

ENERGY CO OF MINAS GERAIS

Form 20-F

April 30, 2014

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

☐ **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, 2013**

or

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

or

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report: N/A

Commission file number 1-15224

COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG

(Exact name of Registrant as specified in its charter)

ENERGY CO OF MINAS GERAIS

(Translation of Registrant's name into English)

BRAZIL

(Jurisdiction of incorporation or organization)

Avenida Barbacena, 1200, Belo Horizonte, M.G., 30190-131

(Address of principal executive offices)

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

<u>Title of each class:</u>	<u>Name of exchange on which registered:</u>
Preferred Shares, R\$5.00 par value	New York Stock Exchange*
American Depositary Shares, each representing 1 Preferred Share, without par value	New York Stock Exchange
Common Shares, R\$5.00 par value	New York Stock Exchange*
American Depositary Shares, each representing 1 Common Share, without par value	New York Stock Exchange

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:

372,837,085 Common Shares

480,181,143 Preferred Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ☒ Accelerated Filer ☐ Non accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing: U.S. GAAP ☐ IFRS ☒ Other ☐

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If ☐ Other ☐ has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17
☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

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

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PRESENTATION OF FINANCIAL INFORMATION

Companhia Energética de Minas Gerais CEMIG is a *sociedade por ações, de economia mista* (a state-controlled mixed capital company) organized under the laws of the Federative Republic of Brazil, or Brazil. References in this annual report to CEMIG, we, us, our and 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, and with International Financial Reporting Standards or IFRS, as issued by the International Accounting Standards Board (IASB). For purposes of this annual report we prepared the consolidated statements of financial position as of December 31, 2013 and 2012 and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2013, 2012 and 2011, in *reais* in accordance with International Financial Reporting Standards or IFRS, as issued by the IASB. Deloitte Touche Tohmatsu Auditores Independentes has audited our consolidated financial statements as of and for the years ended December 31, 2013 and 2012 and KPMG Auditores Independentes has audited our consolidated financial statements as of and for the year ended December 31, 2011, as stated in their respective reports appearing elsewhere herein.

We restated our consolidated financial statements as of and for the year ended December 31, 2012 and December 31, 2011 as a result of the adoption, on January 1, 2013, of IFRS 11 (Joint Arrangements) and IAS 19 (Employee Benefits), or IAS 19. IFRS 11, which replaced IAS 31, states that jointly-controlled enterprises (joint ventures) must be accounted by the equity method and, therefore, the proportional consolidation method will no longer be allowed. We retroactively applied IFRS 11 and IAS 19 to 2012 and 2011 for comparison purposes pursuant to IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). The adoption of these new pronouncements impacted several line items of our consolidated financial statements. See note 2.5 to our consolidated financial statements for a description of these pronouncement and its impact on 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\$2.3608 to US\$1.00, as certified for customs purposes by the U.S. Federal Reserve Board as of December 31, 2013. 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.

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MARKET POSITION AND OTHER INFORMATION

The information contained in this annual report regarding our market position is, unless otherwise indicated, presented for the year ended December 31, 2013 and is based on, or derived from, reports issued by the *Agência Nacional de Energia Elétrica* (the Brazilian National Electric Energy Agency), or Aneel, and by the *Câmara de Comercialização de Energia Elétrica* (the Brazilian Electric Power Trading Chamber), or CCEE.

Certain terms are defined the first time they are used in this annual report. 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 Preferred American Depositary Shares or Preferred ADSs are to American Depositary Shares, each representing one preferred share. References to Common American Depositary Shares or Common ADSs are to American Depositary Shares, each representing one common share. Our Preferred ADSs and Common ADSs are referred to collectively as ADSs, and Preferred American Depositary Receipts, or Preferred ADRs and Common American Depositary Receipts, or Common ADRs, are referred to collectively as ADRs.

On April 29, 2009, a 25.00% stock dividend was paid on the preferred and common shares. On May 13, 2009, a corresponding adjustment was made to the ADSs through the issuance of additional ADSs. On April 29, 2010, a 10.00% stock dividend was paid on the preferred and common shares. On May 10, 2010, a corresponding adjustment was made to the ADSs through the issuance of additional ADSs. On April 30, 2012, a 25.00% stock dividend was paid on the preferred shares and common shares. On May 11, 2012, a corresponding adjustment was made to the ADSs through the issuance of additional ADSs. On April 30, 2013, a 12.85% stock dividend was paid on the preferred and common shares. On May 14, 2013, a corresponding adjustment was made to the ADSs through the issuance of additional ADSs. On January 3, 2014, a 30.76% stock dividend was paid on the preferred and common shares (in each case paid in preferred shares). On January 10, 2014, a corresponding adjustment was made to the ADSs through the issuance of additional Preferred ADSs to holders of Preferred ADSs and Common ADSs. The Preferred ADSs are evidenced by Preferred ADRs, issued pursuant to a Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, as amended on June 11, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of Preferred ADSs evidenced by Preferred ADRs issued thereunder (the Second Amended and Restated Deposit Agreement). The Common ADSs are evidenced by Common ADRs, issued pursuant to a Deposit Agreement, dated as of June 12, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of Common ADSs evidenced by Common ADRs issued thereunder (the Common ADS Deposit Agreement and, together with the Second Amended and Restated Deposit Agreement, and on the Deposit Agreements).

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FORWARD-LOOKING INFORMATION

This annual report includes forward-looking statements, principally in Item 3. Key Information, Item 5, Operating and Financial Review and Prospects 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, the State of Minas Gerais, in Brazil, or Minas Gerais, the State of Rio de Janeiro, in Brazil, or Rio de Janeiro, as well as other states in Brazil;
- inflation and changes in currency exchange rates;
- enforcement of legal regulation in Brazil's electricity sector;
- changes in volumes and patterns of consumer 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 and the maturity profile of our 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 in particular in Minas Gerais and Rio de Janeiro;

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- 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 consumers on a satisfactory basis;
- our ability to renew our concessions, approvals and licenses on terms as favorable as those currently in effect or at all;
- existing and future governmental regulation as to electricity rates, electricity usage, competition in our concession area and other matters;
- our ability to integrate the operations of companies we have acquired and that we may acquire;
- 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.

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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 IFRS 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 and Presentation of Financial Information.

The selected consolidated financial data as of December 31, 2013, 2012 and 2011 and for each of the years ended December 31, 2013, 2012 and 2011, in IFRS, has been derived from our audited consolidated financial statements and the notes thereto included elsewhere 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\$ 2.3608 per US\$1.00, the exchange rate as of December 31, 2013. The real has historically 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 April 18, 2014, the exchange rate for *reais* was R\$2.2370 per US\$1.00. See Exchange Rates.

We restated our consolidated financial statements as of and for the year ended December 31, 2012 and December 31, 2011 as a result of the adoption, on January 1, 2013, of IFRS 11 (Joint Arrangements) and IAS 19 (Employee Benefits).. We retroactively applied IFRS 11 and IAS 19 to 2012 and 2011 for comparison purposes pursuant to IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). The adoption of these new pronouncements impacted several line items of our consolidated financial statements. See note 2.5 to our consolidated financial statements for a description of these pronouncement and its impact on our consolidated financial statements.

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We have not restated data for 2010 and 2009 to reflect the application of IFRS 11 and IAS 19, as described in note 2.5 to our financial statements. In particular, data for 2010 and 2009 reflect the results of our joint venture entities through proportional consolidation in , 2010 and 2009, as opposed to the equity method of accounting applicable in 2013, 2012, and 2011, and therefore data for 2009 and 2010 is not comparable to data for 2011, 2012 and 2013

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Selected Consolidated Financial Data in IFRS
Selected Consolidated Financial Data in IFRS

Selected Consolidated Financial Data in IFRS	As and for the year ended December 31,					
	2013	2013	2012 (4)	2011(4)	2010(5)	2009(5)
	(in millions of US\$)(1)		(in millions of R\$ except per share/ADS data or otherwise indicated)			
Income Statement Data:						
Net operating revenues:						
Electricity sales to final consumers	5,336	12,597	13,691	12,522	13,219	13,233
Revenue from wholesale supply to other concession holders	908	2,144	1,689	1,504	1,469	1,638
Revenue from use of the electricity distribution systems (TUSD)						
Revenue from use of the concession transmission system	427	1,008	1,809	1,771	1,658	1,332
Transmission indemnity revenue	171	404	662	612	1,141	879
Construction revenues	9	21	192	-	-	-
Transactions in electricity on the CCEE	413	975	1,336	1,232	1,341	1,291
Other operating revenues	505	1,193	387	175	133	137
Taxes on revenue and regulatory charges	444	1,047	506	362	924	652
Total net operating revenues	(2,017)	(4,762)	(6,135)	(5,785)	(6,095)	(5,737)
Operating costs and expenses:	6,196	14,627	14,137	12,393	13,790	13,425
Electricity bought for resale	(2,206)	(5,207)	(4,683)	(3,330)	(3,722)	(3,199)
Charges for the use of the national grid	(244)	(575)	(883)	(748)	(729)	(853)
Depreciation and amortization	(349)	(824)	(763)	(786)	(927)	(904)
Personnel	(544)	(1,284)	(1,173)	(1,104)	(1,212)	(1,318)
Gas purchased for resale					(225)	(167)
Royalties for usage of water resources	(55)	(131)	(185)	(153)	(140)	(154)
Outsourced services	(388)	(917)	(906)	(858)	(923)	(819)
Post-retirement obligations						
Materials	(74)	(176)	(134)	(124)	(107)	(150)
Provisions for operating losses	(52)	(123)	(73)	(81)	(134)	(114)
Employee and managers profit shares	(129)	(305)	(671)	(166)	(138)	(124)
Construction costs	(94)	(221)	(239)	(219)	(325)	(239)
Other operating expenses, net	(413)	(975)	(1,336)	(1,232)	(1,328)	(1,410)
Total operating costs and expenses	(210)	(493)	(481)	(327)	(321)	(316)
Equity in Subsidiaries	(4,758)	(11,231)	(11,527)	(9,128)	(10,231)	(9,767)
Gain on disposal of investment	324	764	865	539		-
Unrealized gain on disposal of investment	120	284	-	-		-
Operational profit before Financial revenue (expenses) and Taxes	(34)	(81)	-	-		-
Financial revenues (expenses), net	1,848	4,363	3,475	3,804	3,559	3,658
Pretax Profit	(130)	(309)	(1,629)	(640)	(753)	(326)
Income taxes expense	1,717	4,054	5,104	3,164	2,806	3,332
Net profit for the year	(402)	(950)	(832)	(749)	(548)	(1,126)
Other comprehensive income (loss)	1,315	3,104	4,272	2,415	2,258	2,206
Comprehensive income	91	213	(412)	(74)	-	(73)
Basic earnings (loss): (2)	1,405	3,317	3,860	2,341	2,258	2,133
Per common share		2.47	3.39	1.92	1.79	1.75
Per preferred share		2.47	3.39	1.92	1.79	1.75
Per ADS		2.47	3.39	1.92	1.79	1.75
Diluted earnings (loss): (2)						
Per common share		2.47	3.39	1.92	1.79	1.75
Per preferred share		2.47	3.39	1.92	1.79	1.75
Per ADS		2.47	3.39	1.92	1.79	1.75

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	As and for the year ended December 31,					
	2013 (in millions of US\$(1))	2013	2012(4) (in millions of R\$ except per share/ADS data or otherwise indicated)	2011(4)	2010(5)	2009(5)
Balance Sheet Data:						
Assets:						
Current assets	2,825	6,669	8,804	5,768	8,086	8,617
Property, plant and equipment, net	2,464	5,817	6,109	6,392	8,229	8,303
Intangible assets	849	2,004	1,874	2,779	4,948	3,705
Financial assets of concessions	2,474	5,841	5,475	3,834	7,672	5,508
Account receivable from the Minas Gerais State Government	-	-	-	1,830	1,837	1,824
Other assets	4,017	9,483	10,308	9,018	2,702	2,337
Total assets	12,629	29,814	32,570	29,621	33,474	30,294
Liabilities:						
Current portion of long-term financing	948	2,238	6,466	4,504	2,203	6,659
Other current liabilities	1,560	3,684	6,332	3,595	4,200	3,620
Total current liabilities	2,508	5,922	12,798	8,099	6,403	10,279
Non-current financing	3,058	7,219	3,950	6,000	11,024	4,634
Post-retirement liabilities non-current.	979	2,311	2,575	1,956	2,062	1,915
Other non-current liabilities	730	1,724	1,697	1,900	2,509	2,301
Total non-current liabilities	4,767	11,254	8,222	9,856	15,595	8,850
Share capital	2,666	6,294	4,265	3,412	3,412	3,102
Capital reserves	815	1,925	3,954	3,954	3,954	3,969
Profit reserves	1,627	3,840	2,856	3,293	2,874	3,177
Accumulated other comprehensive income	246	579	475	1,007	1,211	1,343
Other shareholders' equity	-	-	-	-	25	(426)
Total shareholders' equity	5,354	12,638	11,550	11,666	11,476	11,165
Total liabilities and shareholders' equity	12,629	29,814	32,570	29,621	33,474	30,294

Other Data:

Outstanding shares basic:(2)	2013	2012(4)	2011(4)	2010(5)	2009(5)
Common	420,764,708	420,764,708	420,764,708	420,764,708	420,764,708
Preferred	837,540,291	837,540,291	837,540,291	837,540,291	837,540,291
Dividends per share (2)					
Common	R\$1.28	R\$2.20	R\$1.03	R\$0.95	R\$0.74
Preferred	R\$1.28	R\$2.20	R\$1.03	R\$0.95	R\$0.74
Dividends per ADS (2)	R\$1.28	R\$2.20	R\$1.03	R\$0.95	R\$0.74
Dividends per share (3)(2)					
Common	US\$0.54	US\$0.93	US\$0.44	US\$0.40	US\$0.31
Preferred	US\$0.54	US\$0.93	US\$0.44	US\$0.40	US\$0.31
Dividends per ADS (3)(2)	US\$0.54	US\$0.93	US\$0.44	US\$0.40	US\$0.31
Outstanding shares diluted: (2)					
Common	420,764,708	420,764,708	420,764,708	420,764,708	420,764,708
Preferred	837,540,291	837,540,291	837,540,291	837,540,291	837,540,291
Dividends per share diluted (2)					
Common	R\$1.28	R\$2.20	R\$1.03	R\$0.95	R\$0.74
Preferred	R\$1.28	R\$2.20	R\$1.03	R\$0.95	R\$0.74
Dividends per ADS diluted (2)	R\$1.28	R\$2.20	R\$1.03	R\$0.95	R\$0.74
Dividends per share diluted (3)(2)					
Common	US\$0.54	US\$0.93	US\$0.44	US\$0.40	US\$0.31
Preferred	US\$0.54	US\$0.93	US\$0.44	US\$0.40	US\$0.31
Dividends per ADS diluted (3)(2)	US\$0.54	US\$0.93	US\$0.44	US\$0.40	US\$0.31

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- (1) Converted at R\$ 2.3608/US\$, the exchange rate on December 31, 2013. See: Exchange rates .
- (2) Per share numbers have been adjusted to reflect the stock dividends on our shares in January 2014, and per ADS numbers have been adjusted to reflect the corresponding adjustments to our ADS.
- (3) This information is presented in U.S. dollars at the exchange rate in effect as of the end of each year.
- (4) Data for 2012 and 2011 and as of and for the year ended December 31, 2012 and 2011, has been restated to reflect the application of IFRS 11 and IAS 19, as described in note 2.5 to our consolidated financial statements.
- (5) The information for 2010 and 2009 is not presented in a form adjusted to the new accounting rules applicable after January 1, 2013 hence it is not comparable to the other years shown.

Exchange Rates

On March 4, 2005, the National Monetary Council (*Conselho Monetário Nacional*), or CMN, consolidated the commercial rate exchange market and the floating rate market into a single exchange market. Such regulation allows, subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of *reais* by a foreign person or company, without limitation as to amount. Additionally, all foreign exchange transactions must be carried out by financial institutions authorized by the Brazilian Central Bank (*Banco Central do Brasil*), or the Central Bank, to operate in this market.

Brazilian law provides that whenever there (i) is a significant imbalance in Brazil's balance of payments or (ii) are major reasons to foresee a significant imbalance in Brazil's balance of payments, temporary restrictions may be imposed on remittances of foreign capital abroad. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Federal Government will continue to let the real float freely or will intervene in the exchange rate market. The real may depreciate or appreciate against the U.S. dollar and other currencies substantially in the future. Exchange rate fluctuations may affect the U.S. dollar amounts received by the holders of Preferred ADSs or Common ADSs. We will make any distributions with respect to our preferred shares or common shares in *reais* and the depository will convert these distributions into U.S. dollars for payment to the holders of Preferred ADSs and Common ADSs. We cannot assure you that such measures will not be taken by the Brazilian Government in the future, which could prevent us from making payments to the holders of our ADSs. Exchange rate fluctuations may also affect the U.S. dollar equivalent of the real price of the preferred shares or common shares on the Brazilian stock exchange where they are traded. Exchange rate fluctuations may also affect our results of operations. For more information see Risk Factors Risks Relating to Brazil Exchange rate instability may adversely affect our business, results of operations and financial condition and the market price of our shares, the Preferred ADSs and the Common ADSs .

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The table below sets forth, for the periods indicated the low, high, average and period-end exchange rates for *reais*, expressed in *reais* per US\$1.00.

Month	Reais per US\$1.00			
	Low	High	Average	Period-end
October 2013	2.1567	2.2240	2.1866	2.2235
November 2013	2.2425	2.3345	2.2959	2.3345
December 2013	2.3106	2.3784	2.3471	2.3608
January 2014	2.3500	2.4017	2.3747	2.4008
February 2014	2.3300	2.4373	2.3792	2.3321
March 2014	2.2552	2.3617	2.3251	2.2552
April 2014 (1)	2.1940	2.2795	2.2323	2.2370

(1) As of April 18, 2014

Year Ended December 31,	Reais per US\$1.00			
	Low	High	Average	Period-end
2009	1.6995	2.4420	1.9976	1.7425
2010	1.6574	1.8885	1.7600	1.6631
2011	1.5375	1.8865	1.6723	1.8627
2012	1.6997	2.1141	1.9535	2.0476
2013	1.9480	2.4464	2.1570	2.3608

Source: U.S. Federal Reserve Board

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Risk factors

In evaluating an investment in our Company, the investor should take into consideration the following risks, as well as the other information in this annual report.

Risks relating to Cemig

Public authorities may intervene in concessions, in the interests of ensuring proper provision of services, and this could adversely affect the Company's operational and financial results.

Public authorities may intervene in concessions to ensure appropriate provision of services, or faithful compliance with provisions of contracts, regulations or laws, and may also interfere in operations or revenues arising from operations of the facilities of the Company or its subsidiaries. In the event of intervention, the Company could be adversely affected.

We cannot be certain of the renewal of our concessions.

