2006.

This reduction in the trade balance partly reflects the strengthening of the Brazilian Real against the US dollar. The dollar depreciated against the Real by more than 20% in the year – from R$ 2.1380 / US$ at the end of December 2006 to R$ 1.7713 / US$ at the end of December 2007.

Further significant growth in the Brazilian economy is expected in 2008 and, as a counterpart, greater concern on the part of the monetary authorities to maintain inflation within targets – a factor which could mean a slowing of the fall in interest rates.

The growth that is expected in the Brazilian economy in 2008 will have a direct impact on consumption of electricity, and this makes it even more necessary to increase investments in expansion of electricity supply significantly, and also to maintain a regulatory environment that stimulates the entry of new investors into the sector.

CAPITAL EXPENDITURE

In 2007 Cemig Distribuição invested the significant amount of R$ 734 million in capital expenditure, primarily on the *Light for Everyone* program and also new distribution networks and lines under its *Clarear* and *Campos de Luz* programs.

The “Light for Everyone” (*Luz para Todos*) program to achieve universal access to electricity

Universal access to electricity became obligatory under Law 10438 of April 26, 2002, as amended by Law 10762 of November 11, 2003. Aneel has the task of establishing targets for this process of “universalization” of access to public electricity service, for consuming units with installed load of up to 50 KW served at low voltage, and this must be provided without any charge of any type for the party requesting it.

The program instituted by the federal government in 2003 and called “Luz para Todos” decided to bring forward the target for universalization, from 2015 to 2008.

In the concession area of Cemig Distribuição approximately 190,000 consumers were connected, primarily in rural areas – a population of approximately 840,000 people, for a total cost, up to December 31, 2007, of R$ 1.599 billion. There is at least one consumer benefiting from the program in all the 774 municipalities in Cemig’s concession area, and in 475 of these the original potential market has already been more than served. This performance makes Cemig a “champion” of the “Light for Everyone” program, among Brazilian concession holders.

The program was financed with funds from the federal government and the government of Minas Gerais state, in the amounts of R$ 593 million and R$ 79 million, respectively, the remaining amount of R$ 927 million being financed with funds from Cemig itself.

Over the period from 2004 to December 2007, approximately 56,000 km of electricity transmission network was built, which is more than the circumference of the earth (40,075 km), and also equal to 22% of the entire rural network built by Cemig Distribuição in Minas Gerais state in its 55 years of existence. In this same period, 106,000 transformers and 476,000 transmission posts were also installed, and 1,700 photovoltaic panels were installed in places where it was not possible to establish conventional distribution networks for reasons of environment, distance or physical barriers.

The market served by the program, as well as including farmers, serves populations affected by dams, municipal and state schools, community water supply wells, rural settlements, communities remaining from “quilombos” (ancient minority settlements) and racial minorities.

With the continuous increase in the potential market created by properties being separated into parts, construction of new homes and normal vegetative growth itself, it is estimated that there are still another 92,000 new consumers to benefit from the program throughout the whole of Minas Gerais state. Thus the program will continue in 2008, on the same conditions, that is to say, without any charge to the consumer.

The “Fields of Light” (“Campos de Luz”) program

With an estimated cost of R$ 18 million, this program will provide nocturnal illumination for football fields, under a working agreement with the state government. This not only makes it possible for local communities to play football at night, but has substantially reduced crime in the surrounding regions. The opinion survey company *Olhar*, 92% of residents interviewed approved illumination of football fields in their communities.

The first stage of the program, in 2004 and 2005, illuminated 156 football fields, through a working agreement between Cemig Distribuição and Codemig.

In the second stage, begun in 2006, so far 332 fields – of a target of 410 by the end of 2008 – have been illuminated.

The *Reluz* National Program for Efficient Public Illumination

This program aims primarily to modernize public illumination systems by introducing more efficient technology, to reduce electricity consumption at peak times, reduce operational costs, and increase security in public roads and highways.

Projects to improve and expand public illumination involving around 52,000 positions, with investment of R$ 14 million, mainly in the metropolitan region of Belo Horizonte, were carried out in 2007.

The *Cresce Minas* program

This program, for investment of R$ 759 million, is to be put in place in four years, starting 2006 – when it was approved by the Executive Officers and Board of Directors of Cemig Distribuição. It aims to boost quality in the electricity system to meet the needs of presumed growth, the expansion of markets associated with irrigation and agribusiness, and to maintain compliance with regulatory quality standards.

The program involves works and refurbishment in substations, lines and distribution networks throughout the state, involving 687 km of distribution lines, 11 new substations, and 101 works of expansion in existing substations.

- This group of works will benefit approximately 340 municipalities (41% of the total), a population of approximately 4.1 million, and approximately 1.1 million consumers throughout the state.

ELECTRICITY SALES

Electricity auctions

In 2007 Cemig Distribução took part in several auctions in the Regulated Market:

DATE	Auction	Power bought by Cemig Distribution	Average Price (MWh)
18/6/2007	Alternative sources	61MW average (15 years)	R$ 138.85
18/6/2007	Alternative sources	20MW average (30 years)	R$ 134.99
26/7/2007	A-3	431.173 MW average (15 years)	R$ 134.67
27/9/2007	6th Adjustment Auction	3.5MW average (1 year)	R$ 138,74
16/10/2007	A-5	56MW average (30 years)	R$ 128.73
16/10/2007	A-5	126MW average (15 years)	R$ 128.73
10/12/2007	Santo Antonio	30,002,603.786MWh (30 years)	R$ 78.87

Sales of electricity to final consumers

This table shows the changes in quantities of electricity sold to final consumers, with revenues and average tariffs:

	GWh			R$ (million)			Average tariff (R$)		
	2007	2006	Change %	2007	2006	Change %	2007	2007	Change %
Residential	6,813	6,647	2.50	3,553	3,301	7.63	521,50	496,62	5.01
Industrial	4,831	4,839	(0.17)	1,489	1,422	4.71	308,22	293,86	4.89
Commercial	4,078	3,851	5.89	1,871	1,680	11.37	458,80	436,25	5.17
Rural	2,200	1,937	13.58	595	514	15.76	270,45	265,36	1.92
Public authorities	640	599	6.84	286	252	13.49	446,88	420,70	6.22
Public illumination	1,038	1,051	(1.24)	280	269	4.09	269,75	255,95	5.39
Public service	1,060	1,016	4.33	299	263	13.69	282,08	258,86	8.97
Total	**20,660**	**19,940**	**3.61**	**8,373**	**7,701**	**8.73**	**405,28**	**386,21**	**4.94**

As can be seen there were increases in consumption in the main consumer classes of Cemig Distribuição, with a slight fall of 0.17% in the industrial category, from 2006.

Sales to **final consumers** totaled 20,660 GWh, an increase of 3.61%, mainly representing growth in the residential, commercial and rural categories, as follows:

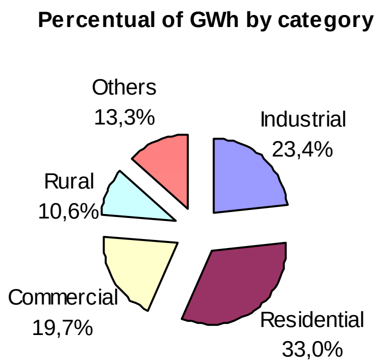
- Consumption grew by 2.50% in the residential user class due to the increase in the number of consumers billed, and the good performance of conditioning factors such as increasing employment and real income, abundant supply of credit and growth in the volume of sales of household appliances.

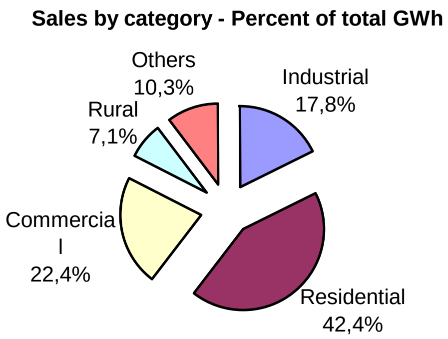
- Sales in the industrial category were very slightly lower – 0.17% lower – reflecting reduced supply of “special” electricity in 2007, and migration of clients to the free market. Due to these factors, there was a significant reduction in consumption by some sectors: 25.0% in chemicals, 50.4% in paper and pulp/cardboard, 11.9% in metals, and 10.3% in beverages. As the same time, there were increases of 27.4% in mining, 14.5% in transport materials and 10.6% in electrical and communication materials.

- Consumption in the Commercial category was 5.89% higher than in 2006, reflecting increased consumption in the main lines of activity: 5.2% in retailing, 4.5% in hotels and food, and 8.7% in communication services – in aggregate these sub-sectors are 51.7% of the total of sales to the local captive market.

- In the Rural consumer category the increase of new conventional consumer units connected by the *Light for Everyone* program, and the growth in consumption for irrigation, especially reflecting the lower rainfall and higher temperatures, led to an increase of 13.58% in consumption compared to 2006

As these charts show, the biggest consumer categories by volume billed and generation of revenue are residential, commercial and industrial:





Tariff adjustments and reviews

<u>The Tariff Adjustment</u>

The adjustment of the tariffs of Cemig Distribuição was promulgated by Aneel Resolution 446 of April 3, 2007, and confirmed in detail by Technical Notes 072 and 077/2007 and the judgment vote by the reporting Aneel Council member.

The tariff adjustment applied different rates of increase by category of consumption, aiming to gradually eliminate the cross-subsidies existing between the consumer groups. The average increase in electricity bills was 5.16%; low-voltage users paid an increase of 6.50%, while high-voltage users had an increase of 2.89%.

<u>The Tariff Review</u>

Aneel, the Brazilian electricity regulator, is in the process of review of retail supply tariffs and the Charge for Use of the Distribution System (TUSD) of Cemig Distribution, this being the second cycle of review corresponding to the period 2008–13. The public hearing was set for February 28, 2008, and the new tariffs will come into effect on April 8, 2008. The average adjustment percentage, disclosed on a provisional basis by Aneel, is a reduction of 9.72%. To arrive at this value, parameters were taken into account for the first cycle, which are also being adjusted, such as indicators of productivity, the value of the asset base to be remunerated, and the Company's average cost of capital. This provisional percentage may yet be altered as a result of contributions received at the public hearing, and decision by Aneel on the actual value of the asset base to be remunerated in the second tariff review cycle.

Protection of revenue – management of losses

Commercial losses have increased in recent years, mainly due to the rules imposed by electricity rationing in 2001, the economic situation of clients and the increasing practice of crime.

Cemig Distribution is among the distributors with the lowest indices of commercial losses in Brazil – comparable to those of the best electricity companies worldwide.

At present, the company's level of commercial losses is around 2.78% of the total amount of energy that enters the distribution system. The Brazilian average is around 6%.

The results of identification and recovery of commercial losses total 147.8 GWh in 2007, an increase of 11.5% in relation to 2006. This corresponds to approximately R$ 108.7 million (increase of 20.8% from 2006), and also, approximately, R$ 91.4 million in losses avoided or increases of consumption by consumer units that were regularized.

In 2007, aiming further to increase the company's capacity for reaction to the increase in the practice of irregularities, several actions were taken, including:

- Implementation of analysis of probability and risk of loss for each consumer unit where there is suspicion of irregularity, associated with the Web Inspection Orders Management system (WGOI), seeking greater efficiency in identification of units with irregularities, and strengthening the potential for results from the process.

- Improvement in the corporate system for control of seals and meters made available, and also general rules for control of seals, seeking to ensure traceability of these devices and equipment.

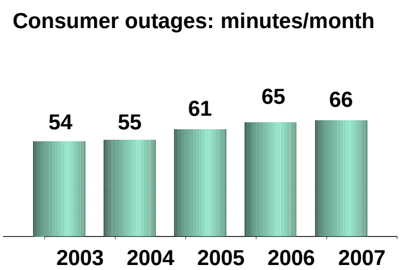
- Implementation and execution of the Value Addition Project (PAV) for protection of revenue, which showed the economic viability of actions to combat losses and default, providing a greater input of funds into these activities, with consequent addition of revenue.

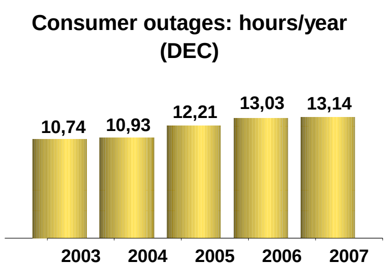
- Approval of the Revenue Protection Plan, focused on metering, to be put in place starting in 2008, aiming to focus on the question and treatment of commercial losses of Cemig Distribution, adding, to form a major project, technologies and actions to "bulletproof" the revenue from medium-sized and large consumers, and application of complementary technologies to the other consumers.

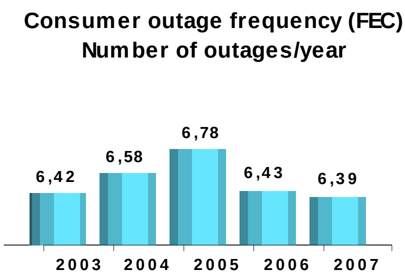
- Development and incorporation of the system for management of losses in the new Clients Management System (SGC/SAP) acquired by Cemig which is in the process of being put in place, making the information fully traceable and available to all the those involved.

Retail supply quality

The charts below show the changes in Cemig Distribution's quality indicators in 2007 – all are within the requirements stipulated by Aneel.







Approximately 18% of the DEC and 13% of the FEC is for programmed outages carried out to improve the network. These are preceded by notice to consumers, reducing the impact of temporary suspension of supply.

Service policy

Cemig Distribuição has consolidated a group of Commercial Relationship Practices with its clients based principally on quality of its products and services, preservation of credibility with clients, stockholders and the public, and in the strength of its brand and its effective participation in social and economic development over the whole of its area of operation.

The company offers channels of relationship that enable clients to carry out transactions, complain, suggest and request services, efficiently and fast. The main channels available are: *"Speak to Cemig"* ("*Fale com a Cemig*");

Service Branches ("*Agências de Atendimento*"); Relationship Agents ("*Agentes de Relacionamento*"); Simplified Service Posts ("*Postos de Atendimento Simplificado (PASs)*"); *Cemig Fácil* ("Cemig Easy"); and the "Virtual Branch" (*Agência Virtual)* which is available on Cemig's web portal: www.cemig.com.br.

As well as continuous investment in improvement of the existing channels Cemig seeks new forms of relationship to offer more convenient and fast options for contact with the company.

The client also has available, periodically, other relationship options through the Mobile Branch trailer and the *Cemig na Praça* ("Cemig in the Main Square") program. Both aim to take Cemig to the client. The Mobile Branch trailer visits municipalities of some regions of the state providing services and orientation to the public. The *Cemig na Praça* program covers municipalities of all the regions, taking services, information and orientation to clients in a personalized marquee-tent.

Electricity efficiency

In 2007, R$ 43 million was allocated to the Electricity Efficiency program, a joint program with the electricity regulator, Aneel.

In the Cemig/Aneel Electricity Efficiency program, 43,000 public illumination points in 140 municipalities of the state of Minas Gerais were upgraded in efficiency, for investment of R$ 15 million, resulting in an annual reduction of 2,500 kW of demand and 10,700 MWh of electricity consumption.

In the *Reluz* Public Illumination Improvement Project, financed by Eletrobrás, 15,000 public illumination points were modernized in the municipality of Betim, for investment of R$ 5 million, in 2007, resulting in an annual reduction of 270 kW of demand and 1,150 MWh of electricity consumption.

The *Conviver* project aimed to orient low-income clients, through the Community Relationship Agent, on measures that can be taken to achieve better electricity efficiency. This is part of an effort to promote increased access to, and more efficient use of, the services provided by Cemig Distribuição in the low-income communities of greater Belo Horizonte, and in the state's interior, increasing the number of families that use the benefits provided by electricity in a regular, efficient, and safe way that is compatible to their economic capacity.

We expect these actions also to increase the integration of Cemig with these communities, promoting sustainable development of these locations.

The locations with the highest proportion of low-income communities, and those where Cemig Distribuição faces difficulties of access to provide services, will be selected. We will be serving an approximate total of 300,000 homes, over five years, throughout the state of Minas Gerais.

ECONOMIC – FINANCIAL PERFORMANCE

In thousands of Reais, except where otherwise stated.

(Operational data have not been examined by our external auditors).

Net profit

Cemig Distribuição's net profit in 2007 was R$ 771 million, which compares with net profit of R$ 770 million in 2006, an increase of 0.13%.

	2007	2006	Change %
Gross supply of electricity	3,308	3,088	7.12
Revenue from use of the grid – captive consumers	5,203	4,878	6.66
	8,511	**7,966**	**6.84**
Revenue from use of the grid – Free Consumers	1,321	1,261	4.76
Other	68	56	21.43
Total	**9,900**	**9,283**	**6.65**

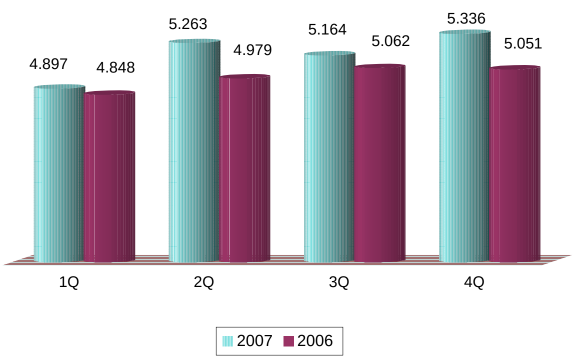
Gross revenue from retail supply of electricity and use of the grid – captive consumers

The main impacts on 2007 revenues arose from the following factors:

- the tariff adjustment, averaging 7.05% across consumers, from April 8, 2006 (full effect in 2007);
- the tariff adjustment with average impact for consumers of 5.16%, from April 8, 2007;
- the 3.61% increase in the volume of energy billed to final consumers, excluding Cemig's own consumption (20,660 GWh in 2007, vs. 19,940 GWh in 2006); and
- reduction in the revenue from the subsidy for low-income consumers, due to the review of the criteria adopted by the company in calculating this revenue.

This chart shows the quarterly changes in retail supply:

GWh billed to final consumers



For more information on the behavior of the electricity market in 2007, please see the item on *Sales of electricity.*

Revenue from use of the grid

This revenue refers to the Tariff for Use of Distribution System – TUSD, which comes from the charge to free consumers for transport of energy sold by other agents in the company's concession area, received principally by Cemig Geração e Transmissão. It was 4.76% higher in 2007, at R$ 1.321 billion in 2007 vs. R$ 1.261 billion in 2006).

The increase primarily represents the higher volume of electricity transported in 2007 (17,539 GWh in 2007 vs. 16,738 GWh in 2006), reflecting the increase in industrial production and the migration of clients from the captive market to the free market, in 2007.

Non-controllable costs

The differences between the sums of non-controllable costs (also referred to as "CVA"), used as a reference in the calculation of the tariff adjustment, and the disbursements actually made are offset in subsequent tariff adjustments, and are registered in Current assets and Non-current assets. As a function of the change in Aneel's accounting plan, some items were transferred to the item "Deductions from operational revenues". There are more explanations in Explanatory Notes 2 and 7 to the Financial Statements.

Deductions from operational revenues

Deductions from operational revenues amounted to R$ 3.924 billion in 2007, compared to R$ 3.864 billion in 2006, an increase of 1.55%. The principal changes in these expenses are as follows:

<u>Fuel Consumption Account – CCC</u>

The total deduction from revenue for the CCC in 2007 was R$ 287mn, vs. R$ 443mn in 2006, 35.21% lower
This charge is in reference to the operational costs of thermal plants in the Brazilian grid and isolated systems, and is split among electricity concession holders as specified by an Aneel Resolution. This is a non-controllable cost, and the reported deduction from revenue corresponds to the amount actually passed through to the tariff.

<u>Energy Development Account – CDE</u>

The deduction from revenue for the CDE in 2007 was R$ 304 million, vs. R$ 294 in 2006, an increase of 3.40%. The payments are specified by an Aneel Resolution. This is a non-controllable cost, and the expense recognized in the income statement corresponds to the amount actually passed through to the tariff.

