

ENERGY CO OF MINAS GERAIS
Form 20-F
July 01, 2004

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____
Commission file number: 1-15224

COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG

(Exact Name of Registrant as Specified in Its Charter)

Energy Company of Minas Gerais
(Translation of Registrant's Name into English)

The Federative Republic of Brazil
(Jurisdiction of Incorporation or Organization)

Avenida Barbacena, 1200
30190-131 Belo Horizonte, Minas Gerais, Brazil
(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on which Registered

American Depositary Shares (evidenced by American Depositary Receipts), each representing 1,000 Preferred Shares

New York Stock Exchange

Preferred Shares, R\$0.01 par value*

New York Stock Exchange*

*

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Item 17 **Item 18**

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PRESENTATION OF FINANCIAL INFORMATION

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

We maintain our books and records in *reais*. We prepare our financial statements in accordance with accounting practices adopted in Brazil, including the principles that are established primarily through Law No. 6,404 of December 15, 1976, Law No. 9,457 of May 5, 1997 and Law No. 10,303 of October 31, 2001, which we refer to collectively as the Brazilian Corporate Law. For purposes of this annual report, we have presented, and in future reports to be filed with the United States Securities and Exchange Commission, or the Commission, we intend to present, our consolidated financial statements and other financial information in *reais* in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. For purposes of this annual report we prepared balance sheets as of December 31, 2003 and 2002 and the related statements of operations and comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2003, 2002 and 2001, in *reais* all in accordance with U.S. GAAP. Deloitte Touche Tohmatsu Auditores Independentes has audited our consolidated financial statements at December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003.

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

This annual report contains translations of certain *real* amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such U.S. dollar amounts have been translated from *reais* at an exchange rate of R\$2.8950 to US\$1.00, the noon buying rate in New York City for cable transfers in *reais* as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, as of December 31, 2003. The *real* has recently experienced high volatility. See "Item 3. Key Information Exchange Rates" for additional information regarding exchange rates. We cannot guarantee that U.S. dollars can be converted into *reais*, or that *reais* can be converted into U.S. dollars, at the above rate or at any other rate.

MARKET POSITION AND OTHER INFORMATION

The information contained in this annual report regarding our market position is, unless otherwise indicated, presented for the twelve-month period ended December 31, 2003 and is based on, or derived from, reports issued by the *Agência Nacional de Energia Elétrica* (The Brazilian National Electric Energy Agency), or ANEEL.

Certain terms are defined the first time they are used in this annual report. The "Index of Defined Terms" that begins on page 122 lists those terms and where they are defined. As used herein, all references to "GW" and "GWh" are to gigawatts and gigawatt hours, respectively, references to "MW" and "MWh" are to megawatts and megawatt-hours, respectively, and references to "kW" and "kWh" are to kilowatts and kilowatt-hours, respectively.

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

FORWARD-LOOKING INFORMATION

This annual report includes forward-looking statements, principally in "Item 3. Key Information" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk." We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions relating to, among other things:

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

inflation and changes in currency exchange rates;

enforcement of legal regulation in Brazil's electricity sector;

changes in volumes and patterns of customer electricity usage;

competitive conditions in Brazil's electricity generation, transmission and distribution markets;

our expectations and estimates concerning future financial performance, financing plans and the effects of competition;

our level of debt;

the likelihood that we will receive payment in connection with accounts receivable;

trends in the electricity generation, transmission and distribution industry in Brazil and Minas Gerais;

changes in rainfall and the water levels in the reservoirs used to run our hydroelectric power generation facilities;

our capital expenditure plans;

our ability to serve our customers on a satisfactory basis;

existing and future governmental regulation as to electricity rates, electricity usage, competition in our concession area and other matters;

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existing and future policies of the Federal Government of Brazil, which we refer to as the Federal Government;

existing and future policies of the government of Minas Gerais, which we refer to as the State Government, including policies affecting its investment in us and the plans of the State Government for future expansion of electricity generation, transmission and distribution in Minas Gerais; and

other risk factors as set forth under "Item 3. Key Information Risk Factors."

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

delay or prevent successful completion of one or more projects;

increase the costs of projects; and

result in the failure of facilities to operate or generate income in accordance with our expectations.

The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect" and similar words are intended to identify forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Consolidated Financial Data

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

The selected consolidated balance sheet data as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 have been derived from our audited consolidated financial statements and the notes thereto included elsewhere in this annual report. The selected consolidated data as of December 31, 2001, 2000 and 1999 and for the each of the two years then ended December 31, 2000 has been derived from our audited consolidated financial statements and notes thereto, which are not included in this annual report.

U.S. dollar amounts in the table below are presented for your convenience. Unless otherwise indicated, these U.S. dollar amounts have been translated from *reais* at R\$2.8950 per US\$1.00, the noon buying rate as of December 31, 2003. The *real* has recently experienced high volatility. We cannot guarantee that U.S. dollars can be converted into *reais*, or that *reais* can be converted into U.S. dollars, at the above rate or at any other rate. On June 18, 2003, the noon buying rate for *reais* was R\$3.1425 per US\$1.00. See " Exchange Rates."

Selected Consolidated Financial Data

As of and for the year ended December 31,

	2003	2003	2002	2001	2000	1999
	(in millions of US\$(1)(2))	(In millions of R\$ except per share/ADS data or as otherwise indicated)				

Income Statement Data:

Net operating revenues

Electricity sales to final customers	2,480	7,179	5,458	4,587	4,478	3,678
Regulatory extraordinary rate adjustment(3)	22	63	281	789		
Deferred rate adjustment(3)	68	199				

Electricity sales to the interconnected power system