We carry out the majority of our power generation, transmission and distribution activities under concession contracts entered into with the Brazilian federal government. The Brazilian Constitution requires that all concessions relating to public services be awarded through a bidding process. In 1995, in an effort to implement these constitutional provisions, the federal government adopted certain laws and regulations, known collectively as the Concessions Law, governing bidding procedures in the power industry.

On September 11, 2012 the Brazilian government issued Provisional Measure 579 (PM 579), later converted into Law No. 12,783, which governs extension of the concessions granted prior to Law No. 9074 of July 9, 1995. Under that law, as from September 12, 2012 these concessions can be extended only once, for up to 30 years, at the option of the concession-granting power. On December 4, 2012, the Company signed the second amendment to Transmission Concession Contract 006/1997, which extended the concession for 30 years under the terms of PM 579, from January 1, 2013. This resulted in an adjustment to the Permitted Annual Revenue (*Receita Anual Permitida*, or RAP), reducing the revenue that we will receive from those concessions.

The Brazilian government has compensated us for the reduction of the RAP of part of those concessions, but the assets in operation before the year of 2000 have not yet been compensated. According to Law N° 12,783, we will be compensated for the reduction of the RAP of the assets in operation before 2000, in 30 years, adjusted for the Amplified National Consumer Price Index (Índice Nacional de Preços ao Consumidor Amplo, or IPCA).

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The Company opted not to request extension of the generation concessions that expire within the period 2013 to 2017. For the plants that would have had a first extension before PM 579, which include the *Jaguara*, *São Simão* and *Miranda* plants, the Company believes that Generation Concession Contract 007/1997 allows for the extension of the concession of those plants for an additional 20 years, without application of any additional restriction.

Based on this understanding Cemig GT applied for an order of mandamus against an act of the Mining and Energy Minister with the objective of ensuring its right to extension of the period of the concession of the *Jaguara* Hydroelectric Plant, in the terms of Clause 4 of Concession Contract 007/1997, obeying the original bases of this contract, which were prior to Law N° 12.783/2013. The Company was granted an interim injunction, which is still in effect, to continue commercial operation of the *Jaguara* hydroelectric plant until a judgment is given by the courts on the application for mandamus. The chance of a loss in this action has been classified as *possible*, due to its nature and the complexity involved in this particular case. The case has several particular elements characterizing the contingency: the singular nature of Concession Contract No. 007/1997, the unprecedented nature of the subject matter, and the fact that the action will be a leading case in consideration by the Brazilian Courts of the extension of concessions.

For the other generating plants with concessions that expire over the period from 2015 to 2017 which include *Três Marias*, *Salto Grande*, *Itutinga*, *Camargos*, *Piau*, *Gafanhoto*, *Peti*, *Tronqueiras*, *Joasal*, *Martins*, *Cajuru*, *Paciência*, *Marmelos*, *Sumidouro*, *Anil*, *Poquim*, *Dona Rita* and *Volta Grande* we have opted not to apply for extension under the terms of MP 579. As a result the generation business will not be affected negatively until the end of those concessions.

In light of the degree of discretion granted to the Federal Government, in relation to the new concession contracts, renewal of existing concessions, and, due to the new provisions established by PM 579 for renewal of distribution, generation and transmission concession contracts, we cannot guarantee that new concessions will be obtained or that our present concessions will be

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renewed on terms as favorable as those currently in effect. Non-renewal of any of our concessions could adversely affect our business, operational results and/or financial situation.

We might be unable to complete our proposed capital expenditure program.

Our by-laws state that we may use up to 40.0% of our annual EBITDA (earnings before interest, income taxes, depreciation and amortization), each fiscal year, on capital investments and acquisitions. Our ability to carry out our capital expenditure program is dependent upon a number of factors, including our ability to charge adequate rates for our services, our access to the domestic and international capital market and a variety of operational and other factors. In addition, our plans to expand our generation and transmission capacity are subject to the competitive bidding process governed by the Concessions Law. We cannot give any assurance that we will have the financial resources to complete this program, which could affect our business, operational results and/or financial situation.

Aneel has discretion to establish the rates Cemig Distribution charges consumers. These rates are determined by Aneel and designed to preserve the economic and financial balance of concession contracts entered into with Aneel (acting on behalf of the federal government).

Concession agreements and Brazilian law establish a price cap mechanism that permits three types of rate adjustments: (1) the Annual Adjustment; (2) the Periodic Review; and (3) the Extraordinary Review. The purpose of the Annual Adjustment (*Reajuste Anual*) is to compensate for changes in costs that are beyond the Company's control, such as the cost of electricity for supply to consumers, the sector charges that are set by the federal government, and transport charges for use of the transmission and distribution facilities of other companies.

Manageable costs, on the other hand, are adjusted by the IGP-M inflation index, less an Efficiency Factor, known as the X Factor. Every five years there is a Periodic Tariff Review (*Revisão Periódica Tarifária*, or RTP), the purpose of which is to: identify the same variations in costs referred to above; remunerate the assets that the company has built in the period; decide on efficient operational costs, using a benchmarking method; and establish a factor based on the gains of scale, which will be taken into account in the subsequent annual tariff adjustments. An Extraordinary Tariff Review takes place whenever there is any unforeseen development significantly alters the economic-financial equilibrium of the concession. Therefore, the tariff review mechanism is subject to some extent to the discretionary power of Aneel, since it may omit to include investments that have been made, and could recognize operational costs as being lower than those actually incurred which could result in a material adverse effect on our business, operational results and/or financial situation

Disruptions in the operation of, or deterioration of the quality of, services could have an adverse effect on the business, financial situation and operational results of the Company and its subsidiaries.

The operation of complex electricity transmission networks and systems involves various risks, such as operational difficulties and unexpected interruptions, caused by events that are beyond the control of the Company and its subsidiaries. These events include accidents, breakage or failure of equipment or processes, performance below expected levels of availability and efficiency of the transmission assets, and disasters such as explosions, fires, natural phenomena, landslides, sabotage or other similar events. Furthermore, actions by government agencies responsible for the electricity network, the environment, operations and other issues that affect electricity transmission could adversely affect the functioning and profitability of the operations of our transmission lines.

The Company's insurance coverage may be insufficient to fully cover costs and/or losses that we may incur as a result of damage to our assets and/or service interruptions, which could result in a significant adverse effect on the business, financial situation and operational results of the Company and its subsidiaries. Further, the revenues that the Company and its subsidiaries generate from establishing, operating and maintaining its facilities are related to the availability of the services. Under the related concession contracts, the Company and its subsidiaries are subject to reduction of their Permitted Annual Revenue (*Receita Anual Permitida*, or RAP), and application of certain penalties, depending on the level of duration of unavailability of services. Therefore, interruptions in our transmission lines and substations may cause a material adverse effect on the Company's business, financial situation and operational results.

We may incur losses in connection with pending litigation.

We are currently defending several legal and administrative proceedings relating to civil, administrative, environmental, tax, labor and other claims. These claims involve a wide range of issues and seek indemnities and reparation in money and by specific performance. Several individual disputes account for a significant part of the total amount of claims against the Company. The consolidated financial statements include contingency provisions in the total amount of R\$ 306 million, as of December 31,

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2013, for actions in which the chances of loss have been assessed as probable (i.e. more likely than not). In the event that our provisions for legal actions are insufficient, payments for actions in excess of the amounts provisioned could adversely affect our operational results and financial situation.

Selling prices for electricity may be affected by the rules governing such sales, and by market conditions.

Under the applicable law, our generation companies are not allowed to sell energy directly to our distribution companies. As a result, our generation companies sell electricity in a regulated market through public auctions conducted by Aneel this area of activity is referred to as the Regulated Market (or the Regulated Contracting Environment *Ambiente de Contratação Regulado*, or ACR; or the Pool), or in the Free Market (*Ambiente de Contratação*, or ACL). The legislation allows distributors to contract with our generation companies in the Regulated Market and to reduce the volume of electricity contracted under existing supply contracts by up to 4% of the original contract amount, per year, for the entire contract period, exposing our generation companies to the risk of failing to sell their remaining energy at adequate prices.

We perform trading activities through power purchase and sale agreements, mainly in the Free Market (ACL), through our generation and trading companies. Contracts in the ACL may be entered into with other generating agents, energy traders, or mainly, with Free Consumers . Free Consumers are consumers with demand of 3MW or more: they are allowed to choose their electricity supplier. Some contracts with this type of consumer allow the consumer to buy a higher or lower volume of electricity from our companies than originally contracted (by 5% on average), and this could adversely affect our business, operational results and financial condition. Other contracts do not allow for this kind of flexibility in the purchase of electricity, however, increased competition in the Free Market could influence the occurrence of this type of arrangement in purchase contracts in the Free Market.

In addition to Free Consumers, there is a category of clients referred to as Special Consumers , which are those with contracted demand between 500kW and 3MW. Special Consumers are eligible to enter the Free Market provide they buy electricity from incentive-bearing alternative sources, such as Small Hydroelectric Plants, biomass plants or wind farms. We have conducted sales transactions for this type of electricity from certain electricity resources in certain companies of the group, but as from 2009 the sale of this type of incentive-bearing power supply has been increased, and the Company has formed a portfolio of purchase contracts that now occupies an important space in the Brazilian market for this type of electricity. Contracts for sale of electricity to this type of client have specific flexibilities to serve their needs, and these flexibilities of greater or lesser consumption are linked to the client s history of energy consumption level. Market variations may generate short-term positions that could have an adverse financial effect on our results. The introduction of Law No. 12,783 brought certain changes to the organization of the Brazilian electricity market and the impacts of this new regulation cannot yet be assessed. Meanwhile there is the possibility that its results could have a less positive effect on our operations.

Low liquidity in the trading market, or volatility in future prices, due to market conditions and/or market perceptions, could negatively affect our operational results. Also, if we are unable to sell all the power that we have available from our own generation capacity or from contracts under which we have bought supply of power in the regulated public auctions or in the free market, the unsold capacity will be sold on the Electricity Trading Chamber (*Câmara de Comercialização de Energia Elétrica*, or CCEE) at spot prices (*Preços de Liquidação de Diferenças*, or PLD), which tend to be very volatile. If this occurs in periods of low spot prices, our revenues and operational results could be adversely affected.

Requirements of, and restrictions by, the environmental agencies could result in our Company having additional costs.

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Our operations related to generation, distribution and transmission of electricity, and distribution of natural gas, are subject to various federal, state and municipal laws and regulations, and also to numerous requirements relating to the protection of health and the environment. Delays by the environmental authorities, or refusal of license requests by them, and/or any inability on our part to meet the requirements set by these bodies during the environmental licensing process, may result in additional costs, or even, depending on the case, prohibit or restrict the construction or maintenance of these projects.

Non-compliance with environmental laws and regulations, such as building and operation of a potentially polluting facility without a valid environmental license or authorization, could, in addition to the obligation to redress any damages that may be caused, result in criminal, civil and/or administrative sanctions being applied. Under Brazilian legislation, criminal penalties such as restriction of rights, and even imprisonment, may be applied to individuals (including managers of legal entities), and penalties such as fines, restriction of rights or community service may be applied to legal entities. With respect to administrative sanctions, depending on the circumstances, the environmental authorities may: impose warnings, or fines, ranging from R\$ 50 thousand to R\$ 50 million; require partial or total suspension of activities; suspend or restrict tax benefits; cancel or suspend lines of credit from governmental financial institutions; or prohibit us from contracting with governmental agencies, companies or authorities. Any of these events could adversely affect our business, operational results and/or financial situation.

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We are also subject to the Brazilian legislation that requires payment of compensation in the event that our activities have polluting effects. Under Federal Law No. 6,848/2009 and Minas Gerais State Decree No. 45,175/2009, up to 0.5% of the total amount invested in implementation of a project that causes significant environmental impact must be applied in compensatory measures, in an amount to be determined on a case by case basis by environmental authorities according to specific level of pollution and the environmental impact of the project.

State Decree No. 45,175 of 2009 also indicated that the compensation rate will be applied retrospectively to projects implemented prior to promulgation of the present legislation. That State Decree was altered by Decree No. 45,629/2011, which established that, for the reference value of the projects that cause significant environmental impact:

I for projects executed before the publication of Federal Law No. 9,985 of 2000, the net book value will be used, excluding revaluations or, in its absence, the value of the investment presented by the representative of the project; and

II compensation for environmental projects executed after the publication of Federal Law No. 9,985 will use the reference established in Item IV of Article 1 of Decree No. 45,175, calculated at the moment of execution of the project and updated based on an inflation-linked adjustment index.

In addition, the law of the State of Minas Gerais (location of the majority of Cemig's operations) requires the constitution of a Legal Forest Reserve, corresponding to 20% of the total area of the rural property, used in our operations (State Law No. 14,309, of June 19, 2002, regulated by Decree No. 43,710, of January 8, 2004).

However, in 2012, the new Brazilian Forest Code was approved (Law No. 12,727, of October 17, 2012, converted from Provisional Measure 571, of 2012), which altered the Brazilian legislation on the subject, instituting, in its Article 12, §7º, the following:

No Legal Reserve shall be required in relation to areas acquired or expropriated by the holder of a concession, permission or authorization for commercial operation of hydroelectric potential, where electricity generation enterprises or substations function or where electricity transmission or distribution lines are installed.

However, since under Brazilian law the States may have their own specific legislation, we await a possible revision of the legislation of the State of Minas Gerais, in relation to what has been established in the new Forest Code, to enable us to make a correct evaluation of its impacts on the enterprises located in Minas Gerais.

Finally, the adoption or implementation of new safety, health and environmental laws, new interpretations of existing laws, increased rigidity in the application of the environmental laws, or other developments in the future might require us to make additional capital expenditure or incur additional operational expenses in order to maintain our current operations; or to curtail our production activities or take other actions that could have an adverse effect on our business, operational results or financial situation.

We are controlled by the Government of a Brazilian State, which may have interests that are different from those of investors.

As our controlling shareholder, the government of the Brazilian State of Minas Gerais exercises substantial influence on the strategic orientation of our business. The government of the State of Minas Gerais currently holds approximately 51% of our common shares and, consequently, has the right to the majority of votes in decisions of the General Meetings of our Shareholders, and can: (i) elect the majority of the members of our Board of Directors, and (ii) decide matters requiring approval by a specific majority of our shareholders, including transactions with related parties, shareholding reorganizations and the date and payment of any dividends.

In the past, the State Government has used, and may in the future use, its status as our controlling shareholder to decide whether we should engage in certain activities and make certain investments the intention of which might, principally, be to promote its political, economic or social objectives and not necessarily to achieve the objective of improving our business and/or operational results. Such actions could have a material adverse effect our business, operational results and/or financial situation.

Delays in the expansion of our facilities might significantly increase our costs.

We are currently engaged in the construction of additional hydroelectric and wind power plants, transmission lines and substations, and assessment of other potential expansion projects. Our ability to complete an expansion project on time, within a given budget and without adverse economic effects, is subject to a number of risks. For example:

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- we may experience problems in the construction phase of an expansion project (e.g.: work stoppages, unforeseen geological conditions, environmental and political and environmental uncertainties, liquidity of partners or contractors);
- we may face regulatory or legal challenges that delay the initial operation date of an expansion project;
- our new facilities may possibly not operate at the designated capacity or its costs of operation may be greater than planned;
- we may possibly not be able to obtain adequate working capital to finance our expansion projects; and
- we may encounter environmental issues and claims by the local population during the construction of power plants, transmission lines or substations.

If we experience these or other problems relating to the expansion of our electricity generation or transmission capacity, we may be exposed to increased costs, or we may fail to achieve the revenues we planned in connection with such expansion projects.

Aneel, the electricity regulator, has some discretion in setting the Permitted Annual Revenue (RAP) of our transmission companies; if any adjustments result in a reduction of the RAP, this could have a material adverse effect on our operational results and financial condition.

The Permitted Annual Revenue (*Receita Annual Permitida*, or RAP) that we receive through our transmission companies is determined by Aneel, on behalf of the federal government. The concession contracts provide for two mechanisms for adjustment of revenues: (i) annual tariff adjustments; and (ii) the Periodic Tariff Review (*Revisão Tarifária Periódica*, or RTP). The annual tariff adjustment of our transmission revenues takes place annually in June and is effective in July of the same year. The annual tariff adjustments take into account the permitted revenues of the projects that have come into operation and the revenue from the previous period is adjusted by the IPCA index. The periodic tariff review previously took place every four years, but Law No. 12,783 changed the tariff review period to five years. Our first periodic tariff review took place in July 2005 and the second in July 2009. During the periodic tariff review, the investments made by the concession holder in the period and the operational costs of the concession are analyzed by Aneel, taking into account only investment that it deems to be prudent, and operational costs that it assesses as having been efficient, using a benchmarking methodology developed by using an efficiency model based on comparison of data among the various transmission companies in Brazil. Therefore, the tariff review mechanism is subject to some extent to the discretionary power of Aneel, since it may omit to include investments that have been made, and could recognize operational costs as being lower than those actually incurred which could result in a material adverse effect on our business, operational results and/or financial situation.

As mentioned above, we extended the concessions of certain of our transmission lines, under Law No. 12,783, which resulted in an adjustment to the RAP of those concessions, lowering the revenue we will receive from those concessions. The Brazilian government has compensated us for a reduction in the RAP of a portion of these concessions, but the assets in operation before 2000 have not yet been compensated. According to Law No. 12,783, we will receive compensation for the reduction in the RAP of the assets in operation before 2000 over a period of 30 years, adjusted by the IPCA inflation index.

Employment-related legal claims, strikes and/or work stoppages could have an adverse impact on our business.

Substantially all of our employees are covered by the Brazilian employment-law legislation applicable to private-sector employees. We have entered into collective bargaining agreements with the labor unions representing most of our employees.

We are currently defending a number of employment-law claims brought by our employees, the great majority of which relate to overtime and compensation for hazardous work. We are also subject to claims related to outsourcing of services, in which employees of our contractors and subcontractors have brought actions against us for payment of outstanding labor liabilities.

In 2008 and 2009 there was no significant labor union action. In the negotiations to reach the Collective Work Agreement (*Acordo Coletivo de Trabalho*, or ACT), for 2010, some of our employees went on strike for 20 days. During the negotiations for the 2011 Collective Agreement, there were five, intermittent days of work stoppage by our employees. During the 2012 negotiations, there was one day of stoppage, in which around 12% of the employees took part. In 2013, there was a stoppage of 22 days in which 10% of the employees took part. In all of these events, our Operational Emergency Committee was activated and the strikes and stoppages did not affect the supply of electricity to our consumers.

We do not have insurance against losses incurred as a result of business interruptions caused by employment-related actions. In the event of a strike, we could face an immediate loss of revenue. Contractual disputes, strikes, complaints or other types

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of conflict relating to our employees or to unions that represent them may cause an adverse effect on our business, operational results or financial situation, or on our ability to maintain normal levels of service.

We are subject to rules and limits applied to levels of public sector borrowing and to restrictions on the use of certain funds we raise, which could prevent us from obtaining financing.