<u>RGR – Global Reversion Reserve</u>

The provision for RGR in 2007 was R$ 52 million, vs. R$ 9 million in 2006. The difference between the two periods reflects the following:

- Higher expense than in 2007 arising from the increase in the book value of fixed assets in service, the basis for calculation of this expense for Cemig Distribuição, and also the accounting in March 2007, in obedience to orientations by Aneel, of a complementary amount to this expense, of R$ 15 million, for the first quarter of 2005.

- A reversal of the provision of 2006, referring to the year 2004 in the amount of R$ 28 million, due to Aneel homologating that expense at an amount lower than estimated by the company.The other deductions from revenue are for taxes calculated as a percentage of billing, and their variations thus substantially arise from the changes in revenue.

Operational costs and expenses (excluding Financial revenue (expenses))

R$million	2007	2006	Var. %
Non-controllable costs			
Electricity purchased for resale	2,164	1,981	9.24
Financial compensation for use of water resources	3	12	(75.00)
Charges for use of the national transmission grid	447	515	(13.20)
	2,614	**2,508**	**4.23**
Controllable costs			
Personnel expenses	619	734	(15.67)
Post-employment obligations	73	116	(37.07)
Materials	69	59	16.95
Outsourced services	396	329	20.36
Operational provisions	176	109	61.47
Depreciation and amortization	417	367	13.62
Other expenses, net	162	141	14.89
	1,912	**1,855**	**3.07**
	4,526	**4,363**	**3.74**

The increase of 3.74% in operational costs and expenses primarily reflects the change in cost of electricity bought for resale, operational provisions and outsourced services, partly offset by a reduction in payroll expense. For more information on the breakdown of operational costs and expenses please see Explanatory Note 25 to the Financial Statements.

The principal changes in expenses are:

<u>Electricity purchased for resale</u>

The expense on this account in 2007 was R$ 2,164 million, 9.24% higher than the figure of R$ 1,981 million for this account in 2006. This is a non-controllable cost, with the expense recognized in the income statement corresponding to the value effectively passed through to the tariff. For more information please see Explanatory Note 25 to the financial statements.

<u>Charges for Use of the Basic Transmission Grid</u>

The expense on charges for use of the transmission network in 2007 was R$ 447 million, vs. R$ 515 million in 2006, a reduction of 13.20%. These charges are payable by distribution and generation agents for use of the facilities and components of the basic grid, and are set by Aneel resolution. This is a non-controllable cost, with the deduction from revenue recorded corresponding to the value effectively passed through to the tariff.

<u>Personnel expenses</u>

Personnel expenses in 2007 totaled R$ 619 million, vs. R$ 734 million in 2006, a reduction of 15.67%. This lower figure is primarily because of the provision made in June 2006 for indemnity to employees for their future "anuênio" rights, in the amount of R$ 127 million, partially offset by the 4% and 5% wage adjustment given to employees in November of 2006 and 2007, respectively, and the 3.14% increase in the number of employees, which totaled 8,064 in December 2006, and 8,317 in December 2007. There is a breakdown of personnel expenses in Explanatory Note 25 to the Financial Statements.

Depreciation and amortization

Deductions from operational revenues totaled R$ 417 million in 2007, compared to R$ 367 million in 2006, an increase of 13.62%. This substantially reflects the operational startup of new transmission networks and lines, as a result of the investments in the Light for Everyone program.

Post-employment obligations

Expenses on post-employment obligations in 2007 were R$ 73, compared to R$ 116 in 2006, a reduction of 37.07%. These expenses basically represent interest on the actuarial liabilities of Cemig Distribution, net of the expected return on plan assets, as estimated by an external actuary. The reduction reflects higher growth of the assets of the pension plan than the growth in obligations to the participants.

Operational provisions

Operational provisions in 2007 totaled R$ 176 million, compared to R$ 109 million in 2006, a 61.47% increase. The change is primarily due to provisions for Aneel administrative proceedings, and for litigation related to tax increases, both in the amount of R$ 36 million. This increase is partially offset by a reduction of R$ 7 million in the provision for doubtful receivables (R$ 98 million in 2007 vs. R$ 105 million in 2006). For further information please see Explanatory Notes 19 and 25 to the Financial Statements.

Ebitda (Earnings before interest, tax, depreciation and amortization)

As this table shows, our Ebitda was 31.2% higher in 2007. Adjusted for non-reoccurring items, the increase was 8.37%:

R$ ´000	**2007**	**2006**	**Var %**
Lucro Líquido	771	770	0.13
+ Provision for current and deferred income tax and Social Contribution	312	300	4.00
+ Non-operational revenue (expenses)	43	25	72.00
+ Financial revenues (expenses)	(8)	(189)	(95.77)
+ Amortization and depreciation	417	367	13.62
+ Employees' profit shares	332	150	121.33
EBITDA	**1,867**	**1,423**	**31.20**
Non-recurring items (*)			
Cost of Energy Efficiency programs from previous years	-	81	-
+ CVA re-composition - TUSD	**-**	93	-
+ "Anuênio"	-	127	-
- Reversal of provision for RGR	-	(28)	-
- CVA energy	(29)	-	-
= Ajusted EBITDA (non-audited)	**1,838**	**1,696**	**8.37**

(*) The non-recurring adjustments correspond to the company's interpretation on events which it deems to be extraordinary, not related to current operations.

Financial revenues (expenses)

The company posted net financial expenses of R$ 8 million in 2007, which compares with net financial expenses of R$ 189 million in 2006. The main factors in this financial result are:

- Reversal of the provision for losses on accounts receivable from the state of Minas Gerais, of R$ 99 million in 2006, due to the creation of a Credit Receivables Fund (FIDC) and signature of the 4th contractual amendment for renegotiation of the debt. For more information please see Explanatory Note 14 to the financial statements.

- Reduction of R$ 17 million in the revenue from arrears penalty payments on client electricity bills, to R$ 107 million in 2007, from R$ 124 million in 2006. This primarily reflects revenue of R$ 48 million in the second half of 2006, relating to the write-off of accounts received from major industrial consumers related to previous years, when the principal was considerably less than the amount for arrears penalty payments and interest.

- Revenue from monetary variation and interest on the deferred tariff adjustment in 2007 was R$ 130 million, 33.33% less than its total of R$ 195 million in 2006. This mainly reflects the reduction of the size of the asset due to receipt of some of the values receivable into electricity accounts paid by clients. For more information please see Explanatory Note 11 to the financial statements.

- Net gain of R$ 78 million on currency variations in 2007, compared to a net gain of R$ 65 million in 2006, reflecting effects on foreign currency loans and financings. The appreciation of the Real against the dollar in 2007 was 17.15%, versus appreciation of 8.66% in 2006.

- Net loss on financial instruments in 2007, in the amount of R$ 85 million, which compares with a net loss of R$ 76 million in 2006. This arises from a higher depreciation of the US$ in 2007 than in 2006.

For a breakdown of financial revenues and expenses, see Explanatory Note 26 to the financial statements.

Income tax and Social Contribution

Cemig Distribuição's expenses on income tax and the Social Contribution in 2007 totaled R$ 312 million, on profit of R$ 1.415 billion before tax effects, a percentage of 22.05%. In 2006, Cemig's expenses on income tax and the Social Contribution were R$ 300 million, on profit of R$ 1.220 billion before tax effects, a percentage of 24.59%. These effective rates are reconciled with the nominal rates in Explanatory Note 10 to the Financial Statements.

Employees' profit shares

In accordance with the 2007 Collective Labor Agreement Cemig Distribuição allocated profit shares to its employees totaling R$ 332 million (R$ 150 million in 2006). For further information see Explanatory Notes 2 and 28 to the Consolidated Financial Statements.

LIQUIDITY AND CASH FLOW

At the end of 2007 Cemig Distribuição's cash position was R$ 636 billion (vs. R$ 219 million at the end of 2006).

Cash generated by operations in 2007 was R$ 1,442 billion, compared to R$ 1.273 billion in 2006.

This increase in cash generated by operations mainly reflects the higher amount received in relation to regulatory assets in 2007.

Financing activities resulted in a net cash outflow of R$ 291 million, arising from loans and financings obtained totaling R$ 1.159 billion, which compare with amortizations of a total of R$ 773 million, and payment of Interest on Equity and dividends, in the amount R$ 677 million.

Capital expenditure in 2007 was R$ 734 million, compared to R$ 919 million in 2006, the main factor in these amounts being the Light for Everyone (*Luz Para Todos*) program.

FUNDING AND DEBT MANAGEMENT

Raising of funds from third parties in 2007 consisted mainly of transactions in the capital markets in the form of issues of promissory notes and debentures, supported by firm guarantees of placement of the securities from financial institutions. These transactions were to pay debt becoming due and to rebuild cash for the debts paid over the year. The high liquidity favored contracting of transactions on very favorable conditions.

On January 2, 2007 Cemig Distribuição made its Second Public Issue of Promissory Notes (referred to locally as "*Commercial Paper*"), in the total amount of R$ 200 million, with tenor of 180 days, returning interest of 102%

of the CDI rate. These securities were backed by a guarantee from the Cemig holding company (Companhia Energética de Minas Gerais).

These Promissory Notes were settled with the proceeds of the Third Issue of Promissory Notes, by Cemig Distribuição S.A., on June 29, 2007, in the amount R$ 400 million, also with tenor of 180 days, for a return of interest equal to 101.60% of the CDI rate. These were also guaranteed by the Cemig holding company.

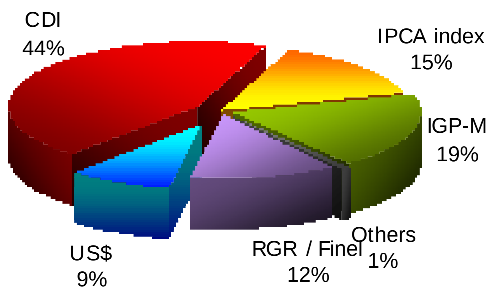
This short-term issue was refinanced by the 2nd Public Issue of Non-convertible, unsecured Debentures in a single series, resulting in a long-term transaction. On December 21, 2007, 40,000 debentures of nominal unit value R$ 10,000 were subscribed and paid up in full. These were issued on December 15, 2007, totaling R$ 400 million. They are indexed to the IPCA inflation index, plus annual interest of 7.96% p.a. paid annually, the principle to be repaid in three equal installments in December 2015, 2016 and 2017.

Banco do Brasil Investimentos S.A. gave a firm guarantee of placement and subscribed 46% of the issue. We highlight the total tenor of ten years, which was considered notable in the current situation: comparison with the remuneration on public securities of similar tenor and index (NTN-Bs) indicates that Cemig Distribuição S.A. raised funds at a cost very close to that of a risk-free asset. The combination of tenor and cost of this issue reflects investors' confidence in the company's credit capacity and its potential for growth.

Added to this funding was R$ 159 million (total excluding the CDE charge) supplied by Eletrobrás for financing of the *Light for Everyone* program and the *Reluz* project.

The overall result: inflow of R$ 1.159 billion in third party funds to Cemig Distribuição S.A. in 2007.

The use of the banking market to meet our financing needs has helped increase the percentage of transactions linked to the CDI rate in the debt profile in recent years. However the issue by Cemig Distribuição of debentures indexed to the IPCA inflation index at the end of 2007 has resulted in the following debt profile:

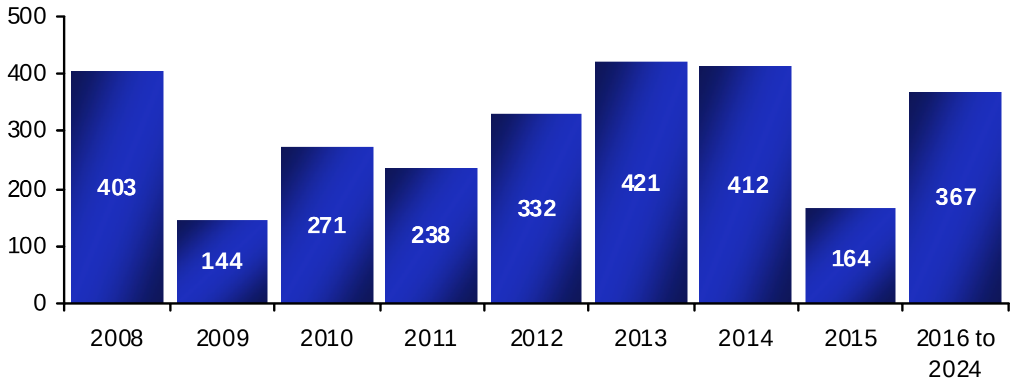


Breakdown of debt by indexor – December 2007

As shown in the next chart, the debt amortization timetable now has a satisfactory profile, with average tenor of 5.3 years, as shown in the chart below – meeting the company's policy directive of avoiding concentration of debt coming due in the short term, mitigating the risk of refinancing and eliminating any pressure on cash flow that could reduce availability of funds for investment.

Debt amortization timetable – Consolidated

December 2007, R$ million



Another of the company’s directive guidelines, reduction of the average cost of debt, has been complied with: at the end of the year the average cost of debt was 7.82% p.a., at constant prices, also reflecting the federal government’s policy of reduction of interest rates.

Our position of 9% of debt in foreign currency does not represent a material financial risk for the company, since a good part of it is contractually protected by indexor swap transactions.

PROFIT ALLOCATION PROPOSAL

At the Annual General Meeting to be held in April 2008 the Board of Directors will propose the following allocation of the net profit for 2007 of R$ 771 million:

- R$ 681 million (88.33% of net profit) for payment of dividends, of which R$ 150 million in the form of Interest on Equity, and R$ 531 million in complementary dividends.
- R$ 38 million (5% of net profit) to the Legal Reserve.
- R$ 52 million held in Stockholder’s equity in the Retained Earnings Reserve, for financing of investments approved by the Board of Directors and/or payment of extraordinary dividends in the future.

CORPORATE GOVERNANCE

Our corporate governance model is based on principles of transparency, equity and reporting, focusing on clear definition of roles and responsibilities in the Board of Directors and the Executive Board for formulation, approval and execution of policies in guidelines in conduct, approving and executing policies and guidelines for managing the company's business.

We seek sustainable development of the company through equilibrium between the economic, financial, environmental and social aspects of our undertakings, aiming to improve the relationship with our stockholders, clients, and employees, the public at large and other stakeholders.

Our material procedures related to preparation of the Consolidated Financial Statements have been compliant since the end of 2006 with the requirements of Section 404 of the Sarbanes-Oxley law of the US.

Our Board of Directors has 14 members, appointed by the stockholders. All have a period of office of 3 (three) years, and may be reelected. To increase their efficiency, the Board has constituted 5 (five) committees that operate in specific issues related to Strategy, Governance, Finance, Audit and Risks, and Human Resources.

The Audit Board is permanent and made up of 5 (five) members, appointed by stockholders. All the members meet the requirements for independence in accordance with international practices. As presently constituted the Audit Board meets the requirements for exemption from constitution of an audit committee under the Securities Act and the Sarbanes-Oxley Law. The Audit Board met twelve times in 2007.

Also, the structure of committees made up of executives of various areas ensures that strategic decisions are taken based on support by technical criteria.

Every year we hold our meeting with capital market analysts and investors to disclose information about the economic and financial situation, plans and outlook as well as carrying out various meetings with regional analysts' associations.

RISK MANAGEMENT

Cemig Distribuição's principal assumption for management of corporate risks is that every company exists to provide value to its stockholders. This results in the permanent challenge of determining how much the corporation will be prepared to guarantee its sustainable development, taking into account the risks and opportunities involved

Cemig Distribuição's principal objective is not to eliminate risks, but to be proactive in their identification, analysis, assessment, treatment and continuous monitoring, with a view to obtaining competitive advantages. As shown in the diagram below, success in corporate management depends on a culture of management of risks being disseminated, serving as a basis for sustaining of the following 3 'pillars':

- *Management processes:* Awareness of the processes of the company with a view to improvement in operational efficiency.
- *Management of more severe risks:* Identification of the imminent risks that require short-term decisions with a view to reduction of volatility in results, higher predictability of returns to the stockholders and decision on treatment of risks.
- *Management of risks and measurement of cost of capital:* Optimal allocation of capital, sensitivity analysis, use of comprehensible modeling systems with well-grounded assumptions.

Thus corporate risk management is a management tool that is part of our corporate governance practices. To be more efficacious, and so as to be included more easily in the organization's culture, we aim to align it with Cemig Distribuição's Strategic Planning Process, which defines the strategic objectives of the company's business.

Other instances of management involved with corporate risk management are: The Corporate Governance Committee, Compliance with the Sarbanes Oxley Law, the Budget Prioritization Committee, Internal Auditing, the Energy Risks Management Committee, the Insurable Risks Committee, the Control and Management Committee, and other functions and processes.

The corporate risk management activities give rise to various products which are of great value in the decision process, as follows:

1- The corporate risk matrix: This presents all the corporate risks mapped and classified as follows: a) Financial Exposure – product of the impact on the business and the probability of occurrence of the risk; and b) Final Exposure, result of the association of the Financial Exposure of the risk weighted by the analysis of its intangible impact.

2 – Matrix of risk factors from the stakeholders' point of view: This is an analysis of the risk factors – circumstances or events which may (or may not) give rise to risks for the corporation – taking into account the factors that influence value from the point of view of these agents. The objective is to make possible an improvement in management based on what each interested party sees as a strategic threat and the identification of risks that have so far not been mapped in the corporate risk matrix.

This process was developed during 2007. In the first stage, the risk factors were identified from the point of view of each stakeholder. In the second stage, we sought to identify whether the corresponding risks had been mapped in the corporate risk matrix, which signaled to us that the company was on the right path in relation to a wide-ranging perception of risk management, in view of the fact that more than 90% of the risks were already mapped. Since this is an improvement tool, the risks identified that had not been mapped in the corporate risk matrix are now being analyzed and included.

Certification of internal controls

Because Cemig, the parent company of Cemig Distribuição, has its shares listed on the New York stock exchange, Cemig Distribuição obtained certification of its internal controls for mitigation of risks involved in the preparation and disclosure of the financial statements of the parent company.

Since the activities related to the Certification of Internal Controls are permanent and need to be constantly monitored, the management of Cemig Distribuição, in compliance with the new orientation of the SEC and based on the criteria of the PCAOB, of the *Committee of Sponsoring Organizations of the Treadway Commission* (Coso) and *Control Objectives for Information and Related Technology* (Cobit), based on review of the existing controls structure, documented the controls in terms of the processes of the business and of the Company, including the controls that are supported by information technology.

A link was established between the potentially significant controls and accounting records in the financial statements for 2007, and the design of the key processes in controls for ensuring mitigation of the risks associated with the preparation and disclosure of the financial statements for the year ended December 31 2007 was validated with our new external auditors, KPMG Auditores Independentes.

The Ethics Committee and the Reporting Channel

The Ethics Committee is responsible for assessment of and decision on possible non-compliances, and also for assessing the need for reviews of the Statement of Ethical Principles and Code of Professional conduct. This is one more element of alignment with best Corporate Governance practices, and is also an instrument that meets the orientation of the Sarbanes-Oxley Law of the US ("SOX").

After the creation of the Reporting Channel, in December 2006, the Ethics Committee began to receive anonymous accusations of irregular practices contrary to the company's interest, such as: 1) financial frauds, including adulteration, falsification or suppression of financial, tax or accounting documents; 2) improper appropriation of assets or funds; 3) receipt of undue advantages by managers and employees; and 4) irregular contracting, via the anonymous accusation channel created on Cemig's intranet.

Accusations of an ethical nature are accepted only where there is identification of the accuser, and are processed by the committee itself. Accusations which qualify under items 1 to 4 above are submitted to the Chairman of the Audit Board for measures to be taken.

Distribuição S.A.

MANAGEMENT

Management Systems

Based on the guidelines laid down by Cemig's Long-term Strategic Plan, Cemig Distribuição translates its Vision, Mission and its own strategic guidelines into all the processes used in the Balanced Scorecard (BSC). This tool sets out objectives that are inter-related by cause and effect, balancing them between various points of view (groupings by parties interested in the business), translating them into indicators and targets that contribute to achieving the strategy.

This interpretation is carried out by the Superintendents and Managers of Cemig Distribuição, creating the Contribution Panel, and deciding the initiatives that will guide the actions of the various areas to carry out the strategy.

Throughout the company, the Strategic Planning is presented and communicated, as well as contracting of targets, which formalize the performance that is required, and commit managers and employees to the entrepreneurial objectives and results.

In day-to-day operations, practically 90% of the employees of Distribuição work with a management system certified under ISO 9001:2000, which permeates all the main processes of the Distribution business.

The Environmental Measurement System, conceived in the light of ISO 14001:2004, serves more than 130 cities. In the Montes Claros Sales and Services Relationship Management Center, the Integrated Management System was put in place, involving the quality, environment, and health and safety management systems, all of which have internationally-recognized certification.

Also at operational level, the performance of the various areas in relation to reaching of targets is assessed through Critical Analysis Meetings (RACs), which are systematized and aimed to verify compliance with the strategic actions that are planned, ensuring that they continue to be relevant, appropriate and efficacious in relation to continuous improvement of the systems, products, services, and processes involved.

At the strategic level, Contribution and Strategy Meetings (RCEs) and Strategy Analysis Meetings (RAEs) are held. These analyze the strategic plan, assess the performance of the strategic indicators, and macro-initiatives and, based on this, they review actions to obtain better results and achieve the strategic objectives.

Concluding the cycle of the management model, an Internal Audit takes place to assess the integrity, appropriateness and applicability of all the resources used to carry out the processes of the Distribution and Sale business, and also the appropriateness of the routine actions of the management system adopted.

Telecoms and IT

<u>Up to date with IT Security</u>

In 2007 the "Up to Date with IT Security" project was held, with 941 people participating, to disseminate the classification and treatment of Cemig Distribuição's information, improve the level of the company's security, and to ensure certification in the SOX 2008 Audit.

We also highlight the "Fun with Security" project, which aimed to raise the awareness of the children of Cemig Distribuição's employees on the importance of the adoption of information security measures in home use of the computer, and in dealing with the family and professional data of parents.

<u>Classification of information</u>

This project aims to establish criteria for classification and treatment of information of interest to Cemig Distribuição, aiming to protect it from undue access and/or alteration, prohibitive disclosure and unavailability, taking into account the estimate of the losses that can be caused to the company's business or image by unauthorized access, modification, exclusion and/or disclosure, lack of control and registry or non-availability of information.

The benefits resulting from this include compliance with the legal requirements; protection of Cemig's business, the giving of proper value to information, compliance with the requirements of SOX, and dissemination of the degrees of secrecy and forms of treatment of the company's information to employees, contractors and interns.

Digital certification

Studies were carried out for feasibility of a project to identify opportunities for use of digital certification and information cryptography within the needs of the processes of the company's business, thus defining the technical standards to be used and a plan for projects for their implementation.

The main benefits of this type of project are knowledge of opportunities for use of the technology within the company; identification of an opportunity to reduce cost and speed up some processes; definition of technical standards (offering of a structured surface) and security in the storage and transmission of critical information.

Client Management System

In April 2006 a project was begun to implement the new Client Management System (the "*Evolution'* project). This project aims to replace some of the company's principal systems involved in the processing of billing, collection, service, accounting, field services, management of measuring equipment, and issuance and printing of electricity tax invoices and reports.

The aims of this program include greater control and security in the processes of billing and collection, with precise and integrated information to support the control and management of clients.

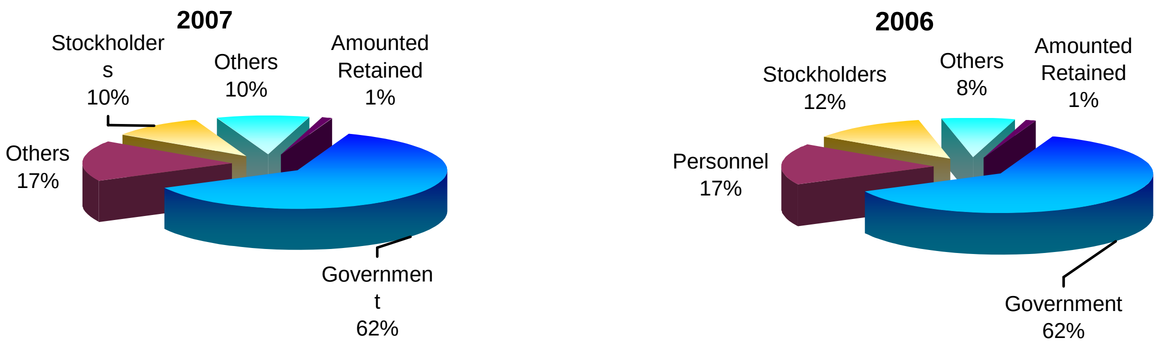
This project is scheduled to be concluded in the first half of 2008.

SOCIAL RESPONSIBILITY

Added Value

The Value Added Statement shows Cemig's importance for society, with the creation of R$ 6.760 billion in added value in 2007, compared to R$ 6.600 billion in 2006 – an increase of 2.42%.

The distribution of the added value created by Cemig Distribuição between the various segments can be seen in the charts below, which also clearly show the scale of the part retained by government – 62% of the total in both of 2006 and 2007.



Human resources

Cemig Distribuição has been putting in place its Strategic Human Capital Management System, a model developed from the starting point of the company's Vision and Mission. Its objective is to align strategic planning and the HR management model with the organizational strategy, incorporating a long-term vision and focusing on actions that add value to the business while favoring integrated management. Performance Management is the link between the "Cemig Distribuição Strategy" and the various processes of HR management, ensuring that the strategic directives are applied in the company.

This aims to develop strategic competencies that lead to improvement in results, both financial and non-financial, through contracting of targets and individual development agreements, aligning the actions of individuals and teams with the organization's guidelines.

With the implementation of the Performance Management model and a more strategic operation in the area of human resources, it has been possible to create a definitive link between the business strategy and the various processes of management of people, serving as a base for several initiatives and changes in the HR area, such as: reallocations and promotions based on performance, external competitions, the trainee program, internal mobility, various training and personal development programs, management of organizational atmosphere, etc.

<u>Training and development</u>

The Cemig Leadership in Management Program, defined and mapped by the Dom Cabral Foundation jointly with the company, was held in 2007, to develop leadership competencies. This is a continuation of a permanent process that aims to ensure that Cemig Distribuição has available to it people who are capable of leading the transformations of today and the future. Managers and superintendents were trained in the leadership competencies, aiming to reduce the gaps in the exercise of these competencies.

Continuing the corporate objective of having and maintaining a workforce with development that is compatible to its needs, consequently being trained, polished and specialized, in 2007 our Professional Improvement and Training School (EFAP) provided 11,323 participations in technical training to Cemig group employees, as well as 458 participations for employees of other companies. The total of employee-hours trained was 507,590.

In November 2007 the Bureau Veritas Quality International (BVQI) recommended certification of 15 of EFAP's processes. The putting in place of the quality management system at AFAP is one of the challenges of strategic human resources planning, and it aims primarily to achieve continual improvement of its processes, focused on the quality of technical training offered to its internal and external clients.

Training in IT, administration, external training, postgraduate courses, language and other courses continued, to meet the company's constant needs arising from the emergence of new technologies, equipment and work methods.

<u>Management of organizational atmosphere</u>

Aware that the achievement of high performance is intimately linked with a healthy and stimulating environment, Cemig Distribuição seeks permanently to manage its internal environment. Within this context, one of the elements of the company's vision is "to be one of the best companies to work in".

In 2006, competing with more than 500 companies, Cemig Distribuição was included in the list of the 150 Best Companies to Work In by *Exame* magazine's *Você S.A.* Guide. In 2007 not only was it once again among the Guide's list of the 150 best companies to work in, but it was considered the best in the category of Largest Companies – those with more than 10,000 employees.

Another tool used to manage satisfaction with the work environment is the Organizational Atmosphere Survey, held every two years with all employees. After the phase of diagnosis and analysis of results, the company carries out planning of actions for improvement, preparing a corporate action plan and individual action plans for the various superintendents' and managers' departments, and this is followed, finally, by a phase of monitoring of the performance of the improvement action plans.

Health, well-being and work safety

To disseminate the culture and ensure the desired levels of safety, health and well-being of our own employees, and also outsourced employees, Cemig Distribuição continues its programs started in previous years, and maintains innovative initiatives implementing new projects aimed to ensure the health, safety and well-being of its employees.

Programs continued in the year include the *Energia Vital* Quality of Life program, the disabled inclusion program, vaccination and blood donor programs, seminars on preparation for retirement.

In 2007 Cemig Distribuição carried out various training programs in safety, highlighting those related to electricity, technical courses and recycling, with a total of 254,820 employee-hours of training, as well as organization of workshops, meetings and other training sessions.

Labor and union relations

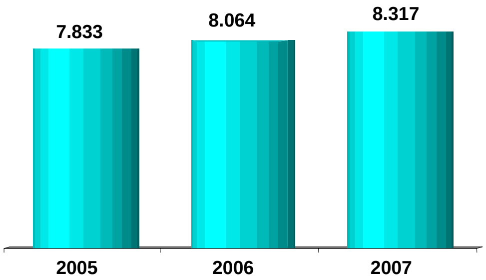
Over the last four years Cemig Distribuição has been negotiating changes in its remuneration policy with the unions, aiming to integrate the management processes of HR into the company's business strategy. A highlight of this process has been the certification of the company's Labor Relations Department under Brazilian standard NBR ISO 9001:2000.

New people

In October 2007, as part of Strategic Human Capital Management, the company created its Internal Mobility Procedure, which responds to demands from various areas of the company where vacancies occur. It aims to provide the maximum benefit to and make use of the company's own employees, in accordance with the criteria in the Jobs and Remuneration Plan, and the provisions of law.

At the end of 2007 Cemig Distribuição had 8,317 employees. 194 new employees were hired in the year.

NÚMBER OF EMPLOYEES



Culture and society

Cemig Distribuição maintains a profound involvement with the society of which it is a part. A central focus is sponsorship of cultural projects and incentive-related donations to initiatives for social empowerment and the improvement of quality of life.

In 2007 Cemig Distribuição invested R$ 19 million in cultural and social actions, directly benefiting the population of more than 200 municipalities in Minas Gerais. Most of the cultural projects sponsored by Cemig are continuous, or take the form of maintenance of permanent cultural spaces, reinforcing the concept of sustainability, a decisive factor in the construction of the citizen's identity and dignity.

By ensuring that popular theater festivals take place, or taking the artistic expression of Minas Gerais outside Brazil, Cemig Distribuição invests in the transforming force of culture, and reaps, together with a more mature society, comprehension of the best possible use of natural resources, respect for heritage and the common good.

Environment

Commitment to the environment and the quality of life of society as a whole is one of the basic principles ruling Cemig Distribuição's activity. Through its studies and actions, it aims to impress upon its employees and partners awareness of the environmental issue. This practice, specified in the company's environmental policy, and present in all its activities, gives value to the employees, increases the value of the company and ensures the sustainable development of society.

In 2007 Cemig Distribuição invested approximately R$ 7.6 million in environmental projects with facilities and equipment, and new projects.

Materials

Our care in handling materials continued in 2007. Highlights are the recycling of fluorescent lamps and public illumination lamps in the whole of the company's concession area totaling 342,000 lamps; and regeneration of approximately 946,000 liters of insulating oil from de-commissioned transformers.

Urban trees

Within Cemig Distribuição's guidelines for reducing outages caused by urban trees, some 400 of our own staff, and staff of other companies controlled by Cemig Distribuição and prefectures, were trained and qualified in urban tree management, including techniques for pruning urban trees.

Continuing the project in partnership with the municipal prefecture of Belo Horizonte and the Federal Universities of Viçosa and Paraná, 120 trees at risk in the Central-south region of the city were removed, and will be replaced by species planted in accordance with best tree cultivation practices.

In 2007, Cemig Distribuição produced 25,000 saplings, and 300 kg of seeds for urban arborization. All of this material is supplied to prefectures and related companies, free of charge.

We held our Seminar on Urban Tree Management in relation to Electricity Systems in September, 2007. This brought together representatives of prefectures and other electricity distribution concession holders, with presentations by representatives of the Utility Arborist Association and the Society of Municipal Arborists.

Awards

Dow Jones

Cemig is the only Latin American company that has been selected by the Dow Jones Sustainability World Index (DJSI World) as the world leader in a sector of the economy worldwide, side-by-side with the giant companies of the US and Europe. In the 2007-8 index, Cemig was named the best company in the utilities "supersector" (which includes electricity, gas distribution, water/sewerage and other public utility services worldwide). The DJSI World index was created 8 years ago and has become a worldwide reference for investors and fund managers. Cemig has been included in every edition of the index since its creation.

"Brazil's 150 Best Companies To Work In" – 2007 Exame Guia Você S.A. award

Cemig Distribuição, jointly with Cemig and Cemig Geração and Transmissão S.A., was chosen as the best of Brazil's large companies surveyed by *Exame* magazine's *Você S.A.* Guide's survey "105 Best Companies for you to Work In, in 2007". This is the second time running that Cemig Distribuição has been included in the list of the best companies to work for – indicating the recognition given by our internal public to the success of the internal management practices that we have been putting in place.

FINAL REMARKS

Cemig Distribuição's management is grateful to Minas Gerais state Governor Dr. Aécio Neves da Cunha for the trust and support he has shown during the year, and also the other federal, state and municipal authorities, the communities served by the company, our stockholders and other investors, and, especially, the dedication of our highly qualified workforce.

SOCIAL STATEMENT – CEMIG DISTRIBUIÇÃO

1 - Basis of calculations	2007			2006		
	R$ '000			R$ '000		
Net sales revenue (NR) R$ '000	5.976.411			5.419.054		
Operational profit (OR) R$ '000	1.450.302			1.056.427		
Gross payroll (GP) R$ '000	661.125			627.580		
2 - Internal social indicators	**R$ '000**	**% of GP**	**% of NR**	**R$ '000**	**% of GP**	**% of NR**
Food	53,206	8.05	0.89	53,349	8.69	0.84
Mandatory charges and payments based on payroll	181,153	27.40	3.03	165,812	27.02	2.63
Private pension plan	73,570	11.13	1.23	115,793	18.87	1.83
Health	23,487	3.55	0.39	21,874	3.56	0.35
Safety and medicine in the workplace	7,903	1.20	0.13	7,429	1.21	0.12
Education	693	0.10	0.01	461	0.08	0.01
Culture	111	0.02	-	-	-	-
Training and professional development	11,196	1.69	0.19	11,295	1.84	0.18
Provision of or assistance for day-care centers	1,230	0.19	0.02	1,157	0.19	0.02
Profit sharing	332,201	50.25	5.56	150,432	24.51	2.38
Other	8,644	1.31	0.14	7,833	1.28	0.12
Internal social indicators - Total	693,394	104.88	11.60	535,435	87.24	8.48
3 - External social indicators	**R$ '000**	**% of GP**	**% of NR**	**R$ '000**	**% of GP**	**% of NR**
Education	2,072	0.14	0.03	1,375	-	-
Culture	19,185	1.32	0.32	8,928	0.99	0.14
Other donations/subventions/ASIN project	14,413	0.99	0.24	19,588	2.16	0.31
Total contributions to society	35,670	2.46	0.60	28,516	3.15	0.45
Taxes (excluding payroll taxes)	4,177,810	288.06	69.90	4,163,999	459.61	65.95
External social indicators - Total	4,213,480	290.52	70.50	4,192,515	462.75	66.40
4 - Environmental indicators	**R$ '000**	**% of GP**	**% of NR**	**R$ '000**	**% of GP**	**% of NR**
Capital expenditure related to company operations	15.184	1,05	0,25	5.808	0,64	0,09
Investments in external projects or programs	-	-	-	-	-	-
In relation to setting of annual targets to minimize toxic waste and consumption during operations, and increasing the efficacy of use of natural resources, the company	(X) has no targets ( ) meets 0-50% of targets	( ) meets 51-75% ( ) meets 76-100%		(X) has no targets ( ) meets 0-50% of targets	( ) meets 51-75% ( ) meets 76-100%	
5 - Workforce indicators						
Number of employees at end of period	8.317			8.064		
Number of hirings during period	194			318		
Number of outsourced employees	ND			ND		
Number of interns	97			367		
Number of employees over 45 years old	3.072			2.437		
Number of women employed	1.068			1.030		
% of supervisory positions held by women	9,40			7,70		
Number of African-Brazilian employees	2.620			2.517		
Number of supervisory positions held by African-Brazilians	10,26			8,79%		
Number of employees with disabilities	42			ND		
6 - Corporate citizenship	**2007**			**Targets for 2008**		
Ratio of highest to lowest compensation	20,07			ND		
Total number of work accidents[4]	79			ND		
Who selects the social and environmental projects developed by the company?	( ) senior management	(x) senior management and functional managers	( ) all employees	( ) senior management	(x) senior management and functional managers	( ) all employees
Who decides the company's work environment health and safety standards?	( ) senior management and functional managers	(x) all employees	( ) All + CIPA	( ) senior management and functional managers	(x) all employees	( ) All + CIPA
In relation to labor union freedom, the right to collective bargaining and/or internal employee 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 company pension plan covers:	( ) senior management	( ) senior management and functional managers	(x) all employees	( ) senior management	( ) senior management and functional managers	(x) all employees
The profit-sharing program covers:	( ) senior management	( ) senior management and functional managers	(x) all employees	( ) senior management	( ) senior management and functional managers	(x) all employees
In selection of suppliers, the standards of ethics and social and environmental responsibility adopted by the company:	( ) are not considered	( ) are suggested	(x) are required	( ) will not be considered	( ) will be suggested	(x) will be required
In relation to volunteer work by employees, 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 consumer complaints and criticisms raised:	at Company ___NA____	at Procon ___NA___	in Court ___NA___	at Company_ ____-NA _	at Procon ___-NA __	in Court ___ NA ___
% of complaints and criticisms met or solved:	at Company ____NA__%	at Procon _NA__%	in Court __NA___%	at Company ____ NA __%	at Procon ____ NA ___%	in Court __ NA ___%
Total added value distributable (R$ '000)	In 2007:	6,760,189		In 2006:	6,599,978	
Distribution of added value	61,80% government 10,07% employees	17,30% employees 9,49% others 1,34% retained		62,76% government 11,39% employees	16,79% employees 8,46% others 0,60 % retained	

7) Other information

I. Waste generated is quantified in accordance with corporate procedures for handling, transport, storage and disposal. These procedures are developing in the direction of setting of annual targets for waste reduction.
II. We highlight the recycling of fluorescent lamps and public illumination throughout the company's concession area, totaling 321,000 lamps in 2007. Also approx.436,000 liters of insulating oil from deactivated transformers were regenerated by Cemig itself and incorporated into the electrical system
III. We quantify electricity and fuel consumption annually and do not have reduction targets.
4,685 tons of material and equipment – 31% more than in 2006 – was sold or recycled. The materials include porcelain insulators, scrap metal from meters, reactors, cables, wires and batteries.

* Accounted in *Investments related to production/operations*.

CEMIG
Distribuição S.A.