As a state-controlled company, we are subject to rules and limits on the level of credit that may be contracted by the public sector, set by the National Monetary Council (*Conselho Monetário Nacional*, or CMN) and by the Brazilian Central Bank. These rules set certain parameters and conditions for financial institutions to be able to offer credit to companies of the public sector. Thus, if we do not fall within these conditions and parameters, we may have difficulty in obtaining financing from Brazilian financial institutions, which could create difficulties for the implementation of our investment plan. Brazilian legislation also rules that a state-controlled company, in general, may use proceeds from external transactions with commercial banks (debt, including bonds) only to refinance financial obligations. As a result of these regulations, our capacity to incur debt is limited, and this could negatively affect the implementation of our investment plan.

We are subject to extensive and uncertain governmental legislation and regulation and any changes to such legislation and regulation could have a materially adversely effect on our business, operational results and/or financial situation.

The Brazilian federal government has been implementing policies that have a far-reaching impact on the Brazilian energy sector and, in particular, the electricity industry. As part of the restructuring of the industry, Law No. 10,848 of March 15, 2004, known as the New Industry Model Law, introduced a new regulatory structure for the Brazilian electricity industry.

This regulatory structure has undergone several changes over recent years, the most recent being the changes included by Provisional Measure 579 (PM 579) (which was converted into Law 12,783), which governs the extension of the concessions granted by Law No. 9,074 of July 7, 1995. Under this law, such concessions can, as from September 12, 2012, be extended only once, for up to 30 years, at the option of the concession-granting power.

There are contractual restrictions on our capacity to incur debt.

We are subject to certain restrictions on our capacity to incur debt due to covenants set forth in our loan agreements. In the event of non-compliance on our part with an obligation contained in our financing contract with the Brazilian Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*, or BNDES), we have an obligation to strengthen the guarantees of the financing, on pain of early maturity of the contract. In 2009, 2010, 2011 and 2012, we were at times in non-compliance with some of our obligations under our loan agreements, and, although we have been able to obtain waivers from our creditors in relation to such non-compliances, no guarantee can be given that we will be successful in obtaining any particular waiver in the future. The existence of limitations on our indebtedness could prevent us from entering into new agreements to finance our operations or to refinance our existing obligations, which could adversely affect our business, results of operations and financial situation.

We operate without insurance policies against natural disasters and third party liability.

Other than in connection with flying, we do not have third party liability insurance covering accidents, and we have not sought proposals for this type of insurance. It is the Company's view that the risk of occurrence of an event leading to a claim on third party liability insurance is small. Specific studies have been made on the subject, which prove the extremely low probability of events of this nature. Hence Cemig has not sought a proposal for, and has not contracted, insurance cover against natural disasters, such as earthquakes or floods, that might affect our facilities.

The insurance contracted by the Company may be insufficient to pay compensation for possible damages.

The Company maintains insurance only for fire, risks involving our aircraft, and operational risks, such as damage to equipment, as well as those types of insurance cover that are required by law, such as transport insurance of goods belonging to legal entities.

We cannot guarantee that insurances contracted are sufficient to cover in full any liabilities that may arise in fact in the course of our business nor that these insurance policies will continue to be available in the future. The occurrence of claims in excess of the amount insured, or which are not covered by the insurance policies contracted, might generate significant and unexpected additional costs, which could have an adverse effect on our business, operational results and/or financial situation.

The level of default by our consumers could adversely affect our business, operational results and/or financial situation.

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As of December 31, 2013, our total past due receivables from final consumers were approximately R\$ 893 million, corresponding to 6.10% of our net revenues for 2013, and our allowance for doubtful accounts was R\$ 585 million. Approximately 12.46% of our total receivables were owed by entities of the public sector. We may be unable to recover debts from several municipalities and other defaulting consumers. If these debts unsettled, in whole or in part, we will experience an adverse impact on our business, operational results and financial situation. In addition, the amount of our consumers' debts in arrears that exceeds our allowance for doubtful accounts could have an adverse effect on our business, operational results and/or financial situation.

We are strictly liable for any damages resulting from inadequate rendering of electricity services.

Under Brazilian law, we are strictly liable for direct and indirect damages resulting from the inadequate rendering of electricity transmission and distribution services. In addition, when damages are caused to final consumers as a result of outages or disturbances in the generation, transmission and distribution system, whenever these outages or disturbances are not attributed to an identifiable member of the National System Operator (*Operador Nacional do Sistema*, or ONS) or to the ONS itself, the liability for such damages is shared among generation, distribution and transmission companies. Until a party with final responsibility has been identified, the liability for such damages will be shared in the proportion of 35.7% to the distribution agents, 28.6% to the transmission agents and 35.7% to the generation agents. These proportions are established by the number of votes that each of these types of electricity concession holder receives in the general meetings of the ONS, and as such, they are subject to change in the future. Thus our business, operational results and/or financial situation might be adversely affected as a result of any such damages.

Aneel may penalize our subsidiaries for failing to comply with our concession agreements, and/or authorizations granted to us, which could result in fines, other penalties or, depending on the severity of the non-compliance, expropriation of the concession agreements or revocation of the authorizations.

We conduct our generation, transmission and distribution activities pursuant to concession agreements entered into with the federal government, through Aneel, and/or pursuant to authorizations granted to the companies of our portfolio, as the case may be. Aneel may impose penalties if we fail to comply with any provision of the concession agreements, including those relating to compliance with the established standards of quality. Depending on the severity of the non-compliance, these penalties could include:

- fines per breach of contract of up to 2.0% of the concession holder's revenues in last year prior to the date of the breach;
- injunctions related to the construction of new facilities and equipment;
- restrictions on the operation of existing facilities and equipment;
- temporary suspension from participating in bidding processes for new concessions for a period of up to two years;

- intervention by Aneel in the management of the concession holder that it is in breach; and
- repeal of the concession.

In addition, the federal government has the power to repeal any one of our concessions or authorizations, prior to the end of the concession term, in the case of bankruptcy or dissolution, or through expropriation, for reasons related to the public interest.

Also, delays in the implementation and construction of new energy undertakings can trigger the imposition of regulatory penalties by Aneel, which, under Aneel's Resolution No. 63 of May 12, 2004, can vary from warnings to the early termination of concessions or authorizations.

We cannot guarantee that Aneel will not impose penalties or even repeal our concessions or authorizations in the event of a breach of a concession contract or authorization. Any compensation we may receive upon rescission of the concession contract and/or withdrawal of an authorization may not be sufficient to compensate us for the full value of certain investments. If any concession contract is rescinded due to fault of ours, the effective amount of compensation could be reduced as a result of fines or other penalties. Rescission of our concession contracts, or imposition of penalties, could adversely affect the Company's business, operational results and/or financial situation.

Our ability to distribute dividends is subject to limitations.

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Whether or not the investor receives dividends depends on whether our financial situation permits us to distribute dividends under Brazilian law, and whether our shareholders, on the recommendation of our Board of Directors, acting in their discretion, determine suspension, due to our financial situation, of distribution of dividends in excess of the amount of mandatory distribution required under our by-laws in the case of the preferred shares.

Because we are a holding company with no revenue-producing operations other than those of our operating subsidiaries, we will be able to distribute dividends to shareholders only if the Company receives dividends or other cash distributions from its operating subsidiaries. The dividends that our subsidiaries may distribute depend on our subsidiaries generating sufficient profit in any given fiscal year. Dividends can be paid out from the profit accrued in each fiscal year, or from accumulated profits from previous years, or from profit reserves. Dividends are calculated and paid in accordance with the Brazilian Corporate Law and the provisions of the by-laws of each of our regulated subsidiaries.

We will need funds in the short term to fund our current and expected acquisitions.

We will need funds in the short term to fund our current and future acquisitions and investments. However, we cannot guarantee that we will be able to raise such funds in a timely manner and in the amounts necessary or at competitive rates, or that we will otherwise have cash in hand to finance our investments and acquisitions. If we are unable to raise funds as planned, we may be unable to meet our acquisition commitments, and our investment program could suffer delays or significant changes, which could adversely affect our business, financial situation or future prospects.

Foreign shareholders may be unable to enforce judgments against our directors or officers.

All of our directors and officers named in this annual report reside in Brazil. Substantially all of our assets, as well as the assets of these persons, are located in Brazil. As a result, it may not be possible for foreign shareholders to effect service of process within the United States or other jurisdictions outside Brazil upon these persons, or to attach their assets, or to enforce against them or our Company in United States courts, or the courts of other jurisdictions outside Brazil, judgments predicated upon the civil liability provisions of the securities laws of the United States or the respective laws of such other jurisdictions.

Brazil's supply of electricity depends heavily on hydroelectric plants, which in turn depend on climatic conditions to produce electricity.

As is widely known, hydroelectric generation is predominant in Brazil constituting more than 70% of total installed capacity. The advantages of hydroelectric power have also been widely publicized: it is a renewable resource, and enables substantial expenditures on fuels in thermal generation plants to be avoided. At the same time the main difficulty in the use of this resource arises from the variability of the flows to the plants: There are substantial seasonal variations in monthly flows, and in the total of flows over the year, which depend fundamentally on the volume of rain that falls in each rainy season.

To deal with this difficulty the Brazilian system, as well as having a complementary thermal generation system about 20% of its total capacity has major accumulation reserves, able to transfer water from the rainy season to the dry season, and even from one year to the next.

The operation of the whole system is coordinated by the National System Operator (*Operador Nacional do Sistema*, or ONS). Its primary function is to achieve optimal operation of the resources available, minimizing operational cost, and the risks of shortage of electricity. In periods when the hydrological situation is adverse, a decision by the ONS may, for example, reduce generation by hydroelectric plants and increase thermal generation, which results in higher costs for the hydroelectric generators. Also, in the event of extreme shortages of electricity due to adverse hydrological situations, the system could undergo rationing, which could result in an increase in the company's costs and reduction of its cash flow.

Increases in electricity purchase prices could cause imbalance in the Company's cash flow.

The prices in electricity purchase contracts signed by electricity distribution concession holders such as the Company are linked to certain variables, such as, for example, hydrological conditions, which are not under those concession holders' control. Although any increases are passed through to the electricity distribution concession holders at the time of their tariff adjustments, their existence can result in mismatches of cash flow, with an adverse impact on the Company's business, operational results and/or financial situation. In 2013 this possibility was significantly reduced by action in support of the distribution companies taken by the federal government, in directing funds from the Energy Development Account (*Conta de Desenvolvimento Energético*, or CDE) to payment of a significant proportion of these expenses. For 2014, the subject is under discussion between companies and the government, which is aware of the risks and should provide some form of assistance – it is known, for example, that R\$ 13 billion is reserved for this purpose in the Federal Budget.

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Risks relating to Brazil

The federal government exercises significant influence on the Brazilian economy. Political and economic conditions can have a direct impact on our business.

The federal government frequently intervenes in the country's economy and occasionally makes significant changes in monetary, fiscal and regulatory policy. Our business, operational results or financial situation may be adversely affected by changes in government policies, and also by:

- fluctuations in the exchange rate;
- inflation;
- instability of prices;
- changes in interest rates;
- fiscal policy;
- other political, diplomatic, social and economic developments which may affect Brazil or the international markets;
- control on capital flows; and/or
- limits on foreign trade.

Measures by the Brazilian government to maintain economic stability, and also speculation on any future acts of the Brazilian government, can generate uncertainties in the Brazilian economy, and increase the volatility of the domestic capital market, adversely affecting our business, operational results and/or financial situation. If the political and economic situations deteriorate, we may face increased costs.

The President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy. Uncertainties in relation to any potential political crises can contribute to economic instability. This can increase the volatility of the Brazilian securities market and could have an adverse effect on the Brazilian economy and our business, operational results and/or financial situation. It is not possible to predict whether the present government or any successor governments will have an adverse effect on the Brazilian economy, and consequently on our business.

Inflation and certain governmental measures to curb inflation may contribute significantly to economic uncertainty in Brazil and could harm our business and the market value of our shares, the Preferred ADSs and the Common ADSs.

Brazil has in the past experienced extremely high rates of inflation. Inflation, and some of the federal government's measures taken in an attempt to curb inflation, have had significant negative effects on the Brazilian economy. Since the introduction of the *real* in 1994, Brazil's inflation rate has been substantially lower than in previous periods. As measured by the IPCA index, Brazilian annual inflation rates in 2011, 2012 and 2013 were 6.0%, 5.84% and 5.91%, respectively. No assurance can be given that inflation will remain at these levels.

Future measures taken by the federal government, including increases in interest rates, intervention in the foreign exchange market or actions intended to adjust the value of the *real*, might cause increases in inflation, and consequently, have adverse economic impacts on our business, operational results and/or financial situation. If Brazil experiences high inflation in the future, we might be unable to adjust the rates we charge our consumers to offset the effects of inflation on our cost structure.

Substantially all of our cash operating expenses are denominated in *reais* and tend to increase with Brazilian inflation. Inflationary pressures might also hinder our ability to access foreign financial markets or might lead to further government intervention in the economy, including the introduction of government policies that could harm our business, operational results and/or financial situation or adversely affect the market value of our shares and as a result, of our Preferred ADSs and Common ADSs.

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Exchange rate instability could adversely affect our business, operational results and/or financial situation and the market prices of our shares, the Preferred ADSs and the Common ADSs.

The Brazilian currency has been devalued periodically in the last four decades. Throughout this period, the federal government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Although the prolonged periods of depreciation of the Brazilian currency have usually correlated with the rate of inflation in Brazil, devaluation over shorter periods has resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar, and currencies of other countries.

In 2013, the *real* depreciated 15.3% against the U.S. dollar. Considering the volatility the world economy is facing, no assurance can be given that the *real* will not continue to depreciate against the U.S. dollar. On December 31, 2013, the buy exchange rate for the U.S. dollar against the *real* was R\$ 2.0476/US\$. On that date approximately 4.88% of our total indebtedness under loans, financings and debentures was denominated in currencies other than the *real* (84.78% of those contracts being denominated in U.S. dollars). If the *real* depreciates against the U.S. dollar, our related financial expenses will increase and our operational results and financial situation could be adversely affected. We recorded a foreign exchange-related expense of R\$ 16 million in 2012, and a foreign exchange-related loss of R\$ 28 million in 2013.

We also have entered into certain power purchase agreements denominated in U.S. dollars. We cannot guarantee that derivative instruments and the proceeds from our dollar-denominated purchase agreements will be sufficient to avoid an adverse effect on our business, operational results and/or financial situation in the event of adverse exchange rate fluctuations.

Changes in economic and market conditions in other countries, especially Latin American and emerging market countries, may adversely affect our business, operational results and/or financial situation, as well as the market price of our shares, Preferred ADS and Common ADSs.

The market value of the securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including other Latin American countries and emerging market countries. Although the economic conditions of such countries may differ significantly from the economic conditions of Brazil, the reactions of investors to events in those countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in other emerging market countries might reduce investors' interest in securities of Brazilian issuers, including our Company. This could make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all. Due to the characteristics of the Brazilian power industry (which requires significant investments in operating assets) and due to our financing needs, if access to the capital and credit markets is limited, we could face difficulties in completing our investment plan and refinancing our obligations, and this could adversely affect our business, operational results and/or financial situation.

Political and economic instability in Brazil may affect us.

Periodically, allegations of unethical or illegal conduct have been made with respect to people in the Brazilian government, including legislators and/or party officials. The possibility exists that further allegations on unethical or illegal conduct might be made at any time in relation to persons of the Brazilian government, including legislators and/or party representatives. If these events lead to a materially adverse perception of Brazil among investors, the trading value of our shares, the Preferred ADSs and/or the Common ADSs could decline, and our ability to access

international markets could be reduced. In addition, any political instability resulting from such events could cause us to re-assess our strategies if the Brazilian economy suffers as a result.

Risks relating to the preferred shares, common shares, Preferred ADSs and Common ADSs

The preferred shares and Preferred ADSs generally do not have voting rights, and the Common ADSs can only be voted by proxy by providing voting instructions to the depository.

Under the Brazilian Corporate Law and our by-laws, holders of our preferred shares, and, consequently, holders of our ADSs representing preferred shares, are not entitled to vote at our shareholders' meetings, except in very limited circumstances. Holders of our Preferred ADSs may also encounter difficulties in the exercise of certain rights, including limited voting rights.

Holders of the ADSs for our common shares do not have automatic entitlement to vote in our General Meetings of Stockholders, other than by power of attorney, by sending a voting instruction to the depository. In some circumstances, where there is not enough time to send the form with voting instructions to the depository, or in the event of omission to send the voting instruction, the holders of ADSs for Cemig's preferred and common shares may be unable to vote by means of instructions to the depository.

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Exchange controls and restrictions on remittances from Brazil might adversely affect holders of Preferred and Common ADSs

The investor may be adversely affected by the imposition of restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and the conversion of *reais* into foreign currencies. Restrictions of this type would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of preferred shares or common shares from *reais* into U.S. dollars. We cannot guarantee that the federal government will not take restrictive measures in the future.

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to sale of our shares, Preferred ADSs or Common ADSs.

Law No. 10,833 of December 29, 2003 provides that the sale of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the sale occurs outside or within Brazil. This provision results in the imposition of income tax on the gains arising from a sale of our preferred shares or common shares by a non-resident of Brazil to another non-resident of Brazil. There is no clear guidance as to the application of Law No. 10,833 and, accordingly, we are unable to predict whether Brazilian courts may decide that it applies to sales of our Preferred ADSs and Common ADSs between non-residents of Brazil. However, in the event that the sale of assets is interpreted to include a sale of our Preferred ADSs and Common ADSs, this tax law would accordingly result in the imposition of withholding taxes on the disposal of our Preferred ADSs and Common ADSs by a non-resident of Brazil to another non-resident of Brazil.

Exchanging Preferred ADSs or Common ADSs for underlying shares may have adverse consequences.

The Brazilian custodian for the preferred shares and common shares must obtain an electronic certificate of foreign capital registration from the Brazilian Central Bank to remit U.S. dollars from Brazil to other countries for payments of dividends, any other cash distributions, or to remit the proceeds of a sale of shares. If the investor decides to exchange his Preferred ADSs or Common ADSs for the underlying shares, the investor will be able to continue to rely, for five business days from the date of the exchange, on the depositary bank's electronic certificate of registration in order to receive any proceeds distributed in connection with the shares. Thereafter, the investor may perhaps not be able to obtain and remit U.S. dollars abroad upon sale of the shares, or distributions of proceeds relating to the shares, unless the investor obtains his own certificate of registration under CMN Resolution No. 2,689 of January 26, 2000, which entitles foreign investors to buy and sell on the Brazilian stock exchanges. If the investor does not obtain this certificate, he will be subject to less favorable tax treatment on gains with respect to the preferred or common shares. If the investor attempts to obtain his own certificate of registry, he may incur expenses or suffer significant delays in the application process. Obtaining a certificate of registry involves generating significant documentation, including completing and filing various electronic forms with the Brazilian Central Bank and the Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or CVM). In order to complete this process, the investor will usually need to engage a consultant or attorney who has expertise in Central Bank and CVM regulations. Any delay in obtaining this certificate could adversely impact the investor's ability to receive dividends or distributions paid by the preferred shares or common shares outside Brazil or to receive timely repatriation of the investor's capital. If the investor decides to exchange his preferred or common shares back into Preferred ADSs or Common ADSs, respectively, once he has registered his investment in preferred shares or common shares, he may deposit his preferred or common shares with the custodian and rely on the depositary bank's certificate of registration, subject to certain conditions. We cannot guarantee that the depositary bank's certificate of registry or any certificate of foreign capital registration obtained by an investor may not be affected by future legislative or other regulatory changes, nor that additional Brazilian restrictions applicable to the investor, or to sale of the underlying preferred shares, or to repatriation of the proceeds from the sale, will not be imposed in the future.