CEMIG DISTRIBUIÇÃO IN NUMBERS

	2005	2006	2007
Service			
Number of consumers (thousands)	6,010	6,240	6,440
Number of employees [(1)]	7,833	8,064	8,317
Number of consumers per employee	767	774	774
Number of locations served	5,415	5,415	5,415
Number of municipalities served	774	774	774
Market			
Concession area (km^2)	567,740	569,656	567,478
Average residential consumption (KWh/year)	1,337	1,313	1,313
Average retail tariffs – including ICMS tax (R$/MWh)			
Residential	474,20	496,62	521,54
Commercial	410,76	436,25	458,85
Industrial	268,52	293,86	308,15
Rural	248,84	265,36	270,61
DEC = Average hours of outages per year	12,21	13,03	13,14
FEC = Average number of outages per year	6,78	6,43	6,39
Average minutes of outages per month per consumer	61	65	66
Operational			
Substations	354	355	358
Sub-transmission lines (km)	16,040	16,376	16,405
Distribution lines (km)			
Urban	84,585	85,480	85,815
Rural	294,815	308,689	337,987
Financial			
Operational revenue – R$ million	9,275	9,283	9,900
Net operational revenue – R$ million	6,397	5,419	5,976
Operating margin - %	18.32	19.49	24.27
Ebitda - R$ million	1,536	1,423	1,867
Net profit – R$ million	990	770	771
Net profit per thousand shares, R$	437,72	340,22	340,94
Stockholders' equity - R$ million	2,312	2,350	2,441
Stockholders' equity per thousand shares	1,022	1,039	1,079
Return on Stockholders' equity - %	43.77	33.29	32.82
Debt / Stockholders' equity - %	300.41	302.02	309.96
Current liquidity	1.10	1.08	1.23
General liquidity	0.87	0.81	0.79

MEMBERS OF BOARDS

BOARD OF DIRECTORS

Members	Substitute members
Márcio Araújo de Lacerda	Francisco de Assis Soares
Djalma Bastos de Morais	Lauro Sérgio Vasconcelos David
Aécio Ferreira da Cunha	Eduardo Lery Vieira
Alexandre Heringer Lisboa	Franklin Moreira Gonçalves
Antônio Adriano Silva	Marco Antônio Rodrigues da Cunha
Francelino Pereira dos Santos	Luiz Antônio Athayde Vasconcelos
Maria Estela Kubitschek Lopes	Fernando Henrique Schüffner Neto
Wilson Nélio Brumer	Guilherme Horta Gonçalves Júnior
Wilton de Medeiros Daher	Eduardo Leite Hoffmann
Carlos Augusto Leite Brandão	Maria Amália Delfim de Melo Coutrim
Andréa Paula Fernandes Pansa	Andréa Leandro Silva
Evandro Veiga Negrão de Lima	Nohad Toufic Harati
José Augusto Pimentel Pessôa	Antônio Renato do Nascimento
Haroldo Guimarães Brasil	

AUDIT BOARD

Members	Substitute members
Aristóteles Luiz Menezes Vasconcellos Drummond	Marcus Eolo de Lamounier Bicalho
Luiz Guaritá Neto	Ronald Gastão Andrade Reis
Luiz Otávio Nunes West	Leonardo Guimarães Pinto
Celene Carvalho de Jesus	Ari Barcelos da Silva
Thales de Souza Ramos Filho	Aliomar Silva Lima

EXECUTIVE BOARD

Name	Position
Djalma Bastos de Morais	CEO
Agostinho Patrus	Deputy CEO
José Carlos de Mattos	Chief New Business Development Officer
Luiz Fernando Rolla	Chief Officer for Finance, Investor Relations and Control of Holdings
Fernando Henrique Schüffner Neto	Director
José Maria de Macedo	Chief Distribution and Sales Officer
Marco Antonio Rodrigues da Cunha	Chief Corporate Management Officer
Bernardo Afonso Salomão de Alvarenga	Chief Trading Officer

INVESTOR RELATIONS

Investor Relations Office
Telephones: (31) 3506-5024 – 3506-5028
Fax: (31) 3506-5025 - 3506-5026

Web / email :
Site: www.cemig.com.br
E-mail: ri@cemig.com.br

BALANCE SHEETS

AT DECEMBER 31, 2007 AND 2006

ASSETS

(R$ '000)

	Holding company	
	12/31/2007	**12/31/2006** Reclassified
CURRENT		
Cash and cash equivalents *(Note 4)*	636,286	219,115
Consumers and Traders *(Note 5)*	1,361,636	1,408,499
Extraordinary Tariff Recomposition and Portion "A" *(Note 7)*	389,259	300,555
Concession holders – Transportation of electricity	430,407	306,035
Taxes subject to offsetting *(Note 9)*	356,982	65,786
Anticipated expenses – CVA *(Note 8)*	508,222	433,642
Tax credits *(Note 10)*	126,570	59,145
Regulatory asset – PIS, Pasep, Cofins *(Note 12)*	55,247	107,959
Deferred Tariff Adjustment (Note 11)	463,491	791,231
Inventories	21,968	15,786
Other credits	196,274	128,073
TOTAL CURRENT ASSETS	4,546,342	3,835,826
NON-CURRENT		
Non-current assets		
Extraordinary Tariff Recomposition and Portion "A" *(Note 7)*	687,506	878,228
Anticipated expenses – CVA *(Note 8)*	177,211	157,612
Tax credits *(Note 10)*	186,713	136,883
Taxes offsettable *(Note 9)*	43,526	202,886
Deposits linked to legal actions	119,079	111,931
Consumers and Traders (Note 5)	44,469	50,357
Deferred Tariff Adjustment *(Note 11)*	81,742	127,488
Regulatory asset – PIS, Pasep, Cofins *(Note 12)*	60,880	190,551
Owed by related parties	5,733	7,540
Other credits	21,053	9,229
NON-CURRENT ASSETS	1,427,912	1,872,705
Fixed Assets		
Investments	4,261	2,795
Property, Plant and Equipment *(Note 13)*	3,847,609	3,617,369
Intangible *(Note 13)*	179,109	118,419
Deferred	132	254
TOTAL FIXED ASSETS	5,459,023	5,611,542
TOTAL ASSETS	10,005,365	9,447,368

The Explanatory Notes are an integral part of the financial statements.

BALANCE SHEETS

AT DECEMBER 31, 2007 AND 2006

LIABILITIES

(R$ '000)

	12/31/2007	12/31/2006 Reclassified
CURRENT		
Loans and financings (Note 16)	385,050	266,981
Debentures *(Note 16)*	17,672	15,279
Suppliers *(Note 14)*	568,392	653,502
Taxes, charges and contributions *(Note 15)*	652,937	750,183
Interest on Equity, and dividends	674,408	670,712
Salaries and payroll-related obligations	160,365	124,102
Regulatory charges *(Note 17)*	264,835	305,040
Profit shares	71,148	52,629
Post-employment obligations *(Note 18)*	64,238	87,369
Regulatory liabilities – CVA *(Note 8)*	529,961	328,143
Provision for losses on financial instruments *(Note 31)*	108,176	134,877
Other	209,323	154,494
TOTAL, CURRENT	3,706,505	3,543,311
NON-CURRENT		
Long term liabilities		
Loans and financings *(Note 16)*	1,670,425	1,877,271
Debentures *(Note 16)*	678,936	258,380
Provisions for contingencies *(Note 19)*	46,529	2,664
Suppliers *(Note 14)*	314,989	220,040
Post-employment obligations *(Note 18)*	824,686	890,456
Taxes, charges and contributions (Note *15)*	110,820	174,418
Regulatory liabilities – CVA *(Note 8)*	190,564	119,907
Regulatory charges *(Note 17)*	12,474	-
Other	8,895	10,939
TOTAL, NON-CURRENT	3,858,318	3,554,075
STOCKHOLDERS' EQUITY		
Registered capital *(Note 20)*	2,261,998	2,261,998
Profit reserves *(Note 20)*	178,544	87,984
TOTAL STOCKHOLDERS' EQUITY	2,440,542	2,349,982
TOTAL LIABILITIES	10,005,365	9,447,368

The Explanatory Notes are an integral part of the financial statements.

INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31 2007 AND 2006

(R$ ’000, except net profit per thousand shares)

	12/31/2007	12/31/2006 Reclassified
OPERATIONAL REVENUE		
Gross revenue from electricity supply (*Note 21*)	3,307,611	3,088,107
Revenue from use of grid (*Note 21*)	5,203,317	4,877,559
Revenue from use of grid – Free Consumers (*Note 22*)	1,321,481	1,260,721
Other operational revenue (*Note 23*)	67,970	56,899
	9,900,379	9,283,286
DEDUCTIONS FROM OPERATIONAL REVENUE (Note 24)	(3,923,968)	(3,864,232)
NET OPERATIONAL REVENUE	5,976,411	5,419,054
COST OF ELECTRICITY SERVICE		
COST OF ELECTRICITY		
Electricity bought for resale (Note 24)	(2,164,173)	(1,981,437)
Charges for use of the basic transmission grid	(446,838)	(515,224)
	(2,611,011)	(2,496,661)
COST OF OPERATION		
Personnel and management	(612,650)	(733,944)
Post-employment obligations	(72,827)	(115,793)
Materials	(67,931)	(58,520)
Third party services)	(350,078)	(291,609)
Depreciation and amortization	(398,199)	(365,517)
Operational provisions	(42.475)	(4,221)
Royalties for use of water resources	-	(11,581)
Other	(94,878)	(85,394)
	(1,639,038)	(1,666,579)
TOTAL COST	(4,250,049)	(4,163,240)
GROSS PROFIT	1,726,362	1,255,814
OPERATIONAL EXPENSES (*Note 25***)**		
Selling expenses	(162,828)	(130,429)
General and administrative expenses	(88,680)	(46,199)
Other operational expenses	(24,552)	(22,759)
	(276,060)	(199,387)
PROFIT FROM THE SERVICE (OPERATIONAL PROFIT BEFORE FINANCIAL REVENUES/EXPENSES)	1,450,302	1,056,427
Net financial revenues (Note 26)	7,853	188,955
OPERATIONAL PROFIT	1,458,155	1,245,382
NON-OPERATIONAL PROFIT (LOSS) (*Note 27***)**	(43,027)	(25,500)
PROFIT BEFORE INCOME TAX AND PROFIT SHARES UNDER BYLAWS	1,415,128	1,219,882
Income tax and Social Contribution (*Note 10b*)	(456,014)	(407,344)
Deferred income tax and Social Contribution (*Note 10b*)	144,295	107,461
Profit shares of employees and managers (*Note 28*)	(332,201)	(150,432)
NET PROFIT FOR THE PERIOD	771,208	769,567
NET PROFIT PER 1000 SHARES - R$	340,94	340,22

The Explanatory Notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(R$ ’000, except dividends and Interest on Equity per thousand shares)

	Registered capital	Profit reserves	Retained earnings	Total
BALANCES AT DECEMBER 31, 2005	**2,261,998**	**49,506**	**-**	**2,311,504**
Net profit for the year			769,567	769,567
Allocation of profit proposed to AGM:				
Legal Reserve		38,478	(38,478)	-
Interest on Equity (R$ 80.45 per thousand shares)			(181,963)	(181,963)
Complementary dividends (R$ 242.76 per thousand shares)			(549,126)	(549,126)
BALANCES AT DECEMBER 31, 2006	**2,261,998**	**87,984**	**-**	**2,349,982**
Net profit for the year			771,208	771,208
Allocation of profit proposed to AGM:				
Legal Reserve		38,560	(38,560)	-
Retained earnings reserve		52,000	(52,000)	-
Interest on Equity (R$ 66.23 per thousand shares)			(149,809)	(149,809)
Complementary dividends (R$ 234.68 per thousand shares)			(530,839)	(530,839)
BALANCES AT DECEMBER 31, 2007	**2,261,998**	**178,544**	**-**	**2,440,542**

The Explanatory Notes are an integral part of the financial statements.

Distribuição S.A.

STATEMENTS OF SOURCES AND USES OF FUNDS

YEARS ENDING DECEMBER 31, 2007 AND 2006
(R$ ’000)

ORIGINS OF FUNDS	12/31/2007	12/31/2006
From operations		
Net profit for the period	771,208	769,567
Expenses (revenue) not affecting working capital		
Depreciation and amortization	416,891	367,294
Long-term interest and monetary variations	(235,111)	(161,087)
Deferred income tax and Social Contribution	(144,295)	(107,461)
Net write-offs of PP&E	25,207	15,093
Post-employment obligations	73,570	115,793
Provision for losses in recovery of amounts of the Extraordinary Tariff Recomposition	2,285	7,759
(Reversal) provision for operational losses	43,864	(221)
Funds from operations	953,619	1,006,737
From third parties and stockholders		
Financings obtained	558,874	410,212
Special obligations – contributions from consumers	262,437	299,370
	821,311	709,582
Other origins		
Transfer from Non-current to Current		
Anticipated expenses – CVA	107,689	4,733
Regulatory assets – PIS, Cofins	129,671	184,071
Extraordinary Tariff Recomposition	390,483	285,926
Deferred Tariff Adjustment	181,546	764,141
Tax credits	94,466	-
Reduction of Non-current assets	-	21,152
Taxes offsettable	159,360	-
Other	6,299	26,350
	1,069,514	1,286,373
TOTAL SOURCES	2,844,444	3,002,692
USES OF FUNDS		
Taxes able to be offset	-	48,924
Anticipated expenses – CVA	58,757	71,386
Capital expenditure	1,466	859
PP&E	995,342	1,217,677
Interest on Equity and dividends	680,648	731,089
Transfer from Non-current liabilities to Current liabilities		
Suppliers	38,249	107,510
Post-employment obligations	139,340	160,463
Taxes and Social Contribution	63,598	316,282
Loans and financings	312,574	184,236
Tax credits – transfer from Current assets to Non-current assets	-	49,676
Payments into court	7,148	94,588
Other	-	39,635
TOTAL, USES	2,297,122	3,022,325
REDUCTION (INCREASE) IN NET WORKING CAPITAL	**547,322**	**(19,633)**
STATEMENT OF CHANGE IN NET WORKING CAPITAL		
At end of period		
Current assets	4,546,342	3,835,826
Current liabilities	(3,706,505)	(3,543,311)
	839,837	292,515
At start of period -	292,515	312,148
REDUCTION (INCREASE) IN NETWORKING CAPITAL	**547,322**	**(19,633)**

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

AT DECEMBER 31, 2007 AND 2006

In R$ ’000, except where otherwise stated.

1) – OPERATIONAL CONTEXT

Cemig Distribuição S.A. (“the Company” or “the Holding company”) is a Brazilian corporation registered for listing with the Brazilian Securities Commission (CVM), and a wholly-owned subsidiary of Companhia Energética de Minas Gerais – Cemig (“Cemig”), created on September 8, 2004, as a result of the segregation (“unbundling”) of Cemig’s business activities. It started operating on January 1, 2005.

Cemig’s electricity distribution contracts, signed in 1997, specified that its operations should be restructured through unbundling of its generation, transmission and distribution operations into wholly-owned subsidiaries.

Provisional Measure 144, of December 11, 2003, later converted into Federal Law 10848 of March 15, 2004, for restructuring the model of the Brazilian electricity sector, also required the separation of electricity generation, transmission and distribution into different companies.

As a result, the transmission lines and other assets and liabilities related to Cemig’s distribution activities were transferred, starting on January 1, 2005, to Cemig Distribuição.

Cemig Distribuição has a concession area of 567,740 km^2, approximately 97.00% of the Brazilian state of Minas Gerais, serving 6,440,085 consumers – at December 31, 2007 (information not audited by external auditors).

The company’s registration for listing was authorized by the CVM (Brazilian Securities Commission) on September 25, 2006, but its shares are not currently traded.

2) – PRESENTATION OF THE FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING PRACTICES

2.1) PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements of the holding company and the Consolidated Financial Statements were prepared in accordance with accounting practices adopted in Brazil, consisting of: the Corporate Law; the rules of the Brazilian Securities Commission (CVM – *Comissão de Valores Mobiliários*); and the specific legislation applicable to electricity concession holders, put in place by the Brazilian regulator (Aneel – National Electricity Agency).

With the aim of providing the best information to the market, the company is presenting statements of cash flows and added value, as complementary information, in Appendices I and II respectively. All the information presented was obtained from the companies accounting records, using accounting criteria that are uniform in relation to those adopted and published in full at the close of the previous business year. Certain information in the traditional income statement has been reclassified, due to being considered, in the statement of added value, as distribution of added value generated.

The statements of cash flows were prepared in accordance with the criteria set by FAS 95 – Statement of Cash Flows, in which reference is made to the format of presentation, in relation to format of presentation, in view of the fact that the parent company, Companhia Energética de Minas Gerais – Cemig (“Cemig”) registers its financial statements with the SEC (Securities and Exchange Commission) of the US.

On December 28, 2006 Aneel published its Dispatch 3073, which changed rules of the Public Electricity Service Accounting Manual, coming into effect on January 1, 2007, ordering that the following consumer charges – the Energy Efficiency Program, the Energy Development Account (CDE), the Fuel Consumption

Account (CCC), the National Scientific and Technological Development Fund (FNDCT), Expansion of the Energy System (EPE), and Research and Development – be transferred from Operational expenses to Deductions from operational revenue, with the corresponding reclassifications for the amounts presented in the 2006 business year.

As a result of inclusion in the Company's Bylaws in 2007 of a provision for payment of profit shares to the employees and managers of the company, this profit share has now begun to be posted as an amount reducing the line Net profit before tax and profit shares, where in 2006 it was posted under Personnel expenses.

Changes in the Brazilian Corporate Law

On December 28, 2007, Law 11638/07 was passed, altering, repealing and creating new provisions in the Brazilian Corporate Law in the chapter relating to disclosure and preparation of financial statements. Among other aspects, this changes the criterion for recognition and valuation of certain assets and liabilities. These changes in accounting practices come into effect as from January 1, 2008.

The aim of these changes is to increase the transparency of financial statements of Brazilian companies and eliminate some regulatory barriers that were an obstacle to the process of convergence of these financial statements with International Financial Reporting Standards (IFRS):

The main changes to the Law, coming into effect as from 2008, with the possibility of impacting the company's financial statements, are as follows:

- The Statement of origins and uses of funds is replaced by the Statement of cash flows.

- The Added Value Statement is included in the group of financial statements prepared and disclosed and to be approved by the Ordinary General Meeting of stockholders;

- A new possibility is created, further to that originally specified in the Corporate Law, of separation of trading reporting and tax reporting, by establishing the alternative for the company of adopting in its trading reporting, and not only in auxiliary books, the provisions of the Tax Law, provided that, immediately afterward, after the calculation of the taxable profit base amount, the necessary adjustments are made for the financial statements to be in harmony with the Corporate Law and the fundamental principles of accounting;

- Two new subgroups of accounts are created: *Intangible*, in permanent assets, and *Adjustments to valuations of assets and liabilities* in Stockholders' equity. The sub group of Adjustments to valuation of assets and liabilities will essentially have the purpose of containing the counterpart of certain valuations of assets at market price, the valuation of certain financial instruments and, also, conversion adjustments as a result of FX variation on holdings in companies outside Brazil – this latter function is still pending specific regulation by the CVM (Brazilian Securities Commission).

- New criteria are adopted for classification and valuation of investments and financial instruments, including derivatives. These financial instruments will be classified in three categories (Held for trading, Held to maturity and Available for sale) and depending on which of these categories they are classified in they will be valued at cost plus return or at market value.

- Introduction of the concept of Adjustment to Present Value for long-term asset and liability transactions and for significant short-term transactions, still awaiting specific regulation by the CVM.

- In absorption, merger or split transactions (combination of companies), when carried out between non-related parties and linked to effective transfer of control, all the assets and liabilities of the absorbed, split or merged company must be identified, valued and accounted at market value;

- Elimination of the possibility of spontaneous revaluations of fixed assets being made.

As communicated to the market, the CVM intends, by the end of 2008, to complete its process of issue of regulations for the provisions of the Corporate Law that were altered and which need regulation, and will review all its normative acts that deal with accounting matters, so as to verify and eliminate any divergences in relation to the specific alterations produced by the new law.

The Company's management is in the process of assessing the effects that the alterations mentioned above will produce on its stockholders' equity and profit for the year of 2008, and will also take into consideration the orientations and definitions to be issued by the regulatory bodies. At the present moment, management believes it is not possible to determine the effects of these alterations on profit and stockholders' equity for the business year ended December 31, 2007.

Reclassification of accounting balances

The effects arising from the changes in accounting classifications of certain transactions, as mentioned above, are as follows:

Original line	Consolidated Net amounts	Reclassified to	Consolidated Net amounts
Operational costs – Cost of operation		**Deductions from operational revenue**	
Energy Efficiency Program - PEE	103.727	Energy Efficiency Program - PEE	(103.727)
Energy Development Account – CDE	294.170	Energy Development Account – CDE	(294.170)
CCC – the Fuel Consumption Account	442.960	CCC – the Fuel Consumption Account	(442.960)
Research and development	24.274	Research and development	(24.274)
National Scientific and Technological Development Fund	20.025	National Scientific and Technological Development Fund	(20.025)
Energy system expansion research	10.012	Energy system expansion research	(10.012)
	895.168		**(895.168)**
Operational costs – cost of operation		**Income statement**	
Personnel and managers	**150.432**	Employees' profit shares	**(150.432)**

2.2) Authorization for conclusion of the financial statements

On February 26, 2008, the Company's Executive Board authorized conclusion of the Financial Statements for the year ended December 31, 2007, and consequent submission to the Board of Directors for approval.

2.3) Principal accounting practices

(a) Accounting practices specific to the electricity sector

Management expenses: These are appropriated monthly to the cost of works in progress, by a sharing of up to 8% of the direct expenses on personnel and outsourced services, in proportion to the investments made.

(b) General accounting practices

- Cash and cash equivalents: This includes cash balances, deposits in banks, and financial investments with immediate liquidity, valued at cost, plus the returns accruing up to the date of the financial statements.

- Consumers and traders: Supply of invoiced and uninvoiced electricity is accounted by the accrual regime on the date of the financial statements.

- Provision for doubtful credits: This is constituted in an amount considered sufficient to cover any losses on consumers and traders. The criteria for constitution of the provision are described in Explanatory Note 5.

- Inventories: These are valued at average acquisition cost. The materials in the inventory are classified in Current assets; the materials destined for works are classified in Fixed assets, and not depreciated.

- Non-controllable costs – CVA: The differences between the sums of the non-controllable costs (also known as "Portion A") used as a reference in the calculation of the tariff adjustment of Cemig Distribution and the disbursements actually made are offset in the adjustment of future tariffs, and recorded in Assets or Liabilities. After the inclusion of the differences in the tariff adjustment, the expenses are transferred monthly to the income statement in proportion to the receipt of amounts in payment of client invoices.

- Investments: Investments are valued at acquisition cost, reduced by any provision for losses, and when applicable updated in monetary terms up to December 31, 1995.

- Property, plant and equipment: Property, plant and equipment are valued at the cost incurred on the date of their acquisition or formation.

- Depreciation and amortization: These are calculated on the balance of Fixed assets in service and Investments in consortia, by the linear method, as mentioned in Explanatory Note 13, using the rates determined by Aneel, which reflect the estimated useful life of the assets.

- Special obligations linked to the concession: These are posted at the value received from clients, shown as adjustments to Property, plant and equipment. These obligations are directly linked to the Public Electricity Service Concession and, in accordance with Aneel Normative Resolution 234 of October 31, 2006 and SFF/Aneel Circular Letter 1314/2007 of June 27, 2007, will be amortized as from the second periodic tariff review (March 2008) at a rate to be defined by Aneel corresponding to the average rate of assets in service.

- Other current and non-current assets and liabilities: Those subject to monetary updating by reason of legislation or contractual clauses, and those denominated in foreign currency, are updated based on the indices specified therein, and FX variation, respectively, so as to reflect the updated amounts on the date of the financial statements. The others are presented at the values incurred on the date of formation, and in the case of assets reduced by provisions for losses, where applicable.

- Post-employment obligations: The costs, contributions and actuarial liabilities related to supplementary pension plans and the other post-employment benefits are determined annually and recognized as obligations and posted based on a valuation carried out by independent actuaries, using the Projected Unit Credit Method to determine the present value of the obligations, in accordance with CVM Decision 371/00.

- Interest on Equity: The Interest on Equity paid in substitution of dividends, although registered in accounting terms as a financial expense, is presented in the financial statements as an amount reducing Stockholders' equity, so as to reflect the essence of the transaction.

- Income tax and deferred Social Contribution: Provisions or credits are constituted on temporary additions, using the rates in effect on these taxes, in accordance with CVM Decision 273 of August 20, 1998 and CVM Instruction 371 of June 27, 2002, and take into account past profitability and the expectation of generation of future taxable profits based on a technical feasibility study.

- Employees' profit shares: These are provisioned in accordance with the collective labor agreement made with the unions representing the employees and are posted as amounts reducing Profit before tax and employee profit shares under the Bylaws, as a result of the inclusion of this procedure in the Company's bylaws in 2007.

- Income statement: Revenues and expenses are recognized by the accrual method.

- Net profit per thousand shares: This is calculated on the basis of the number of shares on the date of the financial statements.

- Use of estimates: The preparation of financial statements requires management to use estimates for the posting of certain transactions, which affect assets and liabilities, revenues and expenses of Cemig and of the subsidiaries, and also the disclosure of information on data of their financial statements. The final results of these transactions and information, when they are actually carried out in subsequent periods, may be different from these estimates. The Company revises the estimates and assumptions at least quarterly, except in relation to the Post-employment obligations, as specified in the note above. The main estimates relate to the financial statements referred to the posting of the effects arising from the Rationing Program, the General Agreement for the Electricity Sector, transactions in the Electricity Sale Chamber ("CCEE"), the Provision for doubtful credits, anticipated expenses – CVA, Tax credits, Post-employment obligations, Provisions for contingencies, and Unbilled supply of electricity.

- Provisions: A provision is recognized in the balance sheet when the company has a legal obligation or an obligation constituted as a result of a past event, and it is probable that the funds will be required to settle it. Provisions are registered on the basis of the best estimates of the risk involved.

3) – CONCESSIONS

Cemig Distribuição has the following concessions from Aneel:

	Information not audited	
	Date of concession	
State of Minas Gerais	or authorization	Date of expiry
North	04/1997	02/2016
South	04/1997	02/2016
East	04/1997	02/2016
West	04/1997	02/2016

The company did not have obligations to make compensatory payments for commercial operation of the concessions for distribution, but is required to meet the demands for quality and investment specified in the concession contracts, which were all complied with at December 31, 2007.

4) – CASH AND CASH EQUIVALENTS

	12/31/2007	12/31/2006
Bank accounts	245,398	70,578
Cash Investments – Bank CDs	390,888	148,537
	636,286	**219,115**

Cash investments are transactions carried out with Brazilian financial institutions, remunerated, substantially, by the variation in the CDI (Interbank CD) rate, with tenor of less than 90 days, and contracted on conditions and rates that are normal for the market, and are available to be used in the Company's operations.

- ## 5) – CONSUMERS AND RESELLERS

Consumer category	Not yet due	Up to 90 days past due	More than 90 days past due	Total 12/31/2007	Total 12/31/2006
Residential	383,232	170,860	70,640	624,732	596,861
Industrial	143,328	47,952	95,038	286,318	398,107
Commercial, services and others	192,314	59,471	55,772	307,557	285,223
Rural	61,373	23,966	15,938	101,277	85,783
Public authorities	29,775	8,682	5,814	44,271	39,350
Public illumination	96,289	9,708	10,256	116,253	96,373
Public service	84,347	3,223	4,106	91,676	76,316
Sub-total – consumers	990,658	323,862	257,564	1,572,084	1,578,013
Supply to other concession holders	13,392	-	-	13,392	20,150
Provision for doubtful credits	-	-	(223,840)	(223,840)	(189,664)
	1,004,050	**323,862**	**33,724**	**1,361,636**	**1,408,499**

Receivables in the amount of R$ 44,469 are recorded in Mon-current assets (Long-term receivables) at December 31, 2007 (R$ 50,357 at December 31, 2006), in relation to the renegotiation of receivables owed by Copasa (Minas Gerais Water Company) and the prefecture of Belo Horizonte, to be paid by September 2012 and March 2010, respectively.

The breakdown of the provision for doubtful receivables, by consumer category, is as follows:

	12/31/2007	12/31/2006
Residential	77,352	72,771
Industrial	87,326	62,823
Commercial, services and others	39,721	38,204
Rural	8,450	7,617
Public authorities	3,148	2,450
Public illumination	5,154	4,008
Public service	2,689	1,791
	223,840	**189,664**

Changes in the provision for doubtful receivables in 2007 were as follows:

	12/31/2007	12/31/2006
Balance on December 31, 2006	189,664	95,728
Constitution (reversal) of provision	(63,710)	(10,676)
Deducted from accounts receivable	97,886	104,612
Balance on December 31, 2007	**223,840**	**189,664**

According to rules laid down by Aneel, the criteria for constitution of provisions are as follows: (i) for consumers with significant debts payable, an individual analysis is made of the balance, taking into account the history of default, negotiations in progress and the existence of real guarantees; (ii) for other consumers, the debts receivable and unpaid for more than 90 days from residential consumers, more than 180 days from commercial consumers and more than 360 days for the other consumer categories are provisioned in full.

The Provision for doubtful receivables is considered to be sufficient to cover any losses on realization of these assets.

The amount of R$ 45,778 is posted for credits from an industrial consumer that were not paid due to a court injunction that allowed this amount not to be paid until final judgment on a lawsuit challenging a tariff adjustment made during the Cruzado Economic Plan, by Ministerial Order 045/86. The company expects this lawsuit to be concluded before the end of 2008, and that the amounts referred to will be received in full.

6) – REGULATORY ASSETS AND LIABILITIES

The General Agreement for the Electricity Sector, signed in 2001, and the new regulations governing the electricity sector, result in the constitution of several regulatory assets and liabilities, and also in deferral of federal taxes applicable to these assets and liabilities (which are settled as and when the assets and liabilities are received and/or paid), as shown here:

	12/31/2007	12/31/2006
Assets		
Extraordinary Tariff Recomposition and Portion "A" – Note 7	1,076,765	1,178,783
Deferred tariff adjustment – Note 11	545,233	918,719
PIS, Cofins and Pasep taxes – Note 12	116,127	298,510
Anticipated expenses – CVA – Note 8	685,433	591,254
Revision of the Tariff for Use of the Distribution System - TUSD	3,089	-
Recovery of discounts on the TUSD	3,327	1,997
Low-income subsidy	116,361	30,987
	2,546,335	3,020,250
Liabilities		

Suppliers – passthrough to generators for purchase of Free Energy – Note 14	(338,357)	(327,618)
Regulatory liabilities – CVA – Note 8	(720,525)	(448,050)
Revision of the distribution system – TUSD	(15,955)	-
	(1074,837)	(775,668)
Taxes and contributions – deferred liabilities – Note 15	(320,168)	(636,794)
	(1,395,005)	(1,412,462)
	1,151,330	**1,607,788**

7) – THE EXTRAORDINARY TARIFF RECOMPOSITION, AND PORTION "A"

a) The Extraordinary Tariff Recomposition

The procedures for implementation of the Extraordinary Tariff Recomposition (RTE) were set by Resolution 91 of the Emergency Electricity Council (GCE) of December 21, 2001, and Law 10438 of April 26, 2002, coming into force on December 27, 2001. The tariff adjustments were set by Resolution 130 of the GCE, on April 30, 2002, as follows:

- Adjustment of 2.90% for consumers in the residential classes (excluding low-rental consumers), and the rural, public-illumination and industrial high-voltage consumer classes for whom the cost of electricity represents 18.00% or more of the average cost of production and which meets certain requirements related to load factor and electricity demand, specified in the Resolution.

- Increase of 7.90% for other consumers.

The RTE described above is being used to compensate the following items:

- Losses of invoiced sales revenue in the period from June 1, 2001 to February 28, 2002, corresponding to the difference between estimated revenue if the rationing program had not been put in place and the actual revenue while the program was in place, according to a formula published by Aneel. Calculation of this value did not take into account any losses from default by consumers.

- Passthrough to be made to the generators who bought energy in the MAE – which was succeeded in 2004 by the Electricity Sale Chamber (the "CCEE/MAE") – in the period from June 1, 2001 to February 28, 2002, with price in excess of R$ 49.26/MWh ("Free Energy").

The recovery of the credits through the RTE, in accordance with Normative Resolution 45, of March 3, 2004, is carried out in the proportion of 64.29% and 35.71% for the credits relating to the losses of billing and free energy, respectively.

The RTE credits, relating to losses from rationing, are being updated by the variation in the Selic rate up to the month in which they are actually offset.

The RTE credits relating to free energy are updated by the Selic rate with the addition of 1.00% per annum of interest for the amounts to be passed through to the generators who obtained loans from the BNDES.

The ICMS tax applicable to the consolidated balance of the RTE, corresponding to the revenues to be invoiced, which is estimated at R$ 92,336 on December 31, 2007 (R$ 136,599 on December 31, 2006) is due only at the time of issuance of the respective electricity bills to consumers. The company operates as a mere passthrough agent of this tax between consumers and the state tax authority, and thus did not make any record of the said obligation in advance.

Provision for losses in realization

Aneel Normative Resolution Nº 1 of January 12, 2004 adjusted the period of validity of the Extraordinary Tariff Recomposition from 82 to 74 months, so that it was in force from January 2002 to February 2008. The Company made a study to verify whether the stipulated period of 74 months would be sufficient to recover the amounts homologated by Aneel.

The preparation of this study is based on certain assumptions, the most important being those referring to the projections for tariff increases, inflation rates, the Selic rate and the growth of the electricity market.

Based on this study, we estimated the provision for losses in the realization of the RTE amounts on December 31, 2007 at R$ 92,329 (R$ 90,044 on 31 December, 2006), and this amount is posted as reducing the respective asset, with a counterpart in Financial revenue (expenses).

b) Portion "A"

The items of Portion "A" are defined as being the sum of the differences, positive or negative, in the period January 1 to October 25, 2001, between the amounts of the non-manageable costs presented on the basis of the calculation for determination of the last annual tariff adjustment and the disbursements which effectively took place in the period.

Through Normative Resolution No. 1, of January 12, 2004, Aneel laid down that the values of the variations in the non-manageable items of Portion "A" would cease to be included in the limit period of validity of the RTE, and their recovery would begin immediately after the end of the period of validity of the RTE, using the same mechanisms of recovery, that is to say, the adjustment applied to the tariffs for compensation of the RTE values will remain in effect for compensation of the items of Portion "A".

The Portion "A" credits are updated by the variation in the Selic rate up to the month in which they are actually offset, and there is no time limit for their being carried.

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

	12/31/2007			12/31/2006
	Principal	**Updating by Selic rate**	**Total**	**Total**
Recomposition of losses of billing [1]	713,391	591,492	1,304,883	1,276,580
Amounts received	(643,518)	(533,559)	(1,177,077)	(977,511)
	69,873	57,933	127,806	299,069
(-) Provision for losses on realization of RTE amounts	(50,477)	(41,852)	(92,329)	(90,044)
	19,396	16,081	35,477	209,025
Reimbursement of the generators' spending on free energy [2]	419,229	376,345	795,574	720,353
Amounts received	(243,298)	(218,410)	(461,708)	(382,983)
	175,931	157,935	333,866	337,370
Total of the RTE	195,327	174,016	369,343	546,395
Compensation of the Portion "A" [3]	245,299	462,123	707,422	632,388
Total of RTE and Portion "A"	**440,626**	**636,139**	**1,076,765**	**1,178,783**
Current assets			389,259	300,555
Non-current assets			687,506	878,228

The RTE amounts to be passed through to the generators relating to free energy, recorded in Liabilities, in the account Suppliers (Note 14), are as follows:

	12/31/2007			12/31/2006
	Principal	Updated by Selic rate	Total	Total
Amounts to be passed through to the generators [2]	419,229	363,091	782,320	682,733
(-) amounts realized	(237,911)	(206,052)	(443,963)	(355,115)
	181,318	**157,039**	**338,357**	**327,618**
Current liabilities			23,368	107,578
Non-current liabilities			314,989	220,040

(1) Amounts homologated by Aneel Resolutions 480 and 481 of 2002 and 001 of 2004.
(2) Amounts homologated by Aneel Resolutions 001 and 045 of 2004.
(3) Amounts homologated by Aneel Resolutions 482 and 2002 of 001 and 2004.

8) – ANTICIPATED EXPENSES AND REGULATORY LIABILITIES – CVA

The balance on the Account to Compensate for Variation of Portion “A” items (CVA) refers to the positive and negative variations between the estimate of Cemig’s non-manageable costs, used for deciding the tariff adjustment, and the payments actually made. The variations ascertained are compensated in the subsequent tariff adjustments.

	Balance on 12/31/2006	Amounts deferred (1)	Amortization (2)	Monetary updating (3)	Balance on 12/31/2007
Energy bought for resale	100,105	(45,714)	(101,572)	10,891	(36,290)
Quota for Fuel Combustion Account (CCC)	(9,960)	(53,152)	43,741	(7,671)	(27,042)
System Service Charge (ESS)	44,231	(1,345)	(22,796)	(212)	19,878
Tariff for transport of electricity from Itaipu	4,083	(3,002)	(1,497)	(329)	(745)
Tariff for use of basic grid transmission facilities	(21,107)	(22,353)	36,628	(4,822)	(11,654)
Royalties for Use of Water Resources	6,585	-	(3,247)	(218)	3,120
Quota for Energy Development Account (CDE)	8,206	3,323	(1,223)	(113)	10,193
Alternative Electricity Sources Incentive Program (Proinfa)	11,061	4,619	(8,975)	743	7,448
	143,204	(117,624)	(58,941)	(1,731)	(35,092)

	12/31/2007	12/31/2006
Current assets	508,222	433,642
Non-current assets	177,211	157,612
Current liabilities	(529,961)	(328,143)
Non-current liabilities	(190,564)	(119,907)
	(35,092)	143,204

(1) This refers to the portion of non-controllable costs that make up the CVA, and which was not included in revenue, hence was excluded from the income statement.
(2) This refers to the non-controllable costs included in the CVA that were included in the income statement due to the inclusion in the Company’s revenue.
(3) This refers to the updating, by the Selic rate, from the date of payment of the expense to its actual compensation in the tariff adjustment.

9) – TAXES SUBJECT TO OFFSETTING

	12/31/2007	12/31/2006
Current		
ICMS recoverable	102,121	1,625
Income tax	124,335	20,478
Social Contribution	60,782	13,552
Cofins	58,629	5,084
Pasep	11,069	24,422
Others	46	625
	356,982	65,786
Non-current		
ICMS recoverable	43,526	202,886
	400,508	**268,672**

The balances of Income tax and Social Contribution refer to credits on the Corporate income tax return for previous years and for payments made in 2007 which will be offset in the income tax and Social Contribution payable for the year of 2008.

The credits of ICMS tax recoverable, posted in Non-current assets, arise from acquisitions of fixed assets, and can be offset in up to 48 months. The Company is in the process of adaptation to the new electronic standards required by the state government of Minas Gerais, which will enable the credits to be offset starting in 2008.

12) – TAX CREDITS

	12/31/2007	12/31/2006
Social Contribution	60,782	13,552
Cofins	58,629	5,084
Pasep	11,069	24,422
Others	46	625
	356,982	65,786
Non-current		
ICMS tax recoverable	43,526	202,886
	400,508	**268,672**

The balances of income tax and Social Contribution refer to tax credits in Corporate income tax returns of previous years, and payments made in 2007, which will be offset in the income tax and Social Contribution payable in 2008.

The credits of ICMS recoverable, posted in Non-current assets, arise from acquisitions of fixed assets and are offset in 48 months. The company is in the process of adaptation to the new requirements for electronic information laid down by the government of the state of Minas Gerais, which will allow for the offsetting of the credits as from the first quarter of 2008.

10) – TAX CREDITS

a) Deferred income tax and Social Contribution

Cemig Distribuição has deferred income tax credits posted in Current assets and Non-current assets, constituted at the rate of 25.00%, and deferred Social Contribution credits, at the rate of 9.00%, as follows:

	12/31/2007	12/31/2006
Tax credits on temporary differences		
Post-employment obligations	40,795	35,704
Provision for doubtful receivables	87,300	71,973
Provision for contingencies	15,820	906
Provision for losses in recovery of the Extraordinary Tariff Adjustment	31,392	30,615
Provision for Pasep and Cofins – Extraordinary Tariff Recomposition	18,128	38,925
Financial instruments	46,527	-
FX variation	49,456	-
Other	23,865	17,905
	313,283	**196,028**
Current assets	126,570	59,145
Non-current assets	186,713	136,883

At its meeting on February 14, 2008 the Board of Directors approved the technical study prepared by the Chief Officer for Finance, Investor Relations and control of holdings of Cemig Distribuição on the forecasts for future profitability adjusted to present value, which show capacity for realization of the deferred tax asset in a maximum period of 10 years, as defined in CVM Instruction 371. This study was submitted to Cemig's Audit Board for examination on February 14, 2008.