The relative volatility and illiquidity of the Brazilian securities market may adversely affect our shareholders.

Investing in securities of Latin America, such as the preferred shares, common shares, Preferred ADSs or Common ADSs, involves a higher degree of risk than investing in securities of issuers from countries with more stable political and economic environments and such investments are generally considered speculative in nature. These investments are subject to certain economic and political risks, including, as examples, the following:

- changes to the regulatory, tax, economic and political environment that may affect the ability of investors to receive payment, in whole or in part, related to their investments; and
- restrictions on foreign investment and on repatriation of capital invested.

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The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. This may substantially limit the investor's ability to sell the shares underlying his Preferred or Common ADSs for the desired price and within the desired period. The São Paulo Stock Exchange (*BM&FBovespa S.A. Bolsa de Valores, Mercadorias e Futuros*, or *BM&FBovespa*), the only stock exchange in Brazil on which shares are traded, had market capitalization of approximately R\$ 2.45 trillion on December 31, 2013, and average daily trading volume of approximately R\$ 7.4 billion in the year 2013.

Shareholders may receive reduced dividend payments if our net profit does not reach certain levels.

Under our by-laws, we must pay our shareholders a mandatory annual dividend equal to at least 50% of our net profit for the preceding fiscal year, based on our financial statements prepared in accordance with IFRS, and also in accordance with the accounting practices adopted in Brazil, and holders of preferred shares have priority of payment. Our by-laws also require that the mandatory annual dividend we pay to holders of our preferred shares must be equal to at least the greater of (a) 10% of the par value of our shares, or (b) 3% of the value of the portion of stockholders' equity represented by our shares, in the event that such amount is greater than 50% of our net profit. If in a given fiscal year we do not have net profit, or our net profit is insufficient, our management may recommend at the Annual Shareholders' Meeting in respect of that year that the payment of the mandatory dividend should not be made. However, there is also a guarantee given by the government of Minas Gerais State, our controlling shareholder, that a minimum annual dividend of 6% will in any event be payable to all holders of common shares and preferred shares issued up to August 5, 2004 (other than public and governmental holders) in the event that mandatory distributions have not been made in a given fiscal year.

Holders of the Preferred and Common ADS, and holders of our shares, may have different shareholders' rights than holders of shares in U.S. companies.

Our corporate governance, disclosure requirements and accounting practices are governed by our by-laws, by the *Level 1 Differentiated Corporate Governance Practices Regulations (Regulamento de Práticas Diferenciadas de Governança Corporativa Nível 1)* of the *BM&FBovespa*, by the Brazilian Corporate Law and by the rules issued by the CVM. These regulations may differ from the legal principles that would apply if our Company were incorporated in a jurisdiction in the United States, such as Delaware or New York, or in other jurisdictions outside Brazil. In addition, the rights of an ADS holder, which are derived from the rights of holders of our common or preferred shares, as the case may be, to have his interests protected in relation to decisions by our board of directors or our controlling shareholder, may be different under the Brazilian Corporate Law than under the rules of other jurisdictions. Rules against insider trading and self-dealing and other rules for the preservation of shareholder interests may also be different in Brazil than in the United States, potentially establishing a disadvantage for holders of the preferred shares, common shares, or Preferred or Common ADSs.

The sale of a significant number of our shares or the issuance of new shares may materially and adversely affect the market price of our shares, Preferred ADSs and Common ADSs.

Sales of a substantial number of shares, or the perception that such sales could take place, could adversely affect the prevailing market price of our shares, or of the Preferred or Common ADSs. As a consequence of the issuance of new shares or sales of shares by existing shareholders, the market price of our shares and, by extension, of the Preferred and/or Common ADSs, may decrease significantly.

The investor may be unable to exercise first refusal rights in relation to our securities.

The investor may be unable to exercise the first refusal rights relating to the shares underlying his Preferred or Common ADSs unless a registration statement under the United States Securities Act of 1933), as amended (the Securities Act), is in effect in relation to those rights or the exemption from registration requirements of the Securities Act is applicable. We are not obliged to apply for a registration statement in relation to these first refusal rights for our shares, and we cannot guarantee that we will apply for any such registration statement. Unless we apply for the registration statement or unless an exemption from the registration applies, the investor may receive only the net proceeds from the sale of his first refusal rights, made by the depositary; and if the first refusal rights cannot be sold, they may lapse.

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Item 4. Information on the Company

Organization and Historical Background

We were organized in Minas Gerais, Brazil on May 22, 1952 as a *sociedade por ações de economia mista* (a state-controlled mixed capital company) with indefinite duration, pursuant to Minas Gerais State Law No. 828 of December 14, 1951 and its implementing regulation, Minas Gerais State Decree 3,710 of February 20, 1952. Our full legal name is Companhia Energética de Minas Gerais CEMIG, but we are also known as CEMIG. Our headquarters are located at Avenida Barbacena, 1200, Belo Horizonte, Minas Gerais, Brazil. Our main telephone number is (55-31) 3506-3711.

In order to comply with legal and regulatory provisions pursuant to which we were required to unbundle our vertically integrated businesses, in 2004 we incorporated two wholly-owned subsidiaries of CEMIG: Cemig Geração e Transmissão S.A., referred to as Cemig Generation and Transmission, and Cemig Distribuição S.A., referred to as Cemig Distribution, Cemig Generation and Transmission and Cemig Distribution were created to carry out the activities of electricity generation and transmission, and distribution, respectively.

Cemig was a factor in the decisions by several important companies to locate in Minas Gerais such as Mannesmann, a steel company producing seamless tubes, due to the guarantee given by the state government that Cemig would be able to meet its demand for electricity (at that time, equal to half of the entire consumption of the state of Minas Gerais).

The first three hydroelectric plants built by Cemig were inaugurated in the 1950s: Tronqueiras, Itutinga and Salto Grande.

Starting in 1960, Cemig began its operations of electricity transmission and distribution. In the same period the Canambra consortium was formed, by a group of Canadian, American and Brazilian technical experts, who between 1963 and 1966 identified and evaluated the hydroelectric potential of the State of Minas Gerais. This study at that time was already aligned with the concept of sustainable development it revolutionized the focus of construction of power plants in Brazil, as well as defining which projects would be able to be developed to supply future electric power needs.

In the 1970s Cemig took over responsibility for the distribution of electricity in the region of the city of Belo Horizonte, absorbing Companhia Força e Luz de Minas Gerais, and embarked on construction of more major power plants. In 1978 Cemig started operation of the São Simão hydroelectric plant, at that time its largest yet. This decade saw major progress in transmission: 6,000km of distribution lines in the state of Minas Gerais.

The Minas-Luz Program, a partnership between Cemig, Eletrobrás (Centrais Elétricas Brasileiras S.A.) and the Brazilian federal government, was created to expand service to low-income populations in the countryside and outer urban suburbs, including the shantytowns. The Emborcação hydroelectric plant, on the Paranaíba River, started operation in 1982 at the time it was the Company's second largest power plant, and with the São Simão plant it tripled the Company's generation capacity. It was in 1983 that Cemig created its Ecological Program Coordination Management Unit responsible for planning and development of a specific policy for environmental protection enabling research

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into alternative energy sources, such as wind power and solar generation, biomass and natural gas, to become the subject of the Company's research projects.

The subsidiary Gasmig (Companhia de Gás de Minas Gerais), was created in 1986, to distribute natural gas. On September 18 of that year the company changed its name from Cemig - Centrais Elétricas de Minas Gerais to Companhia Energética de Minas Gerais - Cemig. The change reflected the expansion of its area of operation to include multiple sources of electricity. By the end of the 1980s, Cemig was distributing electricity to 96% of the State of Minas Gerais according to Aneel (Agência Nacional de Energia Elétrica), the Brazilian electricity regulator.

In the 1990s, even during the period of economic crisis, Cemig, according to its records, served approximately 5 million consumers. In one year of the decade, it added 237,000 new connections of consumer units to electricity supply - a record in its history. Also in the 1990s, Cemig began to build hydroelectric plants in partnership with the private sector. It was by this method, for example, that the Igarapava hydroelectric plant, in the Minas Triangle region, was built - starting operation in 1998.

In 2000, Cemig was included for the first time in the Dow Jones Sustainability Index - a recognition which it has repeatedly received in recent years. Cemig sees this as confirmation of its dedication to the balance between three pillars of corporate sustainability: economic, social and financial. The year 2000 was also marked by the simultaneous construction of three hydroelectric plants - Porto Estrela, Queimado and Funil - and by the number of Cemig's consumers growing to more than 5 million for the first time in its history.

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In 2001, Cemig began construction on 12 hydroelectric plants, and intensified its investments in the distribution and transmission systems. In the same year, Cemig's shares were traded for the first time on the New York Stock Exchange.

In 2002, according to its records, The number of Cemig's consumers exceeded 6 million for the first time and it began construction on the Irapé hydroelectric plant, in the Valley of the Jequitinhonha river. In that year, also, trading began in Cemig's shares on the Latibex segment of the stock exchange of Madrid.

In 2003, Cemig began simultaneous construction of several hydroelectric plants, as part of the effort to prevent rationing of electricity, and established several centers of excellence and research focusing on climatology, thermoelectric generation, electricity efficiency and renewable electricity sources.

The year 2004 presented the Company with some major challenges: It was in 2004 that the structure of the new Brazilian regulatory framework came into force the principal requirement being unbundling of its activities of distribution, generation and transmission. In 2005, as a consequence of this unbundling, Cemig operated as a holding company, with two wholly-owned subsidiaries: Cemig Distribuição S.A. and Cemig Geração e Transmissão S.A.

In 2006 Cemig connected a further 230,000 new consumers in the state of Minas Gerais, and its investment in environmental preservation totaled R\$ 60 million. The Irapé hydroelectric plant was inaugurated in July of 2006, and in that year the Company began to operate in other states, with the acquisition of a significant interest in Light S.A. (Light), operating in the state of Rio de Janeiro, and Transmissoras Brasileiras de Energia TBE, operating transmission lines in the North and South of Brazil. Also, a consortium in which Cemig is a leading member began construction of a transmission line in a neighboring country, Chile.

In 2008, the Company acquired a stockholding in wind farms in the northern Brazilian state of Ceará, with potential for total generating capacity of approximately 100MW. It also participated in the consortium building the Santo Antônio hydroelectric plant, on the Madeira river.

In April 2009, Cemig acquired Terna Participações S.A., now called Transmissora Aliança de Energia Elétrica S.A. - Taesa. And in the same year it increased its holdings in the electricity transmission sector with the acquisition of equity interests in the following companies:

Empresa Amazonense de Transmissão de Energia S.A. - EATE,

Empresa Paraense de Transmissão de Energia S.A. - ETEP,

Empresa Norte de Transmissão de Energia S.A. - ENTE,

Empresa Regional de Transmissão de Energia S.A. - ERTE and

Empresa Catarinense de Transmissão de Energia S.A. - ECTE.

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This increased Cemig's market share in Brazilian electricity transmission from 5.4% to 12.6%, making it the third largest transmission company in Brazil by Permitted Annual Revenue (RAP), according to Aneel figures.

2009 was the tenth year in which Cemig was included in the worldwide Dow Jones Sustainability Index and in that year it was elected the world leader in sustainability among utilities. It continues to be the only company in the electricity sector of Latin America that has been included in the DJSI World since the creation of that index.

In 2010 Cemig formed a partnership with Light for development of smart grid technology with a view to increasing operational efficiency, and reducing commercial losses. Also in 2010 for the second year running Cemig was rated Prime (B+) by Oekom Research, a German agency that issues sustainability ratings. In the same year Cemig GT (generation and transmission) signed a contract with Light for acquisition of 49% of the share capital of Lightger S.A., a special-purpose company holding the authorization for commercial operation of the Paracambi Small Hydro Plant.

In 2011 the Company acquired significant assets in generation and transmission, including:

- (i) 50% of União de Transmissora de Energia Elétrica S.A. Unisa (Unisa), owner of four transmission assets, from Abengoa Concessões Brasil Holding S.A. (Abengoa);
- (ii) an interest of 9.77% in the Belo Monte Hydroelectric Plant;
- (iii) stockholding control of Renova Energia S.A., which has operated for 11 years in small hydroelectric plants and wind farms; and
- (iv) interests in four small hydro plants in Minas Gerais.

In 2012, Taesa completed an agreement with Abengoa for acquisition of the remaining 50% of the share capital of Unisa. In the same year Cemig concluded consolidation of its investments in the transmission sector, by transfer of assets of this sector to Taesa.

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In 2012 Cemig was selected for the eighth consecutive year for inclusion in the ISE Corporate Sustainability Index (Índice de Sustentabilidade Empresarial) of the São Paulo Stock Exchange (BM&FBovespa).

Also in 2012, Cemig began the following activities:

- Installation of its Integrated Metering Center (Centro Integrado de Medição, or CIM), to further improve the processes of billing and management of losses, and to contribute to operation and planning of the electricity system. The center has high technology equipment, and is the first step toward construction of smart grid architecture.
- In partnership with the Belo Horizonte Municipal Information Technology and Information Company (Empresa de Informática e Informação do Município de Belo Horizonte S.A. - Prodabel), Cemig has been making progress on digital empowerment of needy communities in Belo Horizonte.

These additional notes describe some activities of Cemig subsidiaries and jointly-controlled subsidiaries in 2013:

- Parati made a public offering to acquire shares for cancellation of the listed company registry of Redentor Energia S.A. and for its withdrawal from Novo Mercado listing. Redentor Energia left the Novo Mercado listing segment, but remains listed on the São Paulo stock exchange (BM&FBovespa).
- Cemig GT signed a share purchase agreement with Petrobras (Petróleo Brasileiro S.A.) for acquisition of 49% of the common stock of Brasil PCH; and an investment agreement with Renova Energia S.A, RR Participações S.A., Light Energia S.A. and a new company Chipley (jointly owned by Cemig GT and Renova), governing entry of Cemig GT into the controlling stockholding block of Renova, and assignment of the Brasil PCH share purchase agreement to Chipley.
- Cemig Capim Branco Energia S.A. completed acquisition of a 30.3% holding in the special-purpose company Epícares Empreendimentos e Participações Ltda., corresponding to an additional equity interest of 5.42% in the Capim Branco Energia Consortium.
- Madeira Energia S.A. (Mesa) received cash injections from its stockholders, and credit lines, loans and financings with a long-term profile.
- Gasmig invested to expand its distribution network, and growth in compressed natural gas (GNC) and in the residential distribution market segment.

Companies incorporated in Brazil described below are our major subsidiaries and affiliates which were consolidated in our financial statements. The jointly controlled were consolidated by the equity method.:

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In compliance with IFRS 11 *Joint Arrangements*, as from January 2013 Cemig no longer uses the proportional consolidation method to account for operations in which it holds joint control, but reports them all only by the equity method.

Cemig's principal subsidiaries and jointly-controlled subsidiaries include the following:

- Cemig Geração e Transmissão S.A. (Cemig GT) 100% owned: operates in electricity generation and transmission.
- Cemig Distribuição S.A. (Cemig D) 100% owned: operates in electricity distribution.
- Companhia de Gás de Minas Gerais (Gasmig) jointly-controlled, 59.57% owned: acquires, transports, distributes and sells natural gas.
- Transmissora Aliança de Energia Elétrica S.A. jointly-controlled subsidiary, with ownership of 42.38% of the voting stock and 43.36% of the total stock: construction, operation and maintenance of electricity transmission facilities in 11 states of Brazil.
- Light S.A. Jointly-controlled subsidiary, with direct holding of 26.06% and indirect holding of 6.42% of total stock: electricity generation, transmission, trading and distribution, and other related services; direct or indirect holding of interests in companies operating in these areas.

Strategy

Our vision and goal is to consolidate our position as the largest group in the Brazilian electricity sector in this decade, with a presence in the natural gas industry, and becoming a world leader in sustainability, admired by clients and recognized for our strength and performance.

In order to achieve our vision of the future and to follow our Long Term Strategic Plan, we have the following goals:

- Strive to be a national leader in the markets we operate, with a focus on market share;
- Strive for operational efficiency in asset management;

- Be one of the most attractive companies for investors;
- Be a benchmark in corporate management and governance;
- Be innovative in the search for technological solutions for our business;
- Be a benchmark in social, economic and environmental sustainability,

We have taken part in several transactions in the last year, which includes among others, the following:

Acquisition of Interest in Light

On May 12, 2011, our subsidiary Parati S.A. - Participações em Ativos de Energia Elétrica (Parati), an unlisted specific purpose company, incorporated in October, 2008, which has as its corporate purpose the participation in the capital stock of other companies, domestic or foreign, as a partner or shareholder, acquired from Fundo de Investimento em Participações - PCP (FIP PCP) 54,08% of the total share capital of Redentor Energia S.A., which holds indirectly 13,03% of the share capital of Light, through its subsidiary RME - Rio Minas Energia Participações S.A.

On July 7, 2011, Parati acquired from Enlighted Partners Venture Capital LLC 100% of its holdings in Luce LLC (Luce), owner of 75% of the unit shares of Luce Brasil Fundo de Investimento em Participações (FIP Luce), which holds indirectly 13,03% of the total shares of Light, through Luce Empreendimentos e Participações S.A. (LEPSA). With this acquisition Parati, which already indirectly held 7,05% of the total and voting capital of Light S.A., became indirect holder of 16,82% of the total and voting stock of Light.

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On July 28, 2011, Parati acquired, from Fundação de Seguridade Social Braslight (Braslight) the totality of Braslight 's unit shares in FIP Luce. The amount received by Braslight for the sale of FIP Luce 's total shares was R\$ 171,981,877,12. Thus Parati became the holder of 100% of the unit shares of FIP Luce, and, indirectly, the holder of the equivalent of 20,08% of the total and voting stock of Light.

As a result of the acquisition of the stockholding of FIP PCP, and in accordance with the rules of the Novo Mercado, the highest standard of corporate governance for companies listed in BM&FBovespa, Parati made a public offer to acquire the shares held by the non-controlling stockholders of Redentor Energia S.A., granting them rights similar to tag-along rights.

On September 30, 2011, Parati acquired 46,341,664 shares held by minority stockholders, increasing its stockholding interest in Redentor Energia S.A. to 96,80% of its total capital. The remaining 3,20%, or 3,467,599 common shares, continued to be held by minority stockholders. After this transaction, Parati indirectly holds the equivalent of 25,64% of the total and voting stock of Light.

On December 31, 2011, Parati held, directly, 25,64% of the registered capital of Light S.A. (Light). We held 25% of Parati 's share capital; and Redentor Fundo de Investimento em Participações held 75%. On December 31, 2011, we held a 32,47% total interest in Light, which included a direct 26,06% interest and an indirect 6,41% interest through Parati.

On March 14, 2013, Parati carried out a public offer for acquisition of shares aiming at the cancellation of Redentor Energia S.,A., 's Listing Registration and its exit from the Novo Mercado segment. As a result of this public offer, Redentor Energia exits form the Novo Mercado segment, but it had to remain listed in BM&FBovespa.

On February 10, 2012, Light approved the acquisition of 26,520,000 common shares (equivalent to a 51% equity interest) of Guanhães Energia S.A. (Guanhães Energia) by Light Energia for R\$ 25,0 million (in May 2011 equivalent currency, adjusted by the IPCA index until the date of closing of the transaction).The acquisition was conditioned to prior approval by Aneel and was approved by the Brazilian antitrust authority (Conselho Administrativo de Defesa Econômica, or CADE).

On August 28, 2012, Light Energia signed the final closing agreement with Investminas Participações S.A. for the acquisition of 26,520,000 Class A common shares in Guanhães Energia S.A., equivalent to 51% of its share capital, for R\$ 26,586,219,15.

Acquisition of Interest in Transmission Companies from Abengoa

On November 30, 2011, TAESA, one of our jointly controlled companies, completed acquisition of interests of the ABENGOA Group (comprised of the companies disclosed below), as follows:

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(i) 50% of the shares held by Abengoa Concessões Brasil Holding S.A. (Abengoa) in the share capital of União de Transmissoras de Energia Elétrica Holding S.A. (UNISA), the current name of Abengoa Participações Holding S.A., which holds 100% of the total share capital of the transmission companies:

STE Sul Transmissora de Energia S.A. (STE),

ATE Transmissora de Energia S.A. (ATE),

ATE II Transmissora de Energia S.A. (ATE II), and

ATE III Transmissora de Energia S.A. (ATE III), together with STE, ATE and ATE II, the UNISA Transmission Companies), and

(ii) 100% of the shares held by Abengoa and by Abengoa Construção Brasil Ltda, in the share capital of NTE Nordeste Transmissora de Energia S.A.

Under the pricing provisions in the share purchase agreement with the Abengoa Group, the total amount paid by TAESA for the acquisition was R\$1,163 million, with the proceeds of its fourth issue of promissory notes, financial settlement of which took place on November 29, 2011. The operating assets acquired include 1,579 miles of transmission lines, with a Permitted Annual Revenue (*Receita Anual Permitida*, or RAP) of R\$509 million, representing an increase of R\$309 million in TAESA's RAP 2011/2012.

On March 16, 2012, TAESA, signed a share purchase agreement with Abengoa for acquisition of the remaining 50% of the shares held by Abengoa in UNISA, which in turn owns 100% of the share capital of the UNISA Transmission Companies, TAESA will pay a total amount of R\$ 863,5 million in December 31, 2011 equivalent currency, for this acquisition. This amount was updated by the accumulated variation of the Brazilian benchmark rate (SELIC) between the base date and the business day immediately preceding the date of completion of the transaction, when the actual acquisition of the shares by TAESA will take place. The acquisition price was adjusted for remuneration and increases or reductions of capital that take place between the base date and the date of completion of the transaction. Completion of the transaction and actual acquisition of the shares by TAESA was subject to the fulfillment of certain suspensive conditions, which include: (i) approval by the General Meeting of Stockholders of TAESA; (ii)

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consent of the financing banks of the UNISA Transmission Companies; and (iii) approval of the transaction by Aneel. Also, the transaction was submitted to CADE, in accordance with Law 8884/94, On July 3, 2012, TAESA concluded the acquisition of the remaining 50% interest of Abengoa in UNISA (STE, ATE, ATE II and ATE III) for the amount of R\$ 904 million, TAESA financed this acquisition by the issue of R\$ 905 million in promissory notes.

Transfer of equity interests of the TBE transmission assets, held by Cemig and Cemig Generation and Transmission, to TAESA and Transfer of TAESA S Control

On May 17, 2012, Cemig, Cemig Generation and Transmission and TAESA signed a Private Contract for Investment in Transmission Assets, agreeing to transfer to TAESA the minority equity interests held by Cemig and Cemig Generation and Transmission in the share capital of the following holders of public electricity service concessions:

- (i) Empresa Catarinense de Transmissão de Energia S.A. ECTE;
- (ii) Empresa Regional de Transmissão de Energia S.A. ERTE;
- (iii) Empresa Norte de Transmissão de Energia S.A. ENTE;
- (iv) Empresa Paranaense de Transmissão de Energia S.A. ETEP;
- (v) Empresa Amazonense de Transmissão de Energia S.A. EATE; and
- (vi) Empresa Brasileira de Transmissão de Energia S.A. EBTE,

Within the scope of this stockholding restructuring, TAESA disbursed the amount of R\$ 1,732 million already updated by the CDI rate from December 31, 2011, discounted any dividends and/or interest on equity that is declared, whether paid or not. The amount involved was agreed by the companies based on technical valuations conducted by independent external evaluators.

These transfers were concluded on May 31, 2013, by sale to Taesa, of the following assets: (i) the directly-held interests in the concession holders ECTE, ERTE, ENTE, ETEP, EATE and EBTE; and (ii) the indirectly-held interests in the concession holders STC, ESDE and ETSE.

As a result, Taesa became the holder of the following stockholding interests:

- (i) 49.98% of the total capital of EATE;
- (ii) 19.09% of the total capital of ECTE;

- (iii) 49.99% of the total capital of ENTE;
- (iv) 49.99% of the total capital of ERTE;
- (v) 49.98% of the total capital of ETEP;
- (vi) 74.49% of the total capital of EBTE (49% held by Taesa and the rest held indirectly through the 51% interest in EBTE held by EATE, in which Taesa's interest is 49.98%);
- (vii) 39.98% of the total capital of STC (indirect holding: 80% held by EATE, in which Taesa holds 49.98%);
- (viii) 49.98% of the total capital of ESDE (indirect holding through ETEP, in which Taesa holds 49.98%);
- (ix) 39.98% of the total capital of Lumitrans (indirect holding: 80% held by EATE, in which Taesa holds 49.98%); and
- (x) 19.09% of the total capital of ETSE (indirect holding through ECTE, in which Taesa holds 19.09%).

This shareholding restructuring is in accordance with our strategic planning, which aims to consolidate our holdings in electricity transmission companies in a single corporate vehicle, and to optimize our ability to assess opportunities in future auctions of transmission lines and acquisition of transmission assets in operation.

Transfer of control of Taesa from Cemig GT to Cemig

On October 24, 2013 the General Meetings of Debenture Holders of Cemig GT consented, in the terms of Article 174, §3º of the Brazilian Corporate Law, to reduction of the Share Capital of Cemig GT from R\$ 3,296,785 to R\$ 893,192 as a result of the transfer of the shares in Taesa (Transmissora Aliança de Energia Elétrica S.A.) to Cemig (Companhia Energética de Minas Gerais - Cemig), the latter being guarantor of the debenture issues of Cemig GT, in accordance with the consent given by the electricity regulator, Aneel, in Aneel Authorizing Resolution No. 4108/2013, of May 14, 2013, and as decided by the Extraordinary General Meeting of Stockholders of Cemig GT on September 26, 2013.

Acquisition of the São Gotardo substation by TAESA

On June 6, 2012, TAESA won Lot E of Aneel Auction 005/2012, TAESA created a special-purpose company (SPC) named São Gotardo Transmissora de Energia S.A. to which Aneel granted the right to commercial operation of the concession comprising two transmission functions within the São Gotardo 2 substation in the state of Minas Gerais. TAESA did not offer a discount in relation to the initial base RAP of R\$ 3.74 million and should complete construction in the first semester of 2014.

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TAESA follow-on equity offering

On July 19, 2012, in a follow-on equity offering, TAESA issued 24 million units (each presenting one common share and two preferred shares), at R\$ 65 per unit. On August 20, 2012, the bookrunners exercised the overallotment option and TAESA issued an additional 3 million units, totaling 27 million units issued in the follow-on equity offering. The share capital of TAESA was increased, within the limit of its authorized capital, in the amount of R\$1,755 billion, by issuance of 81 million new shares: 27 million common and 54 million preferred shares. Under Brazilian Corporate Law, and our by-laws, existing stockholders did not have a right of first refusal in this subscription. As a result of the follow-on equity offering, Cemig Generation and Transmission's holding in TAESA was diluted, from 56,69% to 43,36%. The mentioned operation gave rise to a gain in the amount of R\$ 259 millions, reported in our statements of income for the third quarter of 2012.

On December 4, 2012, TAESA underwent a three-for-one split of all its shares: each share (whether or not represented by or included in a deposit certificate (or unit)) became three shares of the same type. The split had no effect on TAESA's equity, on the ratio of common to preferred shares, or on any feature or attribute of any share. After the split, TAESA has 1,033,496,721 shares: 691,553,133 common shares and 341,943,588 preferred shares; and there is no change in the total value of TAESA's share capital.

Acquisition of interest in Renova

Renova Energia S.A. (Renova) is a company generating electricity from renewable sources, focused on wind farms and small hydroelectric plants PCHs. It prospectors for, develops and implements renewable energy enterprises and is currently the only company listed on the BM&FBovespa dedicated to working with alternative energy sources in Brazil. It has created the largest wind farm complex in Brazil, located in the semi-arid region of the Brazilian state of Bahia, and sold a total of 690MW of installed electricity generation capacity in the reserve energy auctions of 2009 and 2010, the A-3 auction of 2011 and the A-5 auction of 2012.

On August 19, 2011 Light, through its subsidiary Light Energia, subscribed 50,561,797 of Renova's common shares. As a result, Light Energia holds 34.85% of Renova's common shares and 25.8% of its total capital. The transaction included a private placement of Renova's shares in the approximate amount of R\$ 360,0 million. Renova's minority shareholders participated in the private placement, resulting in a total capital injection of R\$ 376,0 million.

The common shares subscribed by Light Energia are part of the controlling stockholding block of Renova, and are half of the shares comprising that block, with the same rights and preferences attributed to the other common shares issued by Renova. To make the transaction possible, RR Participações S.A. (RR) and certain stockholders of Renova waived their right of first refusal in favor of Light Energia. Light Energia and RR entered into a stockholders' agreement which regulated the exercise of the right to vote, purchase and sale of shares issued by Renova held by the parties, and their rights and obligations as stockholders of the Renova. Light has experience in building and operating generation projects, and in the sale and placement of electricity. We believe that this combination will enable Renova to position itself as one of the largest players in wind generation in Latin America, with unique and extremely attractive characteristics. The agreement also contained a commitment by Light to buy 400MW of installed power capacity provided by Renova's wind projects. The companies further had the right of first refusal in the purchase or sale, as applicable, of wind energy in the long term. The principal purpose of this acquisition was to accelerate the growth of Renova through a combination of its own technical capacity and pioneering experience in development of new projects and business, with our own experience, and contracts entered into in the Free Market.

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On June 22, 2012, a Contract for Subscription of Units in Renova was signed by BNDES Participações S.A. (BNDESPar), Renova, Light, Light Energia and RR, regulating an investment in Renova by BNDESPar (the investment holding company of the Brazilian Development Bank (BNDES)). The contract provided for a capital increase in Renova, to be decided at a later date, in the total amount of up to R\$ 314,700,407.85, at a price of R\$ 9.3334 per share.

Under the Contract for Subscription of Units, RR, Light Energia and InfraBrasil Fundo de Investimento em Participações assigned their respective first refusal rights in the capital increase to BNDESPar. Also under the contract BNDESPar undertook to subscribe units in the capital increase in a minimum amount of R\$ 250,000,009.70, and further to this minimum subscription, BNDESPar would share on a prorated basis in subscription of:

- (i) any unsubscribed Units, after the period for exercise of the first refusal right of the other stockholders of Renova; and
- (ii) any units not subscribed by the other stockholders of Renova that are sold in an auction to be held on the São Paulo Stock Exchange (BM&FBovespa) at the Price per Share (the Underwriting).

As part of the investment agreement, RR, Light Energia and BNDESPar undertook to enter into a stockholders agreement to give BNDESPar the following rights:

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- (i) election of 1 (one) member of the Board of Directors of Renova;
- (ii) right of joint sale in the event of direct or indirect disposal of the shares in Renova held by RR or Light Energia; and
- (iii) the right to subscribe secondary public offerings in Renova.

The investment agreement did not result in sale of control by the controlling stockholders of Renova (RR and Light Energia), for the purposes of Article 254-A of the Brazilian Corporate Law, nor acquisition of control of Renova by BNDESPar, under Article 256 of that law.

BNDESPar's entry into Renova gave it greater negotiating and financing capacity for making the investments that it had planned up to that date. As a result of this transaction, on December 31, 2012, Light's holding in Renova was 21.99%.

This table shows Renova's portfolio of projects:

Contracted capacity (MW)	1090
LER 2009 Reserve Auction (LER)	294
LER 2010 Reserve Auction	162
A-3 2011 A 3 Auction	212
PPA agreements Free Market	400
A-5 2012 A 5 Auction	22.4
Certified projects (MW)	2200
Projetos Projects in development (MW)	2400

In July, 2012, Renova Energia inaugurated Alto Sertão I, a wind farm complex located among the towns of Caetité, Igaporã and Guanambi, in the Southwestern region of the state of Bahia. Alto Sertão I is considered to be the largest wind farm complex in Latin America. With installed capacity of 294 MW, enough to supply 540,000 homes, the complex absorbed investment of R\$ 1,2 billion. It consists of 14 wind farms and 184 aerogenerators.

On June 14, 2013, Cemig GT signed a share purchase agreement with Petróleo Brasileiro S.A. (Petrobras) for acquisition of 49% of the common shares of Brasil PCH (the Brasil PCH Share Purchase Agreement).

On August 8, 2013, Cemig GT entered into an Investment Agreement with Renova Energia S.A. (Renova), RR Participações S.A. (RR), Light Energia S.A. (Light Energia) and Chipley Participações S.A. (Chipley , owned by Cemig GT and Renova), governing the entry of Cemig GT into the controlling stockholding block of Renova, and the structuring of Chipley, with assignment to Chipley of the Brasil PCH Share Purchase Agreement to Chipley. Under the Investment Agreement the entry into the stockholding structure of Renova could be effected either directly by Cemig GT or through an Equity Investment Fund (FIP) in which Cemig GT participates. The transaction for acquisition of an interest in Brasil

PCH was subject to rights of first refusal, and/or joint sale, by the other stockholders of Brasil PCH. At the expiration of the period for that exercise of first refusal, none of the stockholders holding that right decided to exercise their option; and only one stockholder, Jobelpa S.A. (Jobelpa), holder of 2% of the total equity of Brasil PCH, decided to exercise its (tag-along) right of joint sale. Thus, Chipley acquired 51% of Brasil PCH: the 49% held by Petrobras, and the 2% held by Jobelpa. It will share the control of Brasil PCH. The price of this acquisition was R\$739.94. The acquisition was conditioned prior approval by Aneel and was submitted to the Brazilian antitrust authority (Conselho Administrativo de Defesa Econômica, or CADE). In addition, under the Investment Agreement Cemig GT made payment of an Advance Against Future Capital Increase (Adiantamento para Futuro Aumento de Capital), in the amount of R\$ 810 million on March 31, 2014.

Acquisition of Interest in Guanhães Energia

On February 10, 2012, Light approved the acquisition of 26,520,000 common shares (equivalent to a 51% equity interest) of Guanhães Energia S.A. (Guanhães Energia) by Light Energia for R\$ 25,0 million (in May 2011 equivalent currency, adjusted by the IPCA index until the date of closing of the transaction). The acquisition was conditioned to prior approval by Aneel and was approved to the Brazilian antitrust authority (Conselho Administrativo de Defesa Econômica, or CADE).

On August 28, 2012, Light Energia signed the final closing agreement with Investminas Participações S.A. for the acquisition of 26,520,000 Class A common shares in Guanhães Energia S.A., equivalent to 51% of its share capital, for R\$ 26,5 million. For more information regarding Guanhães Energia, see Expansion of Generation Capacity section.

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Acquisition of 9,77% interest in Norte Energia S.A.: the Belo Monte Hydroelectric Plant

The Belo Monte Hydroelectric Plant (Belo Monte) is the largest plant currently under construction in the world, and when completed will have installed capacity of 11,233 MW, with Assured Energy of 4,571 MW average. The commercial operation is planned to start in February 2015, and the concession period is 35 years. The concession for the construction and operation of the Belo Monte Hydroelectric Plant, on the Xingu River, in the Brazilian state of Pará, belongs to Norte Energia S.A. (Norte Energia), which won the auction held in April 2010.

The Northern region of Brazil is the principal expansion frontier for generation of hydroelectric energy in Brazil, and more than 60% of the potential for hydroelectric expansion is still available. Therefore, we understand that the participation in this project has strategic value. The Belo Monte Hydroelectric Plant is the second project in the region in which Cemig Generation and Transmission is participating, the first being its 10% interest in the consortium building the Santo Antônio Hydroelectric Plant in the Brazilian State of Rondônia.

Amazônia Energia Participações S.A. (Amazônia Energia) is a special-purpose company in which the stockholders are: Light S.A., with 51% of the voting stock and 25,5% of the total stock; and Cemig Generation and Transmission, with 49% of the voting stock and 74,5% of the total stock. On October 25, 2011, Amazônia Energia signed share purchase agreements with six companies that held, in aggregate, an interest of 9,77% in Norte Energia, as follows: (i) Construtora Queiroz Galvão S.A.: 2,51%; (ii) Construtora OAS Ltda.: 2,51%; (iii) Contern Construções e Comércio Ltda.: 1,25%; (iv) Cetenco Engenharia S.A.: 1,25%; (v) Galvão Engenharia S.A.: 1,25%; and (vi) J, Malucelli Construtora de Obras S.A.: 1%.

The acquisition price corresponded to the amount of the injections of capital made by the vendors, adjusted by the IPCA index up to October 26, 2011, in the amount of R\$ 118,69 million.

The transaction involving the participation of Amazônia Energia as a stockholder of Norte Energia was approved by the Extraordinary General Meeting of Norte Energia and by CEMIG GT's and Light's Boards of Directors. The Brazilian electricity regulator, Aneel, has been informed about the transaction, and it has been submitted to CADE, in accordance with Law 8884/94.

The transaction added 818 MW of generation capacity to our total holdings, increasing our market share in Brazilian electricity generation from 7% to 8%; and adds 280 MW to the total generation capacity of Light.

Advantages of this transaction included the following: (i) the principal contracts for building works and equipment have been signed; (iii) the principal risks associated with the project have been considerably mitigated; (ii) future injections of capital will be diluted over nine years, and will use the cash flow generated by the project itself during the last three of those years; (iv) the environmental costs have been defined; and (v) all of the sales transactions for the electricity have already been established.

This acquisition did not have any effect on the policy for payment of dividends to CEMIG GT's stockholders.