In accordance with the individual estimates of Cemig Distribuição, future taxable profits enable the deferred tax asset existing on December 31, 2007 to be realized according to the following estimate:

		12/31/2007
2008		126,570
2009		77,168
2010		27,711
2011		27,711
2012		27,711
2013 to 2015		18,254
2016 and 2017		8,158
		313,283

b) Reconciliation of the expense on income tax and Social Contribution:

The reconciliation of the nominal expense on income tax (rate 25%) and Social Contribution (rate 9%) with the actual expense shown in the Income Statement is as follows:

	12/31/2007	12/31/2006
Profit before income tax and Social Contribution	1,415,128	1,219,882
Income tax and Social Contribution – nominal expense	(481,144)	(414,760)
Effects on:		
Interest on Equity	50,935	61,867
Employees' profit shares	112,948	51,147
Tax incentives	16,822	11,198
Non-deductible contributions and donations	(9,824)	(7,409)
Adjustment to corporate tax return of previous year	(555)	-
Tax credits not recognized	(189)	(1,510)
Other	(712)	(416)
Income tax and Social Contribution – actual expense	**(311,719)**	**(299,883)**

11) – DEFERRED TARIFF ADJUSTMENT

Aneel defined the results of the periodic tariff revision of Cemig Distribuição through Homologating Resolution 71, which was published with backdated effect on April 4, 2004.

The periodic tariff revision includes the repositioning of the electricity retail supply tariffs at a level compatible with the preservation of the economic-financial equilibrium of the concession contract, providing sufficient revenue to cover efficient operational costs and adequate remuneration of the investments.

The average adjustment applied to Cemig's tariffs on April 8, 2003, on a provisional basis, was 31.53%. However, as described in the Resolution mentioned, the final tariff repositioning for Cemig should be 44.41%. The percentage difference of 12.88% was to be offset through an increase of R$ 301,334, at April 2003 values, in the tariff adjustments scheduled to take place in 2004 through 2007, cumulatively.

The last portion that should have been included in the tariff adjustment of April 8, 2007 was postponed to the year 2008.

The difference between the tariff repositioning to which Cemig Distribuição has the right and the tariff actually charged to consumers is recognized as a Regulatory Asset.

The amounts relating to the deferred tariff adjustment are updated in monetary terms by the IGP-M Index plus interest of 11.26% per year.

	2007	2006
Deferred Tariff Adjustment – since 08/04.2003	949,612	949,612
Interest (defined by Aneel – 11.26% p.a.)	434,188	351,044
Monetary updating – IDP-M	189,763	137,107
(-) Amounts raised	(1,028,330)	(519,044)
	545,233	918,719
Current assets	463,491	791,231
Non-current assets	81,742	127,488

Additionally, deferred taxes applicable to actual revenue were recognized, the balance of which on December 31 2007 was R$ 235,813.

12) – REGULATORY ASSET – PIS/PASEP AND COFINS

Federal Laws 10637 and 10833 changed the bases of application, and increased the rate, of the PIS/Pasep and Cofins taxes. As a result of these alterations there was an increase in PIS/Pasep expenses from December 2002 to March 2005 and in expenses on the Cofins tax from February 2004 to June 2005.

In accordance with the criteria set by Aneel, the Company registered the credits as a Regulatory Asset and made a counterpart entry reducing the expense on PIS, Pasep and Cofins.

This regulatory asset is being reimbursed to the Company through the tariff adjustments in the period from 2006 to 2008.

13) – ASSETS AND INTANGIBLE ASSETS

	Historic cost	Accumulated depreciation	Net value 12/31/2007	Net value 12/31/2006
In service	**9,718,650**	**(4,210,669)**	**5,507,981**	**4,355,420**
- Distribution	9,349,268	(3,967,453)	5,381,815	4,262,169
Intangible	10,985	(524)	10,461	7,975
Land	17,953	-	17,953	16,253
Buildings, works and improvements	240,459	(117,144)	123,315	114,547
Machines and equipment	9,009,077	(3,813,325)	5,195,752	4,111,374
Vehicles	60,378	(26,246)	34,132	11,796
Furniture and utensils	10,416	(10,214)	202	224
- Administration	369,382	(243,216)	126,166	93,251
Intangible	109,854	(62,258)	47,596	23,666
Land	1,177	-	1,177	1,510
Buildings, works and improvements	43,700	(25,258)	18,442	19,109
Machines and equipment	161,742	(110,241)	51,501	45,720
Vehicles	32,806	(27,007)	5,799	2,717
Furniture and utensils	20,103	(18,452)	1,651	529
In progress	**969,453**	-	**969,453**	**1,568,646**
- Distribution	785,885	-	785,885	1,466,272
PP&E	749,099		749,099	1,422,684
Intangible	36,786	-	36,786	43,588
- Administration	183,568	-	183,568	102,374
PP&E	99,303		99,303	59,184
Intangible	84,265	-	84,265	43,190
Total PP&E + Intangible	**10,688,103**	**(4,210,669)**	**6,477,434**	**5,924,066**
Special Obligations linked to the concession			(2,450,716)	(2,188,278)
PP&E + Intangible, net			**4,026,718**	**3,735,788**

"Special Obligations" refer basically to the contributions by consumers for execution of the undertakings necessary to comply with requests for retail supply of electricity, and any settlement of these obligations depends on the will of Aneel, at the termination of the distribution concessions, by reduction of the residual value of the fixed asset for the purposes of determining the amount which the Concession-granting Power will pay to the concession holder.

Under Aneel Resolution 234 of October 31, 2006, and Aneel Circular 1314/2007, of June 27, 2007, the balances of the Special Obligations linked to assets will now be amortized as from the second cycle of tariff reviews, which in the case of Cemig is from April 8, 2008, at a rate yet to be set by Aneel, corresponding to the average rate of the assets in service.

The breakdown of the obligations linked to the public electricity service concession is as follows:

	12/31/2007	12/31/2006
Participation of federal government	434,649	102,253
Participation of the states	7,115	5,411
Participation of the municipalities	239,952	192,183
Participation of the consumer	1,765,413	1,730,062
Others	3,587	158,369
	2,450,716	2,188,278

Under the *Light for Everyone* Program, approximately 190,000 consumers were connected, mainly in rural areas, for a total cost, up to December 31, 2007, of R$ 1,598,709. The program is being carried out with funds from the federal and state governments, in the amounts, respectively, of R$ 593,302 and R$ 78,706. The remaining amount was financed from the Company's own funds.

In its operations the Company uses assets of the federal government that are not recorded in the financial statements, the value of which on December 31, 2007, net of depreciation, is R$ 54.

Some land sites and buildings of the subsidiaries which were given in guarantee in law suits involving tax, labor-law, civil and other disputes are recorded in Fixed assets – Administration. These were posted at the amount of R$ 9,177 December 31, 2007 (R$ 8,587 on December 31, 2006).

The company's average annual depreciation rate is 5.08%. The principal annual depreciation rates, in accordance with Aneel Resolution 240 of December 5, 2006 are as follows:

Distribution	(%)
System switch	6.70
Concrete post	5.00
Bare aluminum wire	5.00
Transformer	5.00
Breaker switch	3.00
Capacitor bank	6.70
Distribution switch	6.70
System conductor	5.00
System structure	5.00
Voltage regulator	4.80

Administration	(%)
Software	20.00
Vehicles	20.00
General equipment	10.00
Building	4.00

Under Article 63 and 64 of Decree 41019 of February 26, 1957, goods and facilities used in distribution, including sales, are linked to these services, and cannot be withdrawn, disposed of, assigned or given in mortgage guarantee without the prior express authorization of the Regulator. Aneel Resolution 20/99 provides regulations for de-linking of assets of public electricity service concessions, granting prior authorization for separation of assets that do not serve the concession, when destined for disposal, and require the proceeds to be deposited in a linked bank account, to be applied in the concession.

The company transferred the interest on financings related to works in progress, to Fixed assets, as follows:

	12/31/2007	12/31/2006
Interest accounted	286,280	273,981
(-) Transfer to Fixed assets in progress	(8,822)	(2,743)
Net effect in income statement	277,458	271,238

No monetary or FX variations were transferred to Fixed assets in 2007 nor 2006.

14) – SUPPLIERS

	12/31/2007	12/31/2006
Current		
Supply and transport of electricity		
Eletrobrás – Electricity from Itaipu	196,913	191,330
Furnas	66,209	61,265
CCEE	-	7,141
Cemig Geração e Transmissão S.A.	13,490	14,744
Wholesale supply of electricity – passed through to generators (Note 7)	23,368	107,578
Other generators and distributors	112,461	89,621
	412,441	471,679
Materials and services	155,951	181,823
	568,392	653,502
Non-current		
Wholesale supply of electricity – passed through to generators (Note 7)	314,989	220,040
	883,381	**873,542**

15) – TAXES, CHARGES AND CONTRIBUTIONS

	12/31/2007	12/31/2006
Current		
ICMS tax	242,892	209,283
Cofins	51,009	40,835
Pasep	11,074	12,507
INSS (social security)	11,457	11,732
Other	16,337	13,450
	332,769	287,807
Deferred obligations		
Income tax	196,214	273,042
Social Contribution	70,637	98,295
Cofins	43,806	74,800
Pasep	9,511	16,239
	320,168	462,376
	652,937	**750,183**
Non-current		
Deferred obligations		
Income tax	81,485	111,008
Social Contribution	29,335	39,963
Cofins	-	19,265
Pasep	-	4,182
	110,820	**174,418**

Deferred obligations refers to the regulatory assets and liabilities and are owed to the extent that these assets and liabilities are received or paid, respectively.

16) – LOANS, FINANCINGS AND DEBENTURES

Financing sources	Principal maturity	Annual financial charges (%)	Currency	12/31/2007 Current	12/31/2007 Non-current	12/31/2007 Total	12/31/2006 Total
FOREIGN CURRENCY							
ABN AMRO Bank - N. (2)	2013	6.00	US$	74	88.565	88.639	106.989
ABN AMRO Real S.A. (3)	2009	6.35	US$	2.877	2.782	5.659	10.209
ABN AMRO Real S.A. (3)	2009	6.35	US$	7.856	7.599	15.455	27.883
ABN AMRO Real S.A. (3)	2009	6.35	US$	2.530	2.461	4.991	9.009
Banco do Brasil S.A. – various bonds (1)	2024	Various	US$	12.526	80.095	92.621	132.718
B.N.P. – Paribas	2010	Libor + 1.875	US$	9.030	13.020	22.050	26.643
KFW	2016	4.50	EURO	1.721	13.764	15.485	18.601
UNIBANCO S.A (4)	2007	6.50	US$	-	-	-	96.729
UNIBANCO S.A (5)	2009	5.50	US$	25	3.611	3.636	4.389
UNIBANCO S.A (5)	2009	5.00	US$	39	9.002	9.041	10.912
Others	2007	Various	Various	-	-	-	1.294
Debt in foreign currency				**36.678**	**220.899**	**257.577**	**445.376**
BRAZILIAN CURRENCY							
Banco do Brasil S.A	2009	111.00 do CDI	R$	828	56,178	57,006	57,160
Banco do Brasil S.A	2013	CDI + 1.70	R$	1,201	20,001	21,202	21,444
Banco do Brasil S.A	2013	107.60% of CDI	R$	7,742	96,000	103,742	105,675
Banco do Brasil S.A	2014	104.1% of CDI	R$	5,933	300,000	305,933	307,098
Banco Itaú BBA	2008	IGP-M + 10.48	R$	179,846	-	179,846	174,148
Banco Itaú BBA	2013	CDI + 1.70	R$	8,088	132,434	140,522	142,153
Banco Itaú BBA	2014	CDI + 1.70	R$	475	3,473	3,948	4,061
HSBC Bank Brasil S.A	2008	CDI + 2.00	R$	10,662	-	10,662	10,691
Banco Votorantim S.A.	2010	113.50% do CDI	R$	1,611	29,248	30,859	31,248
Banco Votorantim S.A.	2013	CDI + 1.70	R$	5,133	98,214	103,347	104,394
Bradesco S.A.	2013	CDI + 1.70	R$	15,058	240,869	255,927	258,884
Debentures (6)	2014	IGP-M + 10.50	R$	16,452	278,217	294,669	273,659
Debentures (6)	2017	IPCA+7.96	R$	1,220	400,719	401,939	-
ELETROBRÁS	2008	FINEL + 8.50	R$	5,585	-	5,585	10,581
ELETROBRÁS	2023	UFIR + 6.00 to 8.00	R$	47,046	290,576	337,622	213,038
Large consumers	2011	Various	R$	2,771	2,157	4,928	4,830
Large consumers	2007	IGPM+6.00	R$	-	-	-	1,866
Santander do Brasil S.A.	2013	CDI + 1.70	R$	245	49,958	50,203	53,624
UNIBANCO S.A.	2013	CDI + 1.70	R$	5,153	130,224	135,377	136,088
Banco WestLB do Brasil	2008	IGPM +10.48	R$	44,961	-	44,961	43,544
Others	2010	Various	R$	6,034	194	6,228	18,349
Debt in Brazilian currency				**366,044**	**2,128,462**	**2,494,506**	**1,972,535**
Overall Total				**402,722**	**2,349,361**	**2,752,083**	**2,417,911**

(1) Interest rates vary: 2.00% to 8.00% per year; Six-month Libor plus spread of 0.81 to 0.88% per year.
(2) to (5) "Swaps" for exchange of rates were contracted.
The following are the rates for the loans and financings taking the swaps into account:
(2) CDI + 2.00% p.a.; (3) CDI + 2.12% p.a.; (4) CDI = 2.81; and (5) CDI + 3.01% p.a.;
(6) Debentures not convertible into shares, unsecured, without preference, nominal, book-entry.

On December 2007 the Company concluded its second issue of non-convertible debentures, issuing a single series of 40,000 non-convertible, unsecured debentures, with nominal unit value of R$ 10, totaling R$ 400,000. These have tenor of 120 months from the issue date, with interest paid annually and payment of the principal in three equal installments in December 2015, 2016 and 2017. The nominal value of the debentures will be updated by the variation of the IPCA inflation index, plus remuneration interest of 7.96% per year.

The consolidated composition of loans, by currency and indexor, and the respective amortizations, are as follows:

	2008	2009	2010	2011	2012	2013	2014	2015 and after	Total
CURRENCY									
US dollar	34,957	43,703	34,872	30,531	28,315	26,099	1,979	41,636	242,092

Euro	1,721	1,721	1,721	1,721	1,721	1,721	1,721	3,438	15,485
	36,678	**45,424**	**36,593**	**32,252**	**30,036**	**27,820**	**3,700**	**45,074**	**257,577**
Indexors									
IPCA (Expanded Consumer Price Index)	1,220	-	-	-	-	-	-	400,719	401,939
IGP-M (General Market Price Index)	241,259	-	-	-	-	-	278,217	-	519,476
Eletrobrás - Finel internal index	5,585	-	-	-	-	-	-	-	5,585
UFIR – Fiscal Reference Unit	47,046	42,459	36,744	36,530	33,056	28,397	28,343	85,047	337,622
CDI (interbank CD rate)	62,129	56,178	197,172	168,793	268,793	364,793	100,870	-	1,218,728
Others	8,805	336	270	206	309	309	675	246	11,156
	366,044	**98,973**	**234,186**	**205,529**	**302,158**	**393,499**	**408,105**	**486,012**	**2,494,506**
	402,722	**144,397**	**270,779**	**237,781**	**332,194**	**421,319**	**411,805**	**531,086**	**2,752,083**

The principal currencies and indexes used for monetary updating of the loans, financings and debenture had the following variations:

CURRENCY	**Accumulated change in 2007 %**	**Accumulated change in 2006 %**	**Indexes**	**Accumulated change in 2007 %**	**Accumulated change in 2006 %**
US dollar	(17,15)	(8,66)	IGP-M	7,75	3,83
Euro	(7,50)	1,85	Finel	1,51	0,76
			Selic	11,89	15,10
			CDI	11,82	15,05

The movement on loans and financings is as follows:

Balance on December 31, 2006	**2,417,911**
Financings obtained	558,874
Short-term loans	600,000
Monetary and FX variation	(40,812)
Financial charges provisioned	286,279
Financial charges paid	(297,343)
Amortization of financings	(772,826)
Balance on December 31, 2007	**2,752,083**

The consolidated totals of funds raised in 2007 are as follows:

Loans / financing sources	**Principal maturity**	**Annual cost (%)**	**Amount raised**
BRAZILIAN CURRENCY			
Citibank	2007	102.00% do CDI	200,000
Caixa Econômica Federal	2007	101.60 % do CDI	400,000
Debentures	2017	IPCA + 7.96%	400,000
Eletrobrás	2018	6.00%	141,136
Eletrobrás	2009	6.50%	15,555
Eletrobrás	2013	6.50%	722
Eletrobrás	2011	6.50%	1,254
Finep	2010	10.00%	207
Total funding raised			**1,158,874**

a) Restrictive covenant clauses

Cemig Distribuição has loans and financings with restrictive covenant clauses. These were fully complied with on December 31, 2007 and during the whole year of 2007.

The main covenants in existence on December 31, 2007 are as follows:

Subject of covenant	Index required
Debt / Ebitda	
Debt / Ebitda	Less than or equal to 3.36
Net debt / Ebitda	Less than or equal to 3.25
Current debt / Ebitda	Less than or equal to 90%
Debt / Stockholders' equity + debt	Less than or equal to 53%
Ebitda / Interest on debt	More than or equal to 2.8
Ebitda / Interest	More than or equal to 3.0
Ebitda / (Financial revenue (expenses))	More than or equal to 2.0
Capital expenditure	Less than or equal to 60%

Net debt = Total debt, less: (cash balance plus tradable securities)
Ebitda= Earnings before interest, taxes on profit, depreciation and amortization.

- In some contracts specific criteria are established for calculation of Ebitda, with some variations from this formula.

17) – REGULATORY CHARGES

	12/31/2007	12/31/2006
RGR – Global Reversion Reserve	15,747	3,388
CCC (Fuel Consumption) account	21,955	60,427
Energy Development Account – CDE	25,510	24,252
Eletrobrás – Compulsory loan	1,207	1,207
Aneel inspection charge	2,073	1,832
National Scientific and Technological Development Fund	18,339	21,853
Energy efficiency	118,276	124,511
Research and development	64,931	50,306
Energy system expansion research	9,271	17,264
	277,309	**305,040**
Current liabilities	264,835	305,040
Non-current liabilities	12,474	-

18) – POST-EMPLOYMENT OBLIGATIONS

a) The Forluz Pension Fund

Since January 1, 2005, with the unbundling of Cemig, the company became one of the sponsors of the Forluz pension fund (Fundação Forluminas de Seguridade Social), a non-profit institution, for a percentage of 72.45% (the figure having been decided based on the allocation of employees in the company in December 2004), with the aim of providing to its associates and participants and their dependents a complementary pension and retirement, in accordance with the private pension plan to which they are linked.

Forluz makes the following supplementary pension benefit plans available to its participants:

Mixed Social Security Benefits Plan ("Plan B"): A defined-contribution plan in the phase of accumulation of funds, for retirement benefits for normal time of service and defined-benefit coverage for disability or death of the active participant, and also on receipt of benefits for time of contribution. The contributions of the Sponsor are equal to the basic monthly contributions of the participants, and this is the only plan open for joining by new participants.

The contribution of Cemig Distribuição to this plan is 27.52% for the portion with defined benefit characteristics, relating to the coverage for invalidity or death for the active participant, and this is used for amortization of the defined obligation through an actuarial calculation. The remaining 72.48%, relating to the portion of the plan with defined-contribution characteristics, goes to the nominal accounts of the participants and is recognized in the income statement in accordance with the payments made by the company for the year, by the cash method, under Personnel expenses.

Hence the obligations for payment of supplementary pension benefits under the Mixed Plan, with characteristics of defined contribution, and their respective assets, in the same amount of R$ 1,529,691, are not presented in this Explanatory Note.

Pension Benefits Balances Plan (“Plan A”): This includes all the active and assisted participants who opted to migrate from the previous Defined Benefit Plan, and are entitled to a proportional benefit by balances. In the case of the assets, this benefit was deferred to the retirement date.

Defined Benefit Plan: This is the benefit plan adopted by Forluz up to 1998, through which the average real salary of the last three years of activity of the employee in the Sponsor companies is complemented in relation to the amount of the Official Social Security benefit. After the process of migration that was carried out in June 2007, approved by the Private Pension Plans Secretariat (SPC), in which more than 80% of the participants migrated to Plans A and B, 51 participants remained in the defined benefit plan. Of these, seven are active employees, and 44 are retirees or pension holders.