Increase of stockholding in Gasmig

On December 27, 2011, our Board of Directors authorized the acquisition of 10,781,736 nominal common shares and 7,132,773 nominal preferred shares, representing 4,38% of the total capital of Companhia de Gás de Minas Gerais - Gasmig, which belonged to the State of Minas Gerais, for R\$ 67,2 million, corresponded to a price per share of approximately R\$3,75, lately adjusted to the value given by an independent valuation opinion prepared by a specialized institution, which resulted in a valuation of the holding acquired at R\$65. The operation was accomplished on July 9, 2012, from this date the company now has 59,57% of participation in Gasmig. For more information, see the section 14, Investment , in the Financial Statements.

Acquisition by Cemig of an equity interest in Gás Brasileiro (GBD)

On February 8, 2012, CEMIG signed an investment agreement with Petrobrás Gás S.A. - Gaspetro and Gás Brasileiro Distribuidora S.A. (GBD), to subscribe common shares representing 40% of the share capital of GBD, subject to certain prior conditions. GBD is a natural gas distribution company that distributes to consumers in the residential, industrial, and commercial sectors, the automobile industry, co-generation plants, and thermal generation plants.

Increase in the interest held by Cemig Capim Branco Energia S.A. in the Capim Branco Energia Consortium

At a board meeting on December 28, 2012, Cemig authorized its wholly-owned subsidiary, Cemig Capim Branco Energia S.A. (Cemig Capim Branco), to accept an offer made by Suzano Papel e Celulose S.A. and its subsidiaries (Suzano), on December 27, 2012, for acquisition by Cemig Capim Branco of its proportional interest in the 17.89% interest held by Suzano in the Capim Branco Energia Consortium (the Consortium), and also stated the intention to acquire any shares remaining, in the event that

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the other consortium members did not exercise their rights of first refusal, as specified in the Consortium Constitution Agreement. Suzano's interest in the Consortium proportionately represented about 81MW of installed capacity, at the Amador Aguiar I and II hydroelectric plants, and assured average power of 51MW. The members of the Consortium other than Suzano were Cemig Capim Branco, with 21.05% Vale S.A., with 48.42%; and Votorantim Metais Zinco S.A., with 12.63%. On March 12, 2013 Cemig Capim Branco signed the final contract for the acquisition of 30.30% of Suzano's 17.89% interest in the Consortium. The total price agreed, subject to any adjustments, for Suzano's 17.89% interest in the Consortium was R\$ 320 million. Of this total, the proportional interest to be acquired by Cemig Capim Branco represents a total of approximately R\$ 97 million. The transaction was subject to completion, and approvals by Aneel and Cade.

On May 28, 2013, Cemig Capim Branco completed acquisition of the 30.30% equity interest in the special-purpose company Epícares Empreendimentos e Participações Ltda., a company of the Paineiras Group, which holds an interest of 17.89% in the Capim Branco Energia Consortium. Hence, this acquisition corresponds to an additional interest of 5.42% in the Consortium. The valuation attributed to the interest acquired is R\$ 94 million. The value of the acquisition was calculated by the discounted cash flow method. The difference between the consideration transferred and the fair value of the assets was allocated to the concession for the project, based on the generation of cash expected during the period of the concession. This intangible asset will be amortized by the straight-line method from June 2013 until August 2036, the date of termination of the concession.

Investment in Madeira Energia S.A. – Mesa

On September 30, 2013, the affiliated company Madeira Energia S.A. – Mesa had excess of consolidated liabilities over consolidated current assets in the amount of R\$ 355.102 thousand, arising mainly from payments to suppliers, and social-environmental provisions. To resolve the situation of negative working capital, Mesa has available to it injections of funds from its stockholders, estimated at R\$ 300 million, and lines of credit, loans and financings with long-term profiles in the process of negotiation, should they be necessary.

On March 11, 2014 the investment fund Fundo de Investimento em Participações Melbourne – FIP Melbourne, in which Cemig GT is a unit holder, represented by Banco Modal S.A., as Purchaser, signed, with Andrade Gutierrez Participações S.A., as Vendor, a share purchase agreement for acquisition of 83% of the total share capital and 49% of the voting shares in SAAG Investimentos S.A., which by the completion date of the transaction will own 12.4% of Madeira Energia S.A. The price of this acquisition will be R\$ 835,385, which will undergo monetary adjustment by the IPCA (Índice Nacional de Preços ao Consumidor Amplo, or Amplified National Consumer Price) inflation Index from December 31, 2013 up to the Closing Date, augmented by any capital injections by AGP in SAAG up to the Closing Date, less any dividends declared by SAAG to AGP up to the Closing Date. Conclusion of the transaction is subject to other conditions precedent, including approvals by the Brazilian monopolies authority (Cade) and the Brazilian electricity regulator, Aneel.

Creation of Aliança Geração de Energia S.A.:

On December 19, 2013 Cemig GT and Vale S.A. signed commercial and stockholding documents for creation of the company Aliança Geração de Energia S.A., to be a platform for consolidation of generation assets held by the parties in generation consortia, and investments in future electricity generation projects. The two parties will subscribe their shares in the company in the form of their holdings in the following generation assets: Porto Estrela, Igarapava, Funil, Capim Branco I and II, Aimorés, and Candonga. With these assets the new company will have installed hydroelectric generating capacity in operation of 1,158 MW (652 average MW), among other generation projects. Vale and Cemig GT will respectively hold 55% and 45% of the total capital. The equity interest of Cemig GT has been valued at R\$ 2.03 billion. With the association, Cemig GT increases its potential to generate new business and maximize results, due to the combination of the two companies' experiences in operational, financial and project management.

Acquisition by Cemig GT of 49% of the common shares of Brasil PCH:

On June 14, 2013 Cemig GT signed a share purchase agreement with Petróleo Brasileiro S.A. (Petrobras) governing the purchase of 49% of the common shares of Brasil PCH (the Brasil PCH Share Purchase Agreement).

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On August 8, 2013, Cemig GT signed an Investment Agreement with Renova Energia S.A., RR Participações S.A., Light Energia and Chipley SP Participações S.A., governing entry of Cemig GT into the controlling stockholding block of Renova, structuring of Chipley SP (owned 40% by Cemig GT, 1% by Renovapar and 59% by Renova), and assignment of the Brasil PCH Share Purchase Agreement to Chipley SP.

The transaction was subject to rights of first refusal and/or joint sale by the other stockholders of Brasil PCH. At the expiration of the period for that exercise of first refusal, none of the stockholders holding that right had decided to do so; and only one stockholder, Jobelpa S.A. (Jobelpa), holder of 2% of the equity of Brasil PCH, decided to exercise its (tag-along) right of joint sale. The issue price for the shares in Renova will be R\$ 16.2266 per common share; the resulting value of the portion of the increase in the share capital of Renova to be subscribed by Cemig GT will be R\$ 1.415 billion. The amounts referred to will be updated by the variation in the CDI Rate from December 31, 2012. Conclusion of the transaction was duly approved by the Brazilian monopolies authority (Conselho Administrativo de Defesa Econômica, or Cade) and the Brazilian electricity regulator, Aneel.

Brasil PCH is currently one of the principal independent power producers in Brazil producing electricity from renewable sources. It is a holding company, with 13 PCHs in operation, in the Brazilian states of Minas Gerais, Rio de Janeiro, Espírito Santo and Goiás, with a total of 291 MW of installed generation capacity, and assured power offtake of 194 MW. The entire output generated by these enterprises is contracted for sale to Eletrobras (Centrais Elétricas Brasileiras S.A., the federal government electricity company), through contracts made under the Program to Encourage Alternative Energy Sources (Programa de Incentivos às Fontes Alternativas de Energia, or Proinfa.)

Creation of Cemig Transmissão (Cemig T - Transmission)

On October 10, 2013 the Board of Directors of Cemig approved creation of Cemig Transmissão S.A. (Cemig T), to be responsible for the management of all the transmission assets at present under the responsibility of Cemig GT. Creation of Cemig T aims to adapt the Cemig Group's structure to the new regulatory environment created by Law 12783 of 2013, also creating greater focus on the transmission business, and improved clarity in management of the revenues and costs of that business.

This operation will be submitted to the regulator, Aneel: its completion depends on the related prior approval.

Capital expenditures

Capital expenditures for the years ended December 31, 2013, 2012 and 2011 in millions of *reais*, were as follows:

	Year ended December 31,		
	2013	2012	2011
Distribution network	884	1,228	1,175
Power Generation	358	473	407
Transmission network	91	107	57
Others	185	66	575

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Total capital expenditures	1,518	1,875	2,214
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At present we plan to make capital investments in relation to our fixed assets in the amount of approximately R\$ 1,027 million in 2014 corresponding to our basic program. We expect to allocate these expenditures primarily to the expansion of our distribution system. We will also allocate R\$ 932 million for injection of capital into subsidiaries in 2014, to meet specific capital needs.

The amounts planned for 2014 do not include investments in acquisitions, and other projects, that are not remunerated by the concession-granting power which are not recognized in the calculations of tariffs made by Aneel (the regulator).

We expect to fund our capital expenditures in 2014 mainly from our cash flow from operations and, to a lesser extent, through financing. We expect to finance our expansion and projects by commercial bank loans through debt rollover and by issuing promissory notes and debentures in the local market.

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Business Overview

General

We run a business related to generation, transmission, distribution and sale of electricity, gas distribution, telecommunications and the provision of energy solutions.

Cemig

Cemig engages in transactions to buy and sell of electricity through its subsidiaries. The Total of volume of electricity resourced in 2013 was 85,884 GWh or 2,6 % more than the volume sourced in 2012. The amount of energy produced by the Group in 2013 was 26,847 GWh, 29,9% less than in 2012 and the amount of energy purchased by the Group totaled 59,037 GWh, 29,9% more than in 2012. These figures include electricity purchased from Itaipu (8,374 GWh), through the Electricity Trading Chamber (Câmara de Comercialização de Energia Elétrica, or CCEE) and from other companies (50,664GWh).

The energy traded in 2013 totaled 48,089 GWh, an amount 0,5% lower than traded in 2011, and 95,4% of that a (45,883GWh) was traded to final consumers, both captive and free.

Total losses of energy in the core network in 2013 and distribution networks totaled 6,290GWh, which corresponds to 7.3 % of total resources and 0.4% less than the losses 2012 (6,317GWh).

The table below shows the breakdown of resources and power requirements by Cemig traded in the last two years:

CEMIG S ELECTRIC ENERGY BALANCE (6)

(GWh)

	2013	2012	2011
RESOURCES	85,884	83,912	81,523
Electricity generated by CEMIG (1)	24,525	35,382	31,276
Electricity generated by auto-producers	841	1,100	997
Electricity generated by Ipatinga	243	309	308
Electricity generated by Barreiro	69	82	60
Electricity generated by Sá Carvalho	338	405	356
Electricity generated by Horizontes	76	54	53

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Electricity generated by Cemig PCH	87	70	51
Electricity generated by Rosal Energia	261	249	251
Electricity generated by Amador Aguiar	406	656	580
Electricity bought from Itaipu	8,374	8,422	8,475
Electricity bought from CCEE and other companies (2)(3)	50,664	37,057	38,953
REQUIREMENTS	85,844	83,747	81,523
Electricity delivered to final consumers (4)	45,883	46,015	45,346
Electricity delivered to auto-producers	969	994	991
Electricity delivered by Ipatinga	243	309	308
Electricity delivered by Barreiro	81	97	100
Electricity delivered by Sá Carvalho	472	476	498
Electricity delivered by Horizontes	85	81	83
Electricity delivered by Cemig PCH	94	109	115
Electricity delivered by Rosal Energia	263	263	262
Electricity delivered to the CCEE and other companies	31,504	29,086	27,965
Losses	6,290	6,317	5,712

(1) Discounting the losses attributed to generation (437 GWh in 2013) and the internal consumption of the generating plants.

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Generation

According to Aneel, at December 31, 2013 we were the fifth largest electric power generation group in Brazil, by total installed capacity. On that date we were generating electricity at 64 hydroelectric plants, three thermoelectric plants and three wind farms, with total installed capacity of 7,038 MW. Of this capacity, the hydroelectric plants had a total of 6,924 MW, the thermal plants 184 MW, and the wind farms 49 MW. Eight of our hydroelectric plants had 76% of our installed electricity generation capacity in 2013. In the year to December 31, 2013 we recorded expenses totaling R\$ 242.06 million relating to transmission charge payments made to the National System Operator (ONS) and to transmission concession holders. See *The Brazilian Power Industry* and *Item 5. Operating and Financial Review and Prospects*.

Transmission

We are engaged in the electric power transmission business, which consists of transporting electric power from the facilities where it is broadcasted to the distribution networks for delivery to final users. We transport: (i) electricity produced at our own generation facilities; (ii) electricity that we purchase from Itaipu, and other sources; and (iii) the electricity of the national grid, and other concession holders. Our transmission network comprises power transmission lines with a voltage capacity equal to or greater than 230kV and is part of the Brazilian Grid regulated by the ONS. See *The Brazilian Power Industry*. On December 31, 2013, the Cemig Generation and Transmission network consisted of approximately 1,352 miles of 500kV lines, 1,223 miles of 345kV lines, and 477 miles of 230kV lines located in Minas Gerais.

In compliance with IFRS 11 Joint Arrangements, as from January 2013 Cemig no longer uses the proportional consolidation method to account for operations in which it holds joint control, but reports them all only by the equity method.

Distribution

Through Cemig Distribution, we have four distribution concession agreements in the State of Minas Gerais that grant us rights to supply electricity to consumers in that area, including consumers that may be eligible, under the legislation, to become Free Consumers (consumers with demand equal to or greater than 3 MW, or consumers with demand equal to or greater than 500 kW from alternative energy sources, such as wind, biomass or small hydroelectric plants). The concession area of Cemig Distribution covers approximately 219,103 square miles, or 96.7% of the territory of the state. As of December 31, 2013, through Cemig Distribution, we owned and operated approximately 330,734 miles of distribution lines, through which we supplied 25,645GWh to approximately 7,781 million end-consumers. We are the largest group of power distribution in the country, with a prominent role in Minas Gerais and Rio de Janeiro by Cemig D and Light S.A (Light), serving more than 10 million consumers.

In 2013, a total of 19,445 GWh was carried and delivered by the electricity distribution system to the Free Consumers. The total amount of electricity supplied was 45,090 GWh, of which 50.4% was supplied to residential consumers, 21% to commercial consumers, 13.6% to other consumers, 15% to Free Consumers and 15.0% to industrial consumers.

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Cemig has 26.06% stake in Light, which owns 100% interest in Light Electricity Services SA (Light SESA), which obtained in 2013, 25,717 GWh of total energy consumption in the concession area (captive customers + free customers + transport), representing an increase of 2.9% over the year 2012. All classes contributed positively to this result, which was mainly influenced by the performance of the commercial class, which corresponds to 30.9% of the total market and grew by 4.5% over the year 2012.

Other Businesses

While our main business consists of the generation, transmission and distribution of electricity, we also engage in the following businesses:

i) telecommunications through our consolidated subsidiary Cemig Telecomunicações S.A.; (ii) national and international energy solutions consulting business through our subsidiary Efficientia S.A.; and (iii) exploitation of natural gas through six consortia, listed as follows: (a) Consórcio de Exploração SF-T-104, (b) Consórcio de Exploração SF-T-114, (c) Consórcio de Exploração SF-T-120, (d) Consórcio de Exploração SF-T-127, (e) Consórcio de Exploração REC-T-163, and (f) Consórcio de Exploração POT-T-603, formed with several partners; and (iv) sale and trading of electricity, structuring and intermediating purchases and sale transactions, buying and selling electricity in the Free Market through our wholly-owned subsidiaries Cemig Trading S.A. and Empresa de Serviços de Comercialização de Energia Elétrica S.A.

Revenue Sources

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

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	Year ended December 31,		
	2013	2012	2011
Electricity sales to final consumers	12,597	13,691	12,522
Revenue from wholesale supply to other concession holders and PROINFA	2,144	1,689	1,504
Revenue from use of the basic electricity distribution system (TUSD)	1,008	1,809	1,771
Revenue from use of the transmission system	404	662	612
Indemnity transmission revenues	21	192	-
Construction revenues	975	1,336	1,232
Revenue from sale on the spot market	1,193	387	175
Other operating revenues	1,047	506	362
Tax on revenues	(4,762)	(6,135)	(5,785)
Total	14,627	14,137	12,393

Power Generation and Trading*Overview*

The table below gives operational information on our generation plants at December 31, 2013:

	Installed capacity (MW)	Assured power level (1) (average MW)	Started operation	Installed capacity % of total	Expiry of concession or authorization	Cemig stake
Hydroelectric plants						
Santo Antônio	113.90	113.98	2012	1.58%	June 2046	10%
São Simão	1,710.00	1,281.00	1978	23.94%	January 2015	100%
Emborcação	1,192.00	497.00	1982	16.68%	July 2025	100%
Nova Ponte	510.00	276.00	1994	7.14%	July 2025	100%
Jaguara	424.00	336.00	1971	5.93%	August 2013	100%
Miranda	408.00	202.00	1998	5.71%	December 2016	100%
Três Marias	396.00	239.00	1962	5.54%	July 2015	100%
Volta Grande	380.00	229.00	1974	5.32%	February 2017	100%
Irapé	399.00	210.7	2006	5.58%	February 2035	100%
Aimorés	161.70	84.28	2005	2.26%	December 2035	49%
Salto Grande	102.00	75.00	1956	1.43%	July 2015	100%
Funil	88.20	43.61	2002	1.23%	December 2035	49%
Queimado	86.63	47.85	2004	1.21%	January 2033	82.5%
Sá Carvalho	78.00	58.00	1951	1.09%	December 2024	100%
Rosal	55.00	30.00	1999	0.77%	May 2032	100%
Itutinga	52.00	28.00	1955	0.52%	July 2015	100%
Amador Aguiar I	63.5	41	2009	0.43%	August 2036	26.47%
Baguari	47.60	27.27	1960	0.32%	August 2041	34%
Camargos	46.00	21.00	2007	0.25%	July 2015	100%

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Amador Aguiar II	55	34.68	1999	0.20%	August 2036	26.47%
Porto Estrela	37.33	18.60	2001	0.19%	July 2032	33.3%
Igarapava	30.45	19.72	1999	0.17%	December 2028	14.5%
Pai Joaquim	23.00	2.41	2004	0.14%	Abril 2032	100%
Piau	18.01	13.53	1946	0.13%	July 2015	100%
Gafanhoto	14.00	6.68	2001	0.13%	July 2015	100%
Cachoeirão	13.23	8.02	2008	0.18%	July 2030	49%
Paracambi	12.25	9.57	2012	0.17%	February 2031	49%
Pipoca	9.80	5.83	2010	0.13%	September 2031	49%
Peti	9.40	6.18	1946	0.13%	July 2015	100%
Poço Fundo	9.16	5.79	1949	0.13%	August 2025	100%
Tronqueiras	8.50	4.14	1955	0.12%	July 2015	100%
Joasal	8.40	5.20	1950	0.11%	July 2015	100%
Salto Voltão	8.20	6.63	2001	0.11%	October 2030	100%
Martins	7.70	2.52	1947	0.11%	July 2015	100%
Cajuru	7.20	3.48	1959	0.10%	July 2015	100%
São Bernardo	6.82	3.42	1948	0.09%	August 2025	100%
Paraúna	4.28	1.90	1927	0.06%	N/A	100%
Pandeiros	4.20	0.47	1957	0.06%	September 2021	100%
Paciência	4.08	2.36	1930	0.06%	July 2015	100%
Marmelos	4.00	2.88	1915	0.05%	July 2015	100%
Other PCHs (3)	18.75	9.35	N.A.	0.33%	N.A	N.A

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	Installed capacity (MW)	Assured power level (1) (average MW)	Started operation	Installed capacity % of total	Expiry of concession or authorization	Cemig stake
Thermoelectric plants						
Igarapé	131.00	71.30	1978	1.86%	August 2024	100%
Ipatinga	40.00	40.00	1986 (2)	0.57%	December 2014	100%
Barreiro	12.90	11.37	2004	0.18%	Abril 2023	100%
Wind farms						
Praias de Parajuru	14.11	4.11	2012	0.20%	September 2032	49%
Praia de Morgado	14.11	6.47	2011	0.20%	December 2031	49%
Volta do Rio	20.58	9.02	2011	0.29%	December 2031	49%
Hydroelectric plants of Light						
Fonte Nova	42.86	33.77	1940	0.49%	July 2029	32.47%
Paracambi	4.14	3.23	2012	0.06%	September 2031	16.56%
Ilha dos Pombos	60.77	37.34	1924	0.69%	July 2029	32.5%
Nilo Peçanha	123.4	108.77	1940	1.41%	July 2029	32.5%
Pereira Passos	32.44	16.56	1962	0.37%	July 2029	32.5%
Santa Branca	18.20	10.39	1999	0.21%	July 2029	32.5%
Cachoeira da Lixa	1.24	0.69	2008	0.21%	December 2033	8.38%
Colino 1	0.92	0.62	2008	0.16%	December 2033	8.38%
Colino 2	1.34	0.88	2008	0.23%	December 2033	8.38%
TOTAL	7,145.30	4,369.03	-	100%	-	-

(1) Assured power level is a quantity calculated by the Mining and Energy Ministry to represent the long-term average output of a plant in practice, in accordance with studies by the Energy Research Company (*Empresa de Pesquisa Elétrica* or EPE). Assured power level calculation takes into consideration factors such as reservoir capacity and connection to other power plants. Contracts with final consumers and other concession holders do not provide for levels of production higher than the Assured Power level. Mining and Energy Ministry Resolution 303/2004 defined as general criteria guaranteeing the supply, the amount of physical guarantee of developments of electric power generation. (2) Indicates the date of our acquisition.