Independently of the plans made available by Forluz, Cemig Distribuição also maintains payments of part of the life insurance premium for the retirees, and contributes to a health plan and a dental plan for the employees, retirees and dependents, administered by Forluz.

Amortization of actuarial obligations

Part of the consolidated actuarial obligation for post-employment benefits, in the amount of R$ 770,142 at December 31, 2007 (R$ 954,474 on December 31, 2006) was recognized as an obligation payable by Cemig Distribuição mentioned and is being amortized by June 2024, through monthly installments calculated by the system of constant installments (the so-called “Price” table). Part of the amounts is adjusted annually based on the actuarial indexor of the defined benefit plan (the index for salary adjustment of the employees of Cemig, Cemig Geração e Transmissão and Cemig Distribuição, excluding productivity); and for the Balances Plan, adjusted by the IPCA Index published by IPEAD (Minas Gerais Economic, Administrative Accounting Research Institute), plus 6% per year.

The technical surpluses that Forluz may present for a period of three consecutive years may be used for the reduction of part of the obligations payable recognized as provided for contractually.

The liabilities and the expenses recognized by Light in connection with the Supplementary Retirement Plan are adjusted in accordance with the terms of CVM Decision CVM 371 and the Opinion prepared by independent actuaries. The amounts recognized on December 31, 2007 are as follows:

	Pension plans and retirement supplement	**Health plan**	**Dental plan**	**Health insurance**
Present value of actuarial obligations for rights payable	3,608,318	262,876	14,175	120,780
Present value of actuarial obligations for rights not yet due	545,576	105,322	4,833	143,366
Total obligations for post-employment benefits	4,153,894	368,198	19,008	264,146
Fair value of the Plan's assets	(3,147,521)	(23,131)	(987)	-
Present value of uncovered obligations	1,006,373	345,067	18,021	264,146
Actuarial gains (losses) not recognized	(591,850)	(114,605)	11,049	33,793
Cost of past service not recognized	(54,263)	(4,833)	(19,148)	(4,826)
Net value in the balance sheet	**360,260**	**225,629**	**9,922**	**293,113**

The actuarial gains and losses not recognized that exceeded 10.00% of the total of obligations on post-employment benefits will be recognized in the income statement over approximately 11 years (the average future time of service of present active participants), from 2007. In this condition, the holding company will recognize actuarial losses of R$ 176,4616 on the Benefit Plan and R$ 77,785 on the Health Plan, and actuarial gains of R$ 9,148 on the Dental Plan and R$ 7,378 on the Life Insurance Plan.

The movement in the net liabilities has been as follows:

	Pension plans and retirement supplement	Health plan	Dental plan	Health insurance
BALANCE AT DECEMBER 31, 2006	498,760	202,232	6,735	270,098
Expense (revenue) recognized in the income statement	(916)	41,653	4,715	28,118
Contributions paid	(137,584)	(18,256)	(1,528)	(5,103)
BALANCE AT DECEMBER 31, 2007	**360,260**	**225,629**	**9,922**	**293,113**
Current liabilities	64,238	-	-	-
Non-current liabilities	296,022	225,629	9,922	293,113

The amounts registered in current liabilities refer to the contributions to be made by Cemig Distribuição in 2008 for amortization of the actuarial liabilities.

The amounts recognized in the income statement for 2007 are as follows:

	Pension plans and retirement supplement	Health plan	Dental plan	Health insurance
Cost of current service	4,031	21,617	386	3,767
Interest on the actuarial obligation	395,383	34,185	2,111	25,452
Return expected on the Plan's assets	(410,302)	(2,387)	(89)	-
Actuarial losses (gains) not recognized	-	5,588	658	(2,198)
Cost of past service not recognized	10,049	1,099	1,852	1,097
Employees' contribution	(77)	(18,449)	(203)	-
Expense (revenue) in 2007	**(916)**	**41,653**	**4,715**	**28,118**

The external actuary's estimate for the expense to be recognized for the year of 2008 is as follows:

	Pension plans and retirement supplement	Health plan	Dental plan	Health insurance
Cost of current service	3,625	28,237	164	4,137
Interest on the actuarial obligation	389,837	33,692	1,848	25,362
Return expected on the Plan's assets	(345,436)	(2,673)	(248)	-
Actuarial losses (gains) not recognized	15,869	6,995	(823)	(664)
Cost of past service not recognized	10,049	1,099	1,852	1,097
Employees' contribution	(27)	(24,424)	(894)	-
Expense (revenue) in 2007	**73,917**	**42,926**	**1,899**	**29,932**

The principal actuarial assumptions are as follows:

	12/31/2007		12/31/2006	
	Real	Nominal	Real	Nominal
Annual rate for discount to present value of the actuarial obligation	5.50%	9.72%	6,00%	11,30%
Annual rate of return expected on the Plan's assets	7.00%	11.28%	9,00%	14,45%
Annual long-term inflation rate	-	4.00%	-	5,00%
Index of annual estimate for future salary increases	2.00%	6.08%	2,00%	7,10%
Annual rate of real growth of the continued-income benefits	-	4.00%	-	5,00%
Biometric model for general mortality	AT – 83		AT – 83	
Biometric model for accounts of disability	Light Medium		Light Medium	
Biometric model for mortality of disabled	IAPB-57		IAPB-57	
Annual expected turnover rate	2.00%		2.00%	

19) – PROVISIONS FOR CONTINGENICIES

The company constitutes provisions for contingencies for legal actions where the prospect of loss is considered "probable". Accordingly, the amount of R$ 46,529 was provisioned on December 31, 2007, R$ 43,865 more than at the end of the previous year.

	Net balance, 12/31/06	Additions	Written off	Balance on 12/31/2007
Labor-law contingencies				
Various	2,664	220	-	2,884
Civil				
Personal damages	-	1,417	-	1,417
Tariff increases	-	35,598	(33,653)	1,945
Others	-	3,944	-	3,944
Regulatory				
Aneel Administrative proceedings	-	36,339	-	36,339
Total	**2,664**	**77,518**	**(33,653)**	**46,529**

On January 9, 2007, Aneel served notice on Cemig Distribuição S.A. that it considered certain criteria adopted by the company in calculation of the revenue from the subsidy for low-income consumers to be incorrect, questioning the criteria for identification of the consumers who should receive the benefit and also the calculation of the difference to be reimbursed by Eletrobrás, in the estimated amount of R$ 143,000. The Company has made a provision corresponding to the loss that it considers probable in this dispute, in the amount of R$ 36,339.

Tariff increases

Several industrial consumers filed actions against the Company seeking reimbursement for the amounts paid as a result of the tariff increase during the federal government's economic stabilization plan known as the "Cruzado Plan" in 1986, alleging that the said increase violated the control of prices instituted by that plan. Cemig estimates the amounts to be provisioned based on the disputed amounts billed and based on recent judicial decisions. Management believes that the total value of the exposure of Cemig and its subsidiaries in this matter, 100% provisioned, is R$ 95,095.

Cases where risk of loss is assessed as "possible"

Additionally, there are legal proceedings of a regulatory, civil or tax nature in progress on which the prospect of loss is considered "possible", which are periodically re-assessed, and do not require the constitution of a provision in the financial statements. These are listed below:

Regulatory contingencies

The company receives a subsidy subvention from Eletrobrás in relation to the discounts given to low-income consumers. The Minas Gerais state office of the federal tax authority served an infringement notice on Cemig on the argument that the subvention should be subject to the ICMS tax. The potential for loss in this action is R$ 102,644, not including the ICMS tax, and this could be challenged by the tax authority relating to the period subsequent to the infringement notice. No provision was constituted for the result of this dispute, since the company believes the legal obligation is non-existent and that it has arguments on the merit for defense against this demand. The prospect of loss attributed to this action is "possible".

Social Security and tax obligations – indemnity for the "Anuênio"

As stated in Explanatory Note 25, Cemig Distribuição paid an indemnity to the employees in the amount of R$ 127,058, in exchange for the rights to future payments known as the "Anuênio" which would be incorporated into salaries. The company did not make the payments of income tax and social security contribution on this amount because it considered that these obligations are not applicable to amounts paid as indemnity. However, to avoid the risk of a future fine arising from a different interpretation by the federal tax authority and the National Social Security Institution, the company decided to file for an order of mandamus to allow payment into Court of the amount of any obligations, in the amount of R$ 87,268 – this is posted in Deposits connected to legal actions. No provision was made for possible losses in this matter since the company and its subsidiaries classify the risk of loss in this action as "possible".

Contingencies of the holding company

Cemig, the parent company of Cemig Distribuição, is defending actions in court for which it considers the prospect of loss to be "possible" or "remote". A negative outcome in these cases could impact the business of Cemig Distribuição. The principle cases with this characteristic are as follows:

- Various consumers, and the public attorney of the state of Minas Gerais, brought civil actions against Cemig contesting tariff increases applied in previous years, including the extraordinary tariff recomposition and the inflation index used to increase the electricity tariff in April 2003. Reimbursement of 200% of amounts alleged to be have been erroneously charged by the Company was requested. The company believes that it has arguments on the merit for defense in these proceedings and thus does not constitute a provision for these actions.

- Cemig is defendant in cases challenging the criteria for measurement of the amounts to be charged for the public illumination contribution, in the total amount of R$ 525,579. The company believes it has arguments on the merit for defense in these proceedings, and thus has not constituted a provision for this action. The prospect of loss in this action is considered "possible".

20) - STOCKHOLDERS' EQUITY

On December 31, 2007 and 2006, the registered capital of Cemig Distribuição was R$ 2,261,998, represented by 2,261,997,787 nominal common shares, without par value, wholly owned by Cemig.

(a) Dividends

The company's Bylaws require payment of a minimum obligatory dividend of 50% of the net profit for the year, to its parent company, before the Legal Reserve.

Without prejudice to the obligatory dividend, in each alternate year, starting with 2005, or more frequently if the availability of cash permits, the company may distribute extraordinary dividends, up to the limit of cash available, as determined by the Board of Directors, in obedience to the guidelines of the Company's Long-Term Strategic Plan.

Obligatory or extraordinary dividends declared, usually calculated at the end of business year, are paid in 2 (two) equal installments, by June 30 and December 30 of the year subsequent to the generation of the profit, and the Executive Board, subject to these periods, decides the places and processes of payment.

The calculation of the dividends proposed for distribution to stockholders for 2007 is as follows:

	12/31/2007	12/31/2006
Obligatory dividends		
Net profit for the year	771,208	769,567
Obligatory dividend: 50.00% of net profit	385,604	384,783
Dividends proposed		
Interest on Equity	149,809	181,963
Complementary dividends	530,839	549,126
Total	680,648	731,089
Dividend per thousand shares – R$		
Minimum dividends for the preferred shares under the bylaws	170.47	170.11
Dividend proposed	300.91	323.21

Article 9 of Law 9249 of December 26, 1995, allows Interest on Equity paid to stockholders to be deductible from taxable profit for the purposes of income tax and the Social Contribution. In the case of Cemig Distribuição this interest on Equity is calculated as the TJLP rate multiplied by stockholders' equity.

The tax benefits rising from the payment of Interest on Equity of R$ 149,809 were R$ 50,935, recognized in the income statement.

(b) The Legal Reserve

Cemig Distribuição used 5.00% of the net profit for 2007 in constitution of the Legal Reserve, in the amount of R$ 38,560. The balance in the reserve on December 31, 2007, was R$ 126,544.

(c) Retained Earnings Reserve

The remaining balance of Net profit, after distribution of dividends and allocation to the Legal reserve, in the amount of R$ 52,000, will be allocated to the Retained Earnings Reserve for investments in 2008, according to a proposal by management to the General Meeting of Stockholders, and/or payment of extraordinary dividends in the future.

21) – GROSS RETAIL SUPPLY OF ELECTRICITY AND REVENUE FROM USE OF THE GRID: CAPTIVE CONSUMERS

The position in retail supply of electricity, by type of consumer, is as follows:

	(Not reviewed by independent auditors)					
	Number of consumers		MWh (*)		R$	
	12/31/2007	12/31/2006	12/31/2007	12/31/2006	12/31/2007	12/31/2006
Residential	5,188,604	5,064,556	6,812,662	6,647,041	3,553,042	3,301,486
Industrial	73,458	70,668	4,830,462	4,838,856	1,488,516	1,421,587
Commercial, services and others	560,910	549,378	4,078,425	3,850,688	1,871,376	1,679,834
Rural	554,286	495,067	2,200,198	1,937,504	595,385	513,827
Public authorities	51,733	49,381	640,355	598,730	285,606	252,223

Public illumination	2,466	2,548	1,037,671	1,051,169	280,320	268,857
Public service	7,799	7,654	1,059,949	1,015,619	299,149	263,186
Sub-total	6,439,256	6,239,252	20,659,722	19,939,607	8,373,394	7,701,000
Own consumption	829	796	34,013	30,309	-	-
Subvention for low-income consumers	-	-	-	-	109,746	132,186
Retail supply not invoiced, net	-	-	-	-	4,964	72,845
	6,440,085	6,240,048	20,693,735	19,969,916	8,488,104	7,906,031
Transactions in energy on the CCEE	-	-	-	-	22,824	59,635
Total	**6,440,085**	**6,240,048**	**20,693,735**	**19,969,916**	**8,510,928**	**7,965,666**

Tariff adjustment

The tariffs of Cemig Distribution were increased by an average of 5.16% as from April 8, 2007. The adjustment is different for different consumer categories. As an example, residential consumers had an increase of 6.50% on their energy bills, while high-voltage consumers had an increase of 2.89%.

Low-income consumers

The federal government, through Eletrobrás (Centrais Elétricas Brasileiras) reimburses the distributors for the losses in revenue arising as a result of the criteria adopted as from 2002 for classification of consumers in the low-rental residential sub-category, in view of the lower tariff applied to their electricity bills.

The regulator, Aneel, is reviewing the procedures for calculation by the Company of revenue for the subsidy for low-income consumers. As a result of this review, the amounts posted in 2007 were calculated on the basis of estimate, and their receipt for the period from February through December 2007 is pending.

22) REVENUE FOR USE OF THE NETWORK: FREE CONSUMERS

Starting January 2005, a significant portion of the major industrial consumers changed their status to that of “Free Consumers”, in which electricity is sold directly to them by Cemig Geração e Transmissão. As a result the charges for the uses of the distribution network (“TUSD”) of these free consumers began to be charged separately by Cemig Distribuição, being recorded in Revenue for use of the grid.

23) – OTHER OPERATIONAL REVENUES

	12/31/2007	12/31/2006
Invoiced service	13,373	9,718
Other provision of services	16,003	16,250
Rentals and leasing	38,361	27,862
Other	233	3,069
	67,970	**56,899**

24) – DEDUCTIONS FROM OPERATIONAL REVENUE

	2007	2006
ICMS	2,147,856	1,978,972
Cofins	867,713	801,893
RGR – Global Reversion Reserve	52,214	8,598
PIS and Pasep	206,619	180,908
Emergency capacity charge - reversal	(80)	(1,652)
Energy Efficiency Program – PEE	26,476	103,727
Energy Development Account – CDE	304,025	294,170

Fuel Consumption Account (CCC)	287,288	442,960
Research and development – R&D	12,586	24,274
National Scientific and Technological Development Fund	11,958	20,025
Energy system expansion research	6,985	10,012
ISS tax on services	328	345
	3,923,968	**3,864,232**

Cemig pays ICMS tax applicable to the RTE and the Deferred Tariff Adjustment, in conformity with the invoicing of amounts on the customer's electricity bill.

The reduction in the values provisioned for RGR in 2006 is due to the adjustment in the provision for the business year of 2004, in the amount of R$ 28,048, as a result of the homologation of this expense by Aneel at a lower amount than was estimated by the company.

The emergency capacity charges ceased to be charged after December, 2005, in obedience to Aneel Normative Resolution 204 of December 22, 2005.

25) – OPERATIONAL COSTS AND EXPENSES

	12/31/2007	12/31/2006
Payroll	618,904	733,944
Post-employment obligations (Note 18)	73,570	115,793
Materials	69,361	58,520
Outsourced services	395,541	329,204
Electricity bought for resale	2,164,173	1,981,437
Depreciation and amortization	416,891	367,294
Royalties for use of water resources	3,247	11,581
Operational provisions	175,959	108,834
Charges for use of the basic grid	446,838	515,224
Other expenses, net	161,625	140,796
	4,526,109	**4,362,627**

a) PAYROLL EXPENSES	**12/31/2007**	**12/31/2006**
Remuneration and charges	661,125	627,580
Contributions to supplementary pension plan – defined contribution	24,127	22,372
Assistance benefits	88,939	86,331
	774,191	736,283
(-) Costs of personnel transferred from Works in progress	(155,287)	(129,397)
	618,904	606,886
Indemnity for future "Anuênios"	-	127,058
	618,904	**733,944**

INDEMNITY OF THE "ANUÊNIO"

On April 27, 2006, Cemig Distribuição presented a proposal to the employees for indemnity in exchange for their future rights relating to payments to be incorporated annually into their salaries (a system referred to as the "anuênio"). The amount of the indemnity corresponds to the estimate of the future *anuênios* of the employees up to their completing 35 years' contribution to the INSS, discounted to present value at a rate of 12.00% p.a., with subsequent application of a variable percentage reduction factor set by the company. The period for employees to opt for acceptance was completed on June 30, 2006, and the payment of the indemnity, in the amount of R$ 127,058, was carried out in the period June through August 2006.

b) OUTSOURCED SERVICE	**12/31/2007**	**12/31/2006**
Measuring agents / meter reading / delivery of bills	100,759	92,653
Communication	53,755	44,041
Maintenance and conservation of facilities and electrical equipment	62,197	54,352

Conservation and cleaning of buildings	18,799	14,909
Contracted labor	17,569	15,667
Freight and fares	4,146	3,905
Hotels and food	12,071	10,386
Security guard services	4,775	4,291
Consultancy	7,647	6,836
Maintenance and conservation of furniture and utensils	24,220	18,908
Maintenance and conservation of vehicles	15,194	12,992
Disconnection and reconnection	25,774	19,864
Other	48,635	30,400
	395,541	**329,204**

c) ELECTRICITY BOUGHT FOR RESALE	**12/31/2007**	**12/31/2006**
Electricity from Itaipu Binacional	999,699	821,567
Short-term electricity	42,642	73,018
Bilateral contracts	139,664	119,648
Reimbursement of CVA – “Initial Contracts”	11,796	56,801
Energy acquired at auction	883,988	863,950
Proinfa	65,015	40,643
Other	21,369	5,810
	2,164,173	**1,981,437**

d) OPERATIONAL PROVISIONS	**12/31/2007**	**12/31/2006**
Retirement premium	555	4,441
Provision for doubtful receivables	97,886	104,612
Labor contingencies	220	(219)
Provision for Aneel administrative proceedings	36,339	-
Provision for civil actions – tariff increases	35,598	-
Other	5,361	-
	175,959	**108,834**

e) OTHER OPERATIONAL EXPENSES, NET	**12/31/2007**	**12/31/2006**
Leasing and rentals	27,131	25,925
Advertising	24,817	17,414
Own consumption of electricity	16,729	15,607
Subsidies and donations	31,932	28,516
Aneel inspection fee	24,152	21,783
Taxes and charges (IPTU, IPDA and others)	32,363	26,488
Contribution to the MAE	1,597	1,193
Insurance	1,618	1,572
Others	1,286	2,298
	161,625	**140,796**

26) – NET FINANCIAL REVENUE (EXPENSES)

	12/31/2007	**12/31/2006**
FINANCIAL REVENUES		
Returns on cash investments	46,065	59,040
Arrears penalty payments on electricity bills	107,090	124,495
Monetary updating of CVA	34,930	79,839
Monetary updating – General Agreement for the Electricity Sector	202,046	201,867
Monetary updating – Deferred Tariff Adjustment	129,929	194,781
FX variations	88,826	65,383
Pasep and Cofins on Financial revenues	(13,101)	(22,932)
Gains on financial instruments (Note 31)	-,	1,330
Other	71,132	64,353
	666,917	**768,156**
FINANCIAL EXPENSES		
Charges on loans and financings	(277,458)	(271,238)
Monetary updating – General Agreement of the Electricity Sector	(121,187)	(63,427)

Monetary updating of CVA	(36,661)	(57,727)
FX variations	(10,436)	-
Monetary updating – loans and financings	(36,314)	(17,835)
CPMF tax	(44,517)	(47,059)
Losses on financial instruments (Note 31)	(84,898)	(77,191)
Provision of the losses in recovery of amounts of the RTE – updating	(2,285)	(7,759)
Other	(45,308)	(36,965)
	(659,064)	**(579,201)**
NET FINANCIAL REVENUES	**7,853**	**188,955**

The Pasep and Cofins expenses apply to the financial revenues of the regulatory assets, which are realized through billing of electricity.

The financial charges arising on loans and financings linked to works in the year of 2007, in the amount of R$ 8,822, were transferred to Fixed assets. No monetary updating or FX variation was capitalized in the year.

27) – NON-OPERATIONAL REVENUE (EXPENSES)

	12/31/2007	12/31/2006
Net loss on decommissioning and disposal of assets	(26,253)	(15,925)
Forluz – current administrative expenses	(15,159)	(9,795)
Other revenues (expenses), net	(1,615)	220
	(43,027)	**(25,500)**

28) – EMPLOYEES' PROFIT SHARES

In the years 2007 and 2006 the Company used a percentage of 3% of operational profit, adjusted for certain items specified by Aneel in the Annual Reporting Procedure (PAC), as the general criterion for payment of profit shares to employees. Additionally, in the collective agreements in November 2007 and 2006, extraordinary amounts of R$ 262,010 and R$ 98,756, respectively, were agreed with the employees' unions. These additional amounts were paid within the same business year.

Under these agreements, the share in the profits of 2007 and 2006, including the contribution to the pension plan payable on these amounts, were R$ 332,201 and R$ 150,432, respectively.

29) – RELATED PARTY TRANSACTIONS

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

	ASSETS		LIABILITIES		REVENUE		EXPENSES	
COMPANY	12/31/2007	12/31/2006	12/31/2007	12/31/2006	12/31/2007	12/31/2006	12/31/2007	12/31/2006
CEMIG								
Affiliates and holding company	2,463	1,125	127	1,378	-	-	-	-
Interest on Equity, and dividends	-	-	674,408	670,712	-	-	(149,809)	(181,963)
Cemig Geração e Transmissão S.A.								
Affiliates and holding company	1,697	3,256	2,455	5,760	-	-	-	-
Electricity bought for resale	5,167	-	22,277	14,744	-	-	(79,731)	(77,585)
Other	-	-	39	-	-	-	-	-
Light								
Electricity bought for resale	-	-	163	-	-	-	(20,528)	-
Minas Gerais state government								

Consumers and traders	2,021	2,923	-	-	65,870	56,773	-	-
Taxes and contributions – ICMS tax	102,121	1,625	43,526	209,283	(2,147,856)	(1,978,972)	-	-
ICMS tax offset able	43,526	202,886	-	-	-	-	-	-
Consumers and traders	36,795	36,545	-	-	-	-		-
FORLUZ								
Post-employment obligations – current	-	-	64,238	87,369	-	-	(73,570)	(115,793)
Post-employment obligations – non-current	-	-	824,686	890,456	-	-	-	-
Other	-	-	68,838	47,604	-	-	-	-
Personnel expenses	-	-	-	-	-	-	(24,127)	(36,217)
Current administrative expenses	-	-	-	-	-	-	(15,159)	(9,795)
OTHER								
Affiliates and subsidiaries or holding company	1,573	6,415	-	-	-	-	-	-

The company has contracts for purchase of energy from Cemig Geração e Transmissão from the period 2006 to 2013, arising from the public auction of "existing energy" of 2005.

The balance under Consumers and traders relating to the Minas Gerais state government, in the amount of R$ 36,795 on December 31, 2007 in the short and long term, includes amounts receivable from Copasa, which were renegotiated for payment in 96 months.

See further information relating to the principal transactions in Explanatory Notes 5, 9, 15, 18, 20, 24, 25 and 27.

30) – EXPOSURE AND MANAGEMENT OF RISKS

As a concession holder in the Brazilian electricity sector, Cemig Distribuição operates in environments where factors such as stockholding restructurings, government regulations, evolution of technology, globalization and variations in the consumer market are risk factors.

Cemig Distribuição has a Corporate Risk Management program, which seeks to provide understanding of any events that could cause a loss of value to stockholders, and structure the Company to operate proactively in relation to its risk environment.

The principal market risks that affect Cemig Distribuição's business are as follows:

a) Exchange rate risk

Cemig and its subsidiaries are exposed to the risk of increase in exchange rates, especially of the US dollar against the real, with significant impact on indebtedness, profit and cash flow. To reduce Cemig Distribuição's exposure to increases in the exchange rate, the Company had hedge transactions contracted, on December 31, 2007 in the amount of R$ 109,948, equivalent to US$62,072, and R$ 61,409 in which variation in the US dollar, plus interest, was exchanged for the CDI rate (see Explanatory Note 31).

The net exposure to exchange rates is as follows:

FX EXPOSURE	**12/31/2007**	**12/31/2006**
US dollar		
Loans and financings	242,092	425,968
(-) Contracted hedge and swap operation transactions	(109,948)	(239,279)
	132,144	186,689
Other foreign currencies		
Loans and financings		
Euro	15,485	18,601
Others	-	807
	15,485	19,408
Net exposure	**147,629**	**206,097**

b) Interest rate risk

Cemig Distribuição is exposed to the risk of increase in international interest rates, affecting loans and financings in foreign currency with floating interest rates (principally Libor), in the amount of R$ 66,33 at December 31, 2007.

The risk of increase of Brazilian interest rates is partially reduced by assets that are also indexed to interest rates, as follows:

EXPOSURE TO BRAZILIAN INTEREST RATES	12/31/2007	12/31/2006
Assets		
Cash investments	390,888	148,533
Regulatory assets	1,762,198	1,770,037
	2,153,086	1,918,570
Liabilities		
Loans and financings	(1,218,728)	(1,232,520)
Regulatory liabilities	(1,058,882)	(775,668)
Hedge and swap transactions contracted	(109,948)	(239,279)
	(2,387,558)	(2,247,467)
Net exposure	**(234,472**	**(328,897)**

c) Credit risk

This risk arising from the possibility of Cemig Distribuição incurring losses as a result of difficulty in receiving amounts billed to their clients is considered to be low. A substantial part of sales of energy is widely spread out among a large number of clients, which reduces the Company's risk. The procedures for reduction of defaulting consist of issuance of warnings of maturity of receivables, telephone contact, and negotiations to result in receipt of receivables. After the possibilities for regularization of accounts in arrears have been exhausted, supply is suspended.

d) Risk of early maturity of debt

The Company has contracts for loans and financings, with the restrictive covenant clauses normally applicable to these types of operation, related to the meeting of economic and financial indices, cash flow and other indicators. Non-compliance with these clauses could result in early maturity of debt. The restrictive clauses were complied with in full on December 31, 2007.

31) – FINANCIAL INSTRUMENTS

The financial instruments of Cemig Distribuição are restricted to cash and cash equivalents, consumers and traders, loans and financings, obligations under debentures and swaps of currencies. The gains and losses obtained on the transactions are registered in full by the accrual method.

a) Market value

The market values of cash assets and liabilities are determined based on available market information and appropriate valuation methods. The use of different market assumptions and/or estimate methodologies could cause a different effect in the market estimate values.

The accounting balances of cash investments and accounts on December 31, 2007 and 2006 are equivalent to the market values, because they are recorded at realization value. The market values of loans and financings and swap transactions were calculated by the present value of these financial instruments, using the interest rates practiced in the transactions with similar nature, tenor and risk, as shown below.

The market value of financial instruments is as follows:

12/31/2007

	Book value	Market value
Assets		
Cash investments (Note 4)	390,888	390,888
Liabilities		
Loans and financings (Note 16)	2,752,083	2,686,713
Hedge transactions contracted (Note 16)	108,176	115,769
	2,860,259	**2,802,482**

b) Derivative instruments

The derivative instruments contracted by Cemig Distribuição have the purpose of protecting their operations against the risks arising from foreign exchange variation and are not used for speculative purposes.

The principal amounts of the transactions and derivatives are not posted in the balance sheet, since they refer to transactions which do not require cash payments, but payment only of the gains or losses that actually occur. The net results realized on these transactions amounted to consolidated losses in 2007 and 2006, respectively, of R$ 84,898 and R$ 75,861, posted in Financial revenue (expenses).

Unrealized net gains (losses) on operations with derivative instruments are recognized by the accrual method, which can generate differences when compared with the estimated market value of such instruments. This difference arises from the fact that market value includes recognition at present value of future gains or losses to be incurred on the transactions, in accordance with the expectation of the market at the moment at which the value is ascertained.

The table below shows the derivative instruments contracted by Cemig Distribuição, unrealized gains (losses) posted, and the respective estimate of market value of these instruments on December 31, 2007:

				Unrealized loss	
Receivable by Cemig Distribuição	**Payable by Cemig Distribuição**	**Period of maturity**	**Principal amount contracted – thousands**	**Book value**	**Estimated market value**
US$ + rate (5.58% p.a. to 7.14% p.a.)	R$: 100% of CDI, + rate (1.5% p.a. to 3.01% p.a.)	04/2008 to 06/2013	US$ 62,072	(108,176)	(115,769)

32) – INSURANCE

Cemig Distribuição maintains insurance policies to cover damages to certain items of its assets, in accordance with orientation by specialists, as listed below, taking into account the nature and the degree of risk, for amounts considered sufficient to cover any significant losses related to its assets and responsibilities. The risk assumptions adopted, due to their nature, are not part of the scope of an audit of the financial statements, and consequently were not examined by the external auditors.

Assets	Cover	Dates of validity	Amount insured	Annual premium
Air insurance – aircraft	Hull	28/04/2007 to 28/04/2008	6,832	100
Stores, building facilities and telecoms equipment	Fire	10/08/2007 to 10/08/2008	412,053	78
Operational risk – generators, rotors and power equipment	Total	05/05/2007 to 05/05/2008	531,148	961

Cemig Distribuição does not have insurance policies to cover accidents to third parties, and is not seeking proposals for this type of insurance. Additionally, Cemig Distribuição has not sought proposals for, and does not have current policies for, insurance against certain events that could affect its facilities, such as earthquakes, floods, systemic failures or the risk of interruption of business.

33) – CONTRACTUAL OBLIGATIONS

Cemig Distribuição has contractual obligations and commitments that include amortization of loans and financings, contracts with contractors for the construction of new projects, purchase of electricity from Itaipu and other sources, as shown:

	2008	2009	2010	2011	2012	2013	2014 and after	Total
LOANS, FINANCINGS AND DEBENTURES	402,722	144,397	270,779	237,781	332,194	421,319	942,891	2,752,083
Purchase of electricity from Itaipu (1)	1,073,672	786,577	854,398	886,655	906,119	385,748	-	4,893,169
Transport of electricity from Itaipu	71,264	61,036	63,328	65,588	67,894	29,283	-	358,393
Sales management System	58,695	-	-	-	-	-	-	58,695
Purchase of energy – Auction	1,086,290	1,348,635	2,008,736	2,336,735	2,626,041	2,926,764	15,536,486	27,869,687
Debt to pension plan - - Forluz	64,238	59,347	60,146	52,480	49,974	34,810	449,147	770,142
Total	2,756,881	2,399,992	3,257,387	3,579,239	3,982,222	3,797,924	16,928,524	36,702,169

(1) Contract with Furnas, in US dollars, for purchase of electricity from Itaipu up to May 2013.

34) – PERIODIC TARIFF REVIEW OF CEMIG DISTRIBUIÇÃO – MATERIAL EVENT

Aneel Resolution 234 of October 31, 2006, set new concepts and guidelines related to the second cycle of Periodic Review of the electricity distributors.

The main changes are:

- “Special Obligations” will be amortized as from the next Tariff Review, with posting of credit in the income statement of the distributors for the year, using the average rate of the assets giving rise to them. Additionally, they will not be taken into consideration in the setting of tariffs.
- The asset base to be used in the second Periodic Tariff Review will be the previous base, updated by the IGP-M inflation index, plus or minus new additions or write-offs taking place in the period.
- Aneel will continue to use the Reference Company as comparison base when defining operational costs to be covered by tariffs.

Aneel is in the process of review of the tariffs for retail supply and the TUSD of Cemig Distribution, for the 2nd cycle, corresponding to the period from 2008 to 2013, the public hearing having been scheduled for February 28, 2008 and the new tariffs to come into effect from April 8, 2008. The average percent of adjustment provisionally disclosed by Aneel is for a reduction of the tariff by 9.72%. In deciding this amount, parameters of the 1st cycle which are also being adjusted were taken into account, such as indicators of productivity, value of the asset base to be remunerated, and the average cost of capital. This provisional percentage may yet be altered as a result of contributions made at the public hearing, and decision by Aneel on the effective value of the asset base to be used for remuneration of the 2nd cycle of tariff review.

(The original is signed by:)

Djalma Bastos de Morais
CEO
Vice-chairman

Agostinho Patrus
Deputy CEO

Luiz Fernando Rolla
Chief Officer for Finance, Investor Relations and Control of Holdings

Marco Antonio Rodrigues da Cunha
Chief Corporate Management Officer

Bernardo Afonso Salomão de Alvarenga
Chief Trading Officer

Fernando Henrique Schüffner Neto
Chief Generation and Transmission Officer

José Maria de Macedo
Chief Distribution and Sales Officer

José Carlos de Mattos
Chief New Business Development Officer

Pedro Carlos Hosken Vieira
Controller

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

APPENDIX I

STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 and 2005
(R$ '000)

Statement in accordance with the criteria for disclosure set by *FAS 95 – Statement of Cash Flows*, since Cemig is registered with the SEC and also prepares financial statements in accordance with US GAAP.

	12/31/2007	12/31/2006
FROM OPERATIONS		
Net profit for the year	771,208	769,567
Expenses (revenue) not affecting cash		
Depreciation and amortization	416,891	367,294
Net write offs of PP&E	25,203	15,093
Long-term interest and monetary updating	(235,111)	(161,087)
Deferred income tax and Social Contribution	(144,295)	(107,461)
Provisions for operational expenses	141,750	104,391
Provisions for extraordinary tariff recomposition	2,285	7,759
Provisions for losses of financial instruments	84,898	75,861
Post-employment obligations	73,570	115,793
	1,136,399	1,187,210
(Increase in) reduction of assets:		
Consumers and traders	(51,023)	(324,446)
Extraordinary tariff recomposition	301,779	257,171
Taxes offsettable	(131,836)	(32,936)
Transport of electricity	(124,372)	(55,543)
Deferred tariff adjustment	509,286	294,353
Regulatory assets – PIS, PASEP and Cofins	182,383	115,280
Other current assets	(74,383)	1,304
Payments into court	(7,148)	(94,588)
Anticipated expenses	33,109	110,412
Tax credits	27,041	(49,676)
Other non-current receivables	6,303	(36,120)
	671,139	185,211
Increased (reduction) of liabilities:		
Suppliers	(123,359)	(94,817)
Taxes and contributions	(160,844)	(4,439)
Salaries and obligatory payments on payroll	36,263	996
Regulatory charges	(40,205)	84,361
Loans and financings	(19,286)	(1,008)
Post-employment obligations	(162,471)	(187,960)
Anticipated expenses – CVA	143,061	92,551
Losses on financial instruments	(111,599)	(19,044)
Other	73,348	29,804
	(365,092)	(99,556)
CASH GENERATED BY OPERATIONS	1,442,446	1,272,865
FINANCING ACTIVITIES		
Financings obtained	558,874	410,212
Short term loans	600,000	300,000
Payment of loans and financings	(772,826)	(410,139)
Interest on Equity, and dividends	(676,952)	(967,918)
	(290,904)	(667,845)
TOTAL INFLOW OF FUNDS	1,151,542	605,020
INVESTIMENTS		
In fixed assets	(1,466)	(859)
In property plant and equipment	(995,342)	(1,217,677)
Special obligations – contributions from the consumer	262,437	299,370
	(734,371)	(919,166)
NET CHANGE IN CASH POSITION	417,171	(314,146)
STATEMENT OF VARIATION CASH		
Beginning of period	219,115	533,261
End of period	636,286	219,115
	417,171	(314,146)
PAYMENTS MADE IN THE YEAR		
Interest on loans and financings	297,343	270,686
Income tax and Social Contribution	684,949	471,574
TRANSACTIONS NOT INVOLVING OUTFLOW OF CASH		
Financial charges transferred to PP&E	8,822	2,743

CEMIG Distribuição S.A.

APPENDIX II

STATEMENTS OF ADDED VALUE

	12/31/2007	%	12/31/2006	%
REVENUES				
Sales of electricity and services	9,900,379		9,283,286	
Provision for doubtful receivables	(97,886)		(104,612)	
Non-operational revenue (expenses)	(43,027)		(25,500)	
	9,759,466		9,153,174	
INPUTS ACQUIRED FROM THIRD PARTIES				
Electricity bought for resale	(2,164,173)		(1,981,437)	
Charges for use of the transmission grid	(446,838)		(515,224)	
Outsourced services	(395,541)		(329,204)	
Materials	(69,361)		(58,520)	
Other operational costs	(186,492)		(92,605)	
	(3,262,405)		(2,976,990)	
GROSS VALUE ADDED	6,497,061		6,176,184	
RETENTIONS				
Depreciation and amortization	(416,890)		(367,294)	
NET VALUE ADDED	6,080,171		5,808,890	
ADDED VALUE RECEIVED IN TRANSFER				
Financial revenues	680,018		791,088	
ADDED VALUE TO BE DISTRIBUTED	**6,760,189**		**6,599,978**	
DISTRIBUTION OF ADDED VALUE		%		%
Personnel and payroll charges	1,169,493	17	1,108,345	17
Taxes and contributions	4,177,810	62	4,163,999	62
Financial expenses and rentals	641,678	10	558,067	8
Interest from Equity, and dividends	680,648	10	731,089	12
Retained earnings	90,560	1	38,478	1
	6,760,189	**100**	**6,599,978**	**100**

Opinion of external auditors

To
The Board of Directors and Stockholders of
Cemig Distribuição S.A.
Belo Horizonte, Minas Gerais, Brazil

1. We have examined the balance sheet of Cemig Distribuição S.A. prepared at 31 December 2007, and the related statements of income, changes in stockholders' equity, and sources and uses of funds for the year ended on that date. These were prepared under the responsibility of the Company's Management. Our responsibility is to express an opinion on those financial statements.

2. Our examination was conducted in accordance with auditing standards applicable in Brazil and comprised: (a) planning of the work, taking into account the significance of the balances, the volume of transactions, and the Company's accounting and internal control systems; (b) checking, on a test basis, of the evidence and records that support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting practices and estimates adopted by the Company's Management, and the presentation of the financial statements taken as a whole.

3. In our opinion, the above-mentioned financial statements adequately represent, in all material aspects, the equity and financial position of Cemig Distribuição S.A. at December 31, 2007, the results of its operations, the changes in its stockholders' equity, and the sources and uses of its funds, for the year ended on that date, in accordance with accounting practices adopted in Brazil.

4. Our examination was carried out with the objective of our forming an opinion on the financial statements, taken as a whole. The statements of cash flow and added value, presented in Appendices I and II, constitute information complementary to those financial statements. They are not required by accounting practices adopted in Brazil, and are presented to enable additional analysis. This complementary information has been submitted to the same auditing procedures applied to the financial statements and, in our opinion, is properly presented, in all material respects, in relation to the financial statements taken as a whole.

5. The financial statements of Cemig Distribuição S.A. and the complementary statements of cash flow and added value for the year ended December 31, 2006, presented here for comparison, were examined by other auditors, who issued a report without qualification dated February 28, 2007, containing a paragraph of emphasis in relation to the change in the percentage of tariff repositioning as a result of the final tariff adjustment.

March 6, 2008

KPMG Auditores Independentes
CRC SP014428/O-6-F-MG

Marco Túlio Fernandes Ferreira
Accountant – CRCMG058176/O-0

Rosane Palharim
Accountant – CRC 1SP220280/O-9-S-MG