(3) This refers to 17 Small Hydro Plants (PCHs Anil, Bom Jesus do Galho, Dona Rita, Jacutinga, Lages, Luiz Dias, Machado Mineiro, Pissarrão, Poquim, Rio de Pedras, Salto de Morais, Salto do Passo Velho, Salto do Paraopeba, Santa Luzia, Santa Marta, Sumidouro and Xicão).

Cemig's market comprises sales of electricity to:

- (i) Captive consumers in Cemig's concession area in the State of Minas Gerais;
- (ii) Free Consumers both in the State of Minas Gerais and other States of Brazil, through the Free Market (*Ambiente de Contratação Livre*, or ACL);
- (iii) other agents of the electricity sector – traders, generators and independent power producers, also in the ACL;
- (iv) Distributors, in the Regulated Market (*Ambiente de Contratação Regulada*, or ACR); and
- (v) the wholesale trading chamber (*Câmara de Comercialização de Energia Elétrica*, or CCEE) (eliminating transactions between companies of the Cemig Group).

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The total volume of transactions in electricity in 2013 was 61,521,275 MWh, an increase of 3.25% from the total of 59,584,009 MWh in 2012.

Generation Assets

On December 31, 2013 the subsidiaries and jointly-controlled subsidiaries of the Cemig Group holding company (Companhia Energética de Minas Gerais - Cemig) operated generation capacity totaling 7,145.3 MW, in 64 hydroelectric plants, 3 thermal plants and 3 wind farms, corresponding respectively to 6,912.4 MW, 183.9 MW and 48.8 MW. These figures make the Cemig Group the third largest generating group in Brazil by generating capacity. Its effective average output in 2013 was 4,369 MW.

In line with Cemig's growth strategy, the group's total installed generation capacity has grown constantly over the last five years.

Light has total installed generation capacity of 285 MW, and effective average output of 212 MW.

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

Cemig Generation and Transmission S.A., As of December 31, 2013, we have electricity generation capabilities in 47 hydroelectric plants, one thermoelectric plant and three wind farms, which totals a generation capacity of 6,518 value of which hydroelectric plants accounted for 6,339 MW, thermoelectric plants accounted for 131 MW and wind farms accounted for 48.8 MW.

We inform that the share holdings below refer to the March 31st, 2014, check the chart of Cemig Group in the 4.2 section of this form.

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

- *Baguari Hydroelectric Power Plant* Participation of 49% of Baguari Energia S.A. and 51% of Baguari I Electric Power Generation (Neoenergia). In Baguari Energia SA, we have 69,39% stake as a partner and Furnas Central Electric SA with 30,61%.
- *Aimorés Hydroelectric Power Plant* We have a 49% interest in this enterprise and our partner, Vale S.A., has the remaining 51% interest.
- *Funil Hydroelectric Power Plant* We have a 49% interest in this enterprise and our partner, Vale S.A., has the remaining 51% interest.
- *Igarapava Hydroelectric Power Plant* We have a 14.5% interest in this enterprise and our partners are Vale S.A. (38.2%), Votorantim Metais Zinco S.A. (23.9%), Companhia Siderúrgica Nacional S.A. (17.9%) and Anglogold Ashanti Córrego do Sítio Mineração S.A. (5.5%).
- *Queimado Hydroelectric Power Plant* Our partner in this project is CEB Participações S.A. (CEBPar), a subsidiary of Companhia Energética de Brasília, or CEB, a state-controlled electricity company. As per the second Amendment to Concession Contract 006/1997, executed on July 17, 2009, CEB has a 17.5% interest and we have the remaining 82.5%.
- *Porto Estrela Hydroelectric Plant* We have a 33.3% interest in this enterprise and our partners are Vale S. A. (33.3%) and Companhia de Tecidos Norte de Minas Coteminas (33.3%).
- *Tapajós* We have an 11.11% interest in this enterprise and our partners are Eletrobrás (11.11%), Eletronorte (11.11%), CCCC S.A. (11.11%), EDF (11.11%), Copel GT (11.11%) Endesa (11.11%) GDF Suez (11.11%) and Neoenergia (11.11%).
- *Cosama* We have an 49% interest in this enterprise and our partner, CPFL Energia SA Generation, 51%.
- *Davinópolis Hydroelectric Plant* We have an 49% interest in this enterprise and our partner, Neoenergia, has the remaining 51%.
- *Água Limpa Hydroelectric Plant* - We have a 49% interest in this enterprise and our partner, Ligth Energy, has the remaining 51%.

- *Hydroelectric Itaocara* We have a 49% stake in the enterprise and our partner, Itaocara Energy Ltd, owns the remaining 51%.

The generation companies in which Cemig GT has joint participation are:

Baguari Energia S.A. (69.39%) We operate the Baguari Hydroelectric Plant, through the Baguari Hydro Plant Consortium, together with Furnas Centrais Elétricas S.A. (30.61%). Baguari Energia S.A. owns 49% of the plant, in partnership with Neoenergia, which owns the remaining 51%, through Baguari I Geração de Energia Elétrica

Hidrelétrica Cachoeirão S.A. (49%) An independent power producer, operating the Cachoeirão small hydroelectric power plant, located at Pocrane, in the state of Minas Gerais. The other 51% is held by Santa Maria Energética.

Hidrelétrica Pipoca S.A. (49%) An independent power producer which built and operates the Pipoca Small Hydro Plant, on the Manhauçu River, in the municipalities of Caratinga and Ipanema, in the state of Minas Gerais. On July 8, 2013, Aneel agreed to the transfer of stockholding control from Omega Energia Renovável S.A. to a holding company, Asteri Energia S.A.

Madeira Energia S.A (10%) This company (Mesa) owns 100% of Santo Antônio Energia S.A., generating electricity in the basin of the Madeira river in the state of Rondônia.

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Central Eólica Praias de Parajuru (49%) A beach-located wind farm at Beberibe, in the state of Ceará, in Northern Brazil.

Central Eólica Praias do Morgado (49%) Also located on a Northern Brazilian beach, this wind farm is at Acaraú, in Ceará state.

Central Eólica Volta do Rio (49%) This is the third of a group of three beach-located wind farms in Ceará, and is also in the municipality of Acaraú.

Amazônia Energia Participações S.A. (49% of voting stock, 74.5% of total capital) Owned jointly with Light S.A (25.5%), holds 9.77% of Norte Energia S.A., holder of the concession to operate the Belo Monte Hydroelectric Plant, on the Xingu river, in the state of Pará. The first rotor is planned to start operation in February 2015.

Lightger S.A. Independent power producer, formed to build and operate the Paracambi Small Hydro Plant (or PCH), on the Ribeirão das Lages river in the county of Paracambi, in the state of Rio de Janeiro. The remaining 51% stockholding is owned by Light.

The following are other companies in which Cemig (the holding company, Companhia Energética de Minas Gerais - Cemig), owns 100% of the equity:

Usina Térmica Ipatinga S.A. An independent power producer providing thermally generated supply, at the Ipatinga thermal plant, located on the premises of Usiminas (Usinas Siderúrgicas de Minas Gerais S.A.), using blast furnace gas as fuel.

Cemig PCH S.A. Independent power producer, operating the Pai Joaquim small hydroelectric power plant.

Horizontes Energia S.A. An independent power producer, operating the Machado Mineiro and Salto do Paraopeba small hydroelectric plants in Minas Gerais; and the Salto do Voltão and Salto do Passo Velho hydroelectric plants, in the state of Santa Catarina.

Rosal Energia S.A. Concession holder operating the Rosal hydro plant, on the border between the states of Rio de Janeiro and Espírito Santo.

Usina Termelétrica Barreiro S.A. An independent power producer which built and operates the 12.9-MW Barreiro thermoelectric plant, on the premises of the metal products company V&M do Brasil S.A. (Vallourec & Mannesmann), in Belo Horizonte, Minas Gerais.

Cemig Capim Branco Energia S.A. An independent producer, operating the Amador Aguiar I and Amador Aguiar II hydroelectric power plants, built in consortium with private-sector partners. It is owned, indirectly, 26.47% by Cemig, 60.89% by the mining company Vale S.A. and 12.63% by the metals company Votorantim Metais Zinco S.A. (VMZ).

The holding company (Companhia Energética de Minas Gerais - Cemig) also has interests in jointly-controlled subsidiaries that operate generation assets. These include:

Light S.A. (26.06%) Owns 25.5% of Amazônia Energia Participações S.A., 51% of Lightger S.A., 100% of Itaocara Energia Ltda. Light Energia S.A. has investment in several jointly-controlled subsidiaries - for example 51% of Guanhões Energia S.A.; and 32.23% of the voting stock and 21.86% of the total stock, of Renova Energia S.A.

Parati S.A. Participações em Ativos de Energia Elétrica Cemig owns 50% of the voting stock and 25% of the total capital of Parati, which owns 96.81% of Redentor Energia S.A.

Wind Farms

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

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Our first wind farm, Morro do Camelinho, began operating in 1994. It is located in Gouveia, a town in northern Minas Gerais. This project is the first wind farm in Brazil to be connected to the national electricity transmission grid. With a total generation capacity of 1 MW, Morro do Camelinho was built through a technical and scientific cooperation agreement with the government of Germany. Taking into account the experimental nature of the facility, and the fact that the equipment used is now obsolescent, Cemig applied to Aneel for permission to de-activate the plant, which was granted on September 2, 2010. On August 15, 2009, Cemig Generation and Transmission purchased from Energimp S.A. a 49% interest in three wind farms located in the State of Ceará, for the amount of R\$223 million. The three wind farms, named UEE Praia do Morgado, UEE Praias de Parajuru and UEE Volta do Rio, have a total installed capacity of 99,6 M.

Central Eólica Praias de Parajuru S.A. is located in the city of Beberibe, in the State of Ceará. The commercial operation started in August 2009. All of its generation, totaling 73,525 MWh in 2013, has been sold to Eletrobras, under the Proinfa Program for a period of 20 years.

Central Eólica Praia do Morgado S.A. is located in the city of Acaraú, in the State of Ceará. The commercial operation started in May 2010. All its generation, totaling 59,117 MWh in 2013, has been sold to Eletrobrás, under the Proinfa Program for a period of 20 years.

Central Eólica Volta do Rio S.A. is located in the city of Acaraú, in the State of Ceará. The commercial operation started in September 2010. All its generation, totaling 83,786 MWh in 2013, has been sold to Eletrobrás, under the Proinfa Program for a period of 20 years.

This chart shows the majority of our electricity generation companies, including their subsidiaries and affiliated companies:

Expansion of Generation Capacity

We are currently involved in the construction of six hydroelectric power plants – *Dores de Guanhães, Senhora do Porto, Fortuna II, Jacaré, Santo Antônio* and *Belo Monte* – which will increase our total hydroelectric generation capacity by 1,280 MW over the next 6 years. The following is a brief description of these projects, the completion of which is subject to various contingencies, some of which are beyond our control:

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SPE Guanhães Energia S.A.: Construction and commercial operation of 4 Small Hydroelectric Plants (Referred to as PCHs, for *Pequenas Centrais Hidrelétricas*, or SHPs): three of them *Dores de Guanhães*, *Senhora do Porto* and *Jacaré* are in the county of Dolores de Guanhães; and one, *Fortuna II*, is in the counties of Virginópolis and Guanhães, all in Minas Gerais State. They have will have aggregate installed capacity of 44 MW. *Senhora do Porto* and *Dores de Guanhães* are scheduled to produce their first power in the third quarter of 2014 (3Q14). *Jacaré* is expected to start generation in fourth quarter 2014 (4Q14); and *Fortuna II* in first quarter 2015 (1Q15). The concessions for these plants expire as follows: for *Fortuna II*, in December 2013; for *Dores de Guanhães* in November 2032; and for *Senhora do Porto* and *Jacaré* in October 2032. Up to December 31, 2013 Cemig GT had subscribed capital totaling R\$ 67,427,822.00 in the project, in proportion to its holding of 49% in this enterprise. The company is jointly-controlled: Light Energia owns the remaining 51%.

Four wholly-owned subsidiaries of Guanhães Energia S.A. were created in March 2013. They are named PCH Dolores de Guanhães S.A., PCH Senhora do Porto S.A., PCH Jacaré S.A. and PCH Fortuna II S.A. These new special-purpose companies will be responsible for construction and commercial operation of each of these PCHs after Aneel approves the transfer of ownership, expected to take place in March 2014.

Madeira Energia S.A. *Mesa* is a special-purpose company created to build, operate and maintain the *Santo Antônio* hydroelectric plant, in the basin of the Madeira River, in the extreme Northwest of Brazil. This facility will have generating capacity of 3,150 MW. The Santo Antônio hydroelectric plant began operating in March 2012, nine months ahead of its original schedule. Cemig GT (Generation and Transmission) has a 10% interest in Mesa. On December 31, 2013 the value of the property, plant and equipment assets proportional to Cemig GT's equity ownership in this indirect subsidiary was R\$ 1,86 billion.

Norte Energia S.A. *Nesa*: Since October 2011 Cemig GT has owned 74.5% of the special-purpose company Amazônia Energia Participações S.A., in partnership with Light Energia, which owns the remaining 25.5%. Amazônia Energia in turn holds 9.77% of Norte Energia S.A., another special-purpose company, which holds the concession to build, operate and maintain the *Belo Monte* Hydroelectric Plant. At the end of December 2013 the plant was approximately 43% complete. It is located on the Xingu river, in the Amazon Region, in the North of Brazil. When it is completed scheduled for January 31, 2019 it will have full capacity of 11,233 MW, and will be one of the largest hydroelectric plants in the world. By the end of 2013 the Brazilian Development Bank (BNDES), together with the Federal Savings Bank (*Caixa Econômica Federal*, CEF, or Caixa) and the investment bank BTG Pactual, financiers of the enterprise through a loan planned to total R\$ 22.5 billion, had released a total of R\$ 9,82 billion for its construction. Also by the end of 2013, Cemig had injected approximately R\$ 313 million in this enterprise, equal to about 71.2% of the total planned to be subscribed for its equity interest, by 2016. Belo Monte is expected to produce its first power output in February 2015.

The UHE Itaipara Consortium: Since 2008, Cemig GT has held a 49% interest, with Itaipara Energia Ltda., a special-purpose company owned by Light S.A. (holder of 51%), in this consortium the object of which is to build and operate the *Itaipara* power plant, a 151-MW small hydro plant, to be built on the Paraíba do Sul river, between the municipalities of Itaipara and Aperibé, in Rio De Janeiro State. However, the reduction in the effective period of the original concession, and the impossibility of taking part in auctions in the regulated market, led the Consortium to apply for rescission of Concession Contract N° 012/2001 a procedure that was made permissible by Law 12,893/13 of July 9, 2013. *The Itaipara hydro plant:* A new auction will be held for the concession to operate the *Itaipara* hydroelectric plant, and the consortium described below is planning to participate in that auction.

Transmission

Overview

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

Our usage of the basic transmission grid by connected generation power plants and distribution systems and electricity purchases from Itaipu and others suppliers requires us to pay scheduled rates to the ONS, and owners of different parts of the basic transmission grid, See -The Brazilian Power Industry and Item 5. Operating and Financial Review and Prospects.

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

Table of Contents**Circuit Length of Transmission Lines in Miles**

Voltage of Transmission Lines	2013(1)	As of December 31 2012	2011
>525 kV	-	40	55
500 kV	1,352	3,042	3,155
440 kV	-	135	177
345 kV	1,222	1,286	1,223
230 kV	477	1,343	1,197
Total	3,051	5,847	5,807

**Transformation Capacity(2)
of Transmission Substations**

Voltage of Transmission Lines	2013(1)	As of December 31 2012	2011
Number of transmission substations (3)	36	60	60
MVA	16,983	18,834	18,438

(1) In compliance with IFRS 11 Joint Arrangements, as from January 2013 Cemig no longer uses the proportional consolidation method to account for operations in which it holds joint control, but reports them all only by the equity method.

(2) Transformation capacity refers to the ability of a transformer to receive energy at a certain voltage and release it at a reduced voltage for further distribution.

(3) Does not consider the shared substations.

Transmission Assets

The Montes Claros Irapé line (Companhia Transleste de Transmissão) In September 2003, a consortium comprising Alusa (*Companhia Técnica de Engenharia Elétrica Alusa*), with 41% interest, Furnas (with 24% interest), Orteng (*Orteng Equipamentos e Sistemas S.A.*)(10%) and Cemig (with 25%), won the bid for the concession, from Aneel, for the Montes Claros Irapé Transmission Line. As required by the tender rules, the partners formed a company, *Companhia Transleste de Transmissão S.A.*, responsible for construction and operation of the line. This 345-kV transmission line, of about 87 miles, connects the substation at Montes Claros, a city in the North of Minas Gerais, with the substation of the Irapé hydroelectric plant. The line began operating in December 2005. The concession expires in February 2034. On October 9, 2013, Aneel consented to transfer of the 10% interest held by Orteng Equipamentos e Sistemas S.A. to *Amazonense de Transmissão de Energia S.A. EATE*.

The Itutinga Juiz de Fora Transmission Line (Companhia Transudeste de Transmissão) In September 2004 a consortium formed by Alusa, Furnas, Orteng and Cemig respectively owning 41%, 25%, 10% and 24% won the bid for the concession from Aneel for the Itutinga Juiz de Fora transmission line. As required by the tender rules, the partners formed a company, *Companhia Transudeste de Transmissão S.A.*, which is

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responsible for construction and operation of the line. This 345-kV transmission line, of approximately 90 miles, links the substation of the *Itutinga* hydroelectric plant to a substation at Juiz de Fora, a city in the Southwest of Minas Gerais. Commercial operation started in February 2007. The concession expires in March 2035. On October 9, 2013 Aneel consented to transfer of the 10% interest owned by Orteng Equipamentos e Sistemas S.A. to EATE.

The Irapé Araçuaí Transmission Line (Companhia Transirapé de Transmissão) In November 2004 a consortium made up of Alusa, Furnas, Orteng and Cemig, holding respectively 41%, 24.5%, 10% and 24.5%, won the bid for the concession from Aneel for the Irapé Araçuaí transmission line. As required by the tender rules, the partners constituted a company, *Companhia Transirapé de Transmissão S.A.*, which has the responsibility for building and operating the line. This 230-kV line, of approximately 39 miles, connects the substation of the Irapé Hydroelectric Plant to a substation in Araçuaí, a city in the Northwest of Minas Gerais. Commercial operation began in May 2007 and the concession expires in 2035. On October 9, 2013 Aneel consented to the transfer of the 10% interest owned by Orteng Equipamentos e Sistemas S.A. to Empresa Amazonense de Transmissão de Energia S.A. EATE.

The Furnas Pimenta Transmission Line (Companhia de Transmissão Centroeste de Minas) In September 2004 a consortium formed by Furnas and Cemig, respective holding 49% and 51%, won the bid for the concession of the *Furnas Pimenta* transmission line. As required by the tender rules, the partners formed a company, *Companhia de Transmissão Centroeste de Minas S.A.*, which is responsible for the construction and operation of the transmission line. This 345-kV transmission line, of approximately 39 miles, connects the substation of the Furnas hydroelectric plant to a substation at Pimenta, a city in the Center-West region of Minas Gerais. It began commercial operation in March 2010. The concession expires in March 2035.

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The Charrúa Nueva Temuco Transmission Line in Chile (Transchile) In April 2005 a consortium of Alusa and Cemig (51% and 49% respectively) won the tender held by the *Centro de Despacho Económico de Carga del Sistema Interconectado Central*, or CDEC SIC, of Chile, to build, operate and maintain the 220-kV *Charrúa Nueva Temuco* transmission line for a period of 20 years. This was a landmark in Cemig's history, since it was the Company's first asset outside Brazil. With Alusa, we incorporated *Transchile Charrúa Transmisión S.A.*, an SPC created in Chile, which was responsible for the construction and now operates the line. The line is around 127 miles, connecting the substations of *Charrúa* and *Nueva Temuco* in the central region of Chile. We began the project in June 2005; construction began in April 2007. On July 18, 2007 Transchile Charrúa Transmisión S.A. signed a project finance contract for US\$51 million with the InterAmerican Development Bank (IADB) for construction of the line and substations. Commercial operation began in January 2010.

TAESA: In 2013, Taesa absorbed several companies in the group, in which it had 100% holdings and where absorption would provide economic gains and simplify stockholding structure. This took place in January 2013 for the wholly-owned subsidiaries *Sul Transmissora de Energia S.A.* (STE), *ATE Transmissora de Energia S.A.* (ATE) and *Nordeste Transmissora de Energia S.A.* (NTE); and in June 2013 for *ATE II*. On May 31 the transfer to Taesa of the totality of the stockholding interests held by Cemig in the share capital of the transmission concession holders of the TBE Group was completed. On October 17, 2013 the purchase was completed, by the affiliated company EATE, of the 10% stockholding interests held by Orteng in each of: (i) *Companhia Transleste de Transmissão*, (ii) *Companhia Transirapé de Transmissão* and (iii) *Companhia Transudeste de Transmissão*. On December 13, 2013, Taesa won the bid for Lot A of Aneel Auction 013/2013, and as a result constituted *Mariana Transmissora de Energia S.A.* (MTE) to operate a 30-year concession to operate this 85-km, 500-kV transmission line in Minas Gerais, which links the *Itabirito 2* and *Vespasiano 2* substation, which belong to Cemig. On March 31, 2014 Cemig owned 42.38% of the voting stock of Taesa and 43.36% of its total capital. The subsidiaries and holdings in them are as follows:

- 100% ATE III Transmissora de Energia S.A.
- 49.98% Empresa Amazonense de Transmissão de Energia S.A. EATE
- o 80% Lumitrans Cia. Transmissora de Energia Elétrica
- o 80% STC-Sistema de Transmissão Catarinense S.A.
- o 51% Empresa Brasileira de Transmissão de Energia S.A (Taesa owns the other 49%)
- 19.09% Empresa Catarinense de Transmissão de Energia S.A.
- o 100% Empresa de Transmissão Serrana S.A
- 49.99% Empresa Norte de Transmissão de Energia S.A.
- 49.99% Empresa Regional de Transmissão de Energia S.A.
- 49.98% Empresa Paranaense de Transmissão de Energia S.A.
- o 100% Empresa de Santos Dumont de Energia S.A.
- 100% São Gotardo Transmissora de Energia S.A.
- 38.6645% Brasnorte Transmissora de Energia S.A.

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- 52.58% Empresa de Transmissão do Alto Uruguai S.A.
- 99.99% Mariana Transmissora de Energia S.A.

This chart illustrates the transmission assets of the Cemig Group:

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Expansion of Transmission Capacity

Empresa de Transmissão Serrana S.A. This is a special-purpose company created in January 2012 by ECTE, a jointly-controlled company owned by Taesa (with a 19.09% interest), Alupar Investimento S.A. (42.51%), Centrais Elétricas de Santa Catarina S.A. (30.89%) and MDU Resources Luxembourg II LLC, S.à.r.l. (7.51%). It was formed to build and operate two substations: the 525/230 kV *Abdon Batista* substation, with transformation capacity of 1,568 MVA; and the 230/138kV *Gaspar 2* substation, with 300 MVA capacity, both in the state of Santa Catarina. ECTE won the concession at Aneel Auction 006 of 2011. The purpose of the substation is to connect the *Garibaldi* and *São Roque* power plants to the Brazilian National Grid, and expand the supply of electricity in the Itajaí Valley region. Works are scheduled for completion by May 2014.

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Empresa Santos Dumont de Energia S.A. (ESDE) This is a special-purpose company created in November 2009 by ETEP, a jointly-controlled company owned by Taesa (49.98%) and Alupar Investimento S.A. (50.01%), to build and operate two facilities in the state of Minas Gerais: the 345/138 kV *Santos Dumont 2* substation, with transformation capacity of 375 MVA; and a -88/+100 Mvar Static Var Compensator. ESDE won the concession at Aneel Auction 001/2009. The 345 kV and 138 kV works were completed in February 2013; the SVC was completed in January 2014.

São Gotardo Transmissora de Energia S.A. Taesa was awarded the concession (Lot E) to build, operate and maintain the 345/138 kV *São Gotardo 2* substation (300 MVA), in Minas Gerais, in June 2012, at Aneel Auction 005/2012, representing Annual Permitted Revenue (*Receita Anual Permitida*, or RAP) of R\$ 3.8 million. The works are expected to be completed in 2014.

The Itabirito 2 Vespasiano 2 Transmission Line Taesa was awarded this concession (Lot A) at Aneel Auction 013/2013 in December 2013 to build, operate and maintain the 52-mile, 500-kV *Itabirito 2 Vespasiano 2* transmission line, in Minas Gerais. Annual Permitted Revenue (RAP) is R\$ 11 million. The works are scheduled for completion in 2017.

Distribution and purchase of electric power

Overview

Our distribution operation consists of transfers of electricity from distribution substations to final consumers. Our distribution network comprises a widespread network of overhead and underground lines and substations with voltages lower than 230 kV. We

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supply electricity to small industrial consumers at the higher end of the voltage range and residential and commercial consumers at the lower end of the range.

From January 1, 2013 through December 31, 2013, we invested approximately R\$883,9 million in construction and acquisition of property, plant and equipment used to expand our distribution system.

The following tables provide certain operating information pertaining to our distribution system, on the dates indicated:

Voltage of distribution lines	Circuit length of distribution lines in miles High voltage (from distribution substations to final consumers) At December 31,		
	2013	2012	2011
161 kV	34.2	34.2	34.
138 kV	7,271.7	7,158.5	7,073.3
69 kV	3,088.9	3,059.9	3,009.9
34,5 kV + Others	609.4	593.4	593.4
Total	10,698	10,846.0	10,710.8

Voltage of distribution network	Circuit length of distribution lines in miles - Medium and low voltage (from distribution substations to final consumers) At December 31,		
	2013	2012	2011
Overhead urban distribution lines	60,682.25	58,109.26	56,931.30
Underground urban distribution lines	426.90	426.97	426.90
Overhead rural distribution lines	241,122.49	239,381.83	234,785.00
Total	302,222.04	297,864.46	292,143.20

	Step-down transformation capacity(1) of distribution substations At December 31,		
	2013	2012	2011
Number of substations	373	370	366
MVA	9,365.6	9,178.1	8,623.6

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

Expansion of Distribution Capacity

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Our distribution expansion plan for the next five years is based on projections of market growth. For the next five years, we anticipate an increase of approximately 1.22 million new urban consumers and 45,000 rural consumers. In order to accommodate this growth, we expect that we will need to add 143,867 medium-voltage poles, 502 miles of transmission lines and 11 step-down substations, adding 756 MVA to our distribution network.

Purchase of Electric Power

During the year ended December 31, 2013, we purchased 8,374 GWh of electricity from Itaipu, which represented approximately 27,4% of the electricity we sold to final users, and 647 GWh (2,1%) of electricity from Proinfa, we also purchased 1,106 GWh from contracts of Nuclear Energy Quotas (CCEN, 3,6%) and 7,257 GWh of electricity from contract of Assured Energy Quotas (CCGF, 23,8%). In addition of this compulsory purchase, we have other two types of supply arrangements: (i) purchases through public auctions, which accounted for approximately 37,5% of the electricity purchased for resale during the year ended December 31, 2013, and (ii) long-term agreements existing prior to the New Industry Model Law, which represented approximately 5,6% of the electricity purchased in 2013.

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

We are one of the power distribution companies operating in the south, southeast and west-central regions of Brazil that are jointly required to purchase all of Brazil's portion of the electricity generated by Itaipu, in accordance with the Law 5,899/1973. The Federal Government allocates Brazil's portion of Itaipu's power among these electric companies in amounts proportionate to their respective historical market share of total electricity sales. Aneel enacted Resolution 1386/2012 defined the percentage of the quotes of Cemig Distribution to purchase 13,31%, of the total amount of electricity purchased by Brazil from Itaipu during 2013, at rates fixed to defray Itaipu's operating expenses and payments of principal and interest on Itaipu's dollar-denominated borrowings and the cost in *reais* of transmitting such power to the interconnected power system. These rates have been above the national average for bulk supply of power and are calculated in U.S. dollars. Therefore, fluctuations in the U.S. dollar/real exchange rate affect the cost, in real terms, of electricity we are required to purchase from Itaipu. Historically, we have been able to recover the cost of such electricity by charging supply rates to consumers. According to our concession agreement, increases in the supply rates may be transferred to the final consumer upon approval by Aneel.

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

Contract of Nuclear Energy Quotas CCEN: are contracts that formalize the purchase of energy and power as established in Law No. 12,111/2009 and REN n° 530/2012 among distributors and Eletronuclear for the energy produced by the Angra I and Angra II plants.

Contract of Assured Energy Quotas CCGF: by Decree No. 7,805/2012 the regulation of MP 579/2012 occurred and the establishment of contractual arrangements governing the hiring of energy and power from the plants whose concessions were extended under the law 12,783/2013.

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

Average Tariff(R\$/MWh))	Electricity Contracted (MW average per year)	Term of the Contract
57,51	530,17	2005 to 2012
67,33	919,14	2006 to 2013
83,13	105,47	2008 to 2015
79,99	18,15	2012 to 2014
106,95	4,47	2008 to 2037
132,27	35,31	2008 to 2022
114,2	3,16	2009 to 2038
126,77	60,41	2009 to 2038

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129,26	40,36	2009 to 2023
132,39	31,02	2009 to 2023
115,05	91,77	2010 to 2039
134,99	20,12	2010 to 2039
121,81	88,98	2010 to 2024
138,85	61,23	2010 to 2024
134,67	431,17	2010 to 2024
120,86	24,71	2011 to 2040
137,44	23,24	2011 to 2025
128,42	63,89	2011 to 2025
129,14	56,57	2012 to 2041
128,37	126,34	2012 to 2026
78,87	122,83	2012 to 2041
77,97	457,75	2015 to 2044
102,00	52,76	2014 to 2044
80,10	336,40	2014 to 2033
99,48	46,80	2015 to 2044
67,31	136,73	2015 to 2044
129,70	25,09	2016 to 2035
117,51	16,27	2018 to 2047
135,58	19,30	2018 to 2037
96,28	16,41	2018 to 2047
119,03	30,90	2018 to 2037
133,75	2,26	2018 to 2042

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Bilateral Agreements Cemig Distribution entered into bilateral agreements with various suppliers prior to the enactment of the New Industry Model Law in 2004. Such agreements are valid under their original terms but cannot be renewed. During the year ended December 31, 2013, Cemig Distribution purchased 1,711 GWh pursuant to these agreements, which represented 5,6% of the total electricity purchased by Cemig Distribution during 2013.

Other Businesses

Natural Gas Distribution

Gasmig was established in Minas Gerais, Brazil, in 1986 for the purpose of developing and implementing the distribution of natural gas in Minas Gerais. CEMIG holds approximately 59,57% of Gasmig while Petrobras, through its subsidiary Gaspetro Petrobras Gas S.A., holds 40%. The remaining shares are owned by the city of Belo Horizonte. In July 1995, the State Government granted Gasmig an exclusive 30-year concession (from January 1993) for distribution of natural gas covering the entire State of Minas Gerais and consumers located within it. Gasmig's marketing efforts focus on its ability to provide a more economically efficient and environmentally friendly alternative to oil, liquefied petroleum gas (LPG), and wood. In 2013, Gasmig supplied approximately 4,08 million cubic meters of natural gas per day to 1,484 consumers in thirty cities: 112 large and medium-sized industrial plants, 154 small industrial plants and commercial consumers, 73 retail distribution stations supplying vehicle natural gas (VNG), 2 thermoelectric electricity generation plants, 8 distributors of compressed natural gas (CNG), and 1,137 homes. In 2013 Gasmig distributed approximately 6,07% of all natural gas distributed in Brazil.

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

The transaction was implemented on December 15, 2004 when Petrobras, through its subsidiaries Gaspetro and TSS, concluded its acquisition of a 40% equity interest in Gasmig. On July 26, 2006, TSS was merged into Gasmig. As a condition for that investment, Petrobras and CEMIG entered into a Shareholders' Agreement in which CEMIG agreed with Petrobras and its subsidiaries to share in the management of Gasmig.

Today Gasmig serves the following regions of the State of Minas Gerais: Greater Belo Horizonte (the Metropolitan Region), the Rio Doce (*Vale do Aço*), the South of Minas (the *Sul de Minas* region), the *Zona da Mata* (in the southeast of the State), and the historic Campos das Vertentes region in all of them supplying the industrial, commercial, automotive and residential markets, and thermoelectric power plants.

The gas supply contracts have been renegotiated for better adaptation to the volume of the Minas Gerais market and to adopt the prices policy used by Petrobras for the whole of the volume acquired. The contracts are for 20 years, to 2030, to supply up to 5,0 million m³/day further to the contracts for supply to the thermoelectric generation plants, which total 1,6 million m³/day, effective up to 2022.

The sales tariffs consist of a full pass-through of the cost of the acquisition of the gas, plus the distribution cost (margin) and taxes.

Capital expenditure in 2012 and 2013, totaling R\$ 98,34 million, was focused on expansion and densification of the existing networks, with a focus on serving the residential market.

Many energy-intensive industries, such as cement, steel, ferro-alloys and metallurgical plants, operate at significant volume in Minas Gerais. We estimate that the total demand for natural gas in Minas Gerais in 2014 will be approximately 4.27 million m³ of gas per day. Gasmig's principal strategy is expansion of its distribution network to cover the part of demand that has not yet been met. Gasmig dedicates efforts to development of new projects for expansion of its natural gas distribution system, to supply consumers in other areas of Minas Gerais, especially those that are densely industrialized. The first phase of the service to the *Vale do Aço* region was completed with the supply of gas by Gasmig to three industrial companies there, in 2006. In that first phase Gasmig was distributing an average volume of approximately 200,000 cubic meters of natural gas per day. The second phase, begun in 2009 and completed in 2010, added 155 miles to Gasmig's networks, and approximately one million cubic meters of gas per day to Gasmig's market by the end of 2012. In 2010 Petrobras expanded the capacity of the gas pipeline that transports natural gas from the Campos basin oilfield (off the coast of Rio de Janeiro State).

The funding to finance the expansion came mainly from its own cash flows and also from loans from the Brazilian Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*, or BNDES).

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Through a structuring project, in 2013 Gasmig began to serve the municipalities of Governador Valadares and Itabira, from a facility to supply compressed natural gas (CNG) in the municipality of Ipatinga.

Natural Gas Exploration

Cemig, in partnership with other companies, won in the 10th Brazilian Round, promoted by the National Agency of Oil, Natural Gas and Biofuels (Agencia Nacional do Petróleo, Gás Natural e Biocombustíveis) ANP, in December 2008, the concession rights for natural gas exploration in 4 blocks in the São Francisco Basin, 1 block in the Recôncavo Basin, and 1 block in the Potiguar Basin, located in the states of Minas Gerais, Bahia and Rio Grande do Norte, respectively.

Block POT-T-603 in the Potiguar Basin was given back to ANP after the conclusion of all planned activities, which demonstrated the absence of hydrocarbon that could be commercially produced.

Cemig has a stake in the following consortia:

Blocks SF-T-104 and SF-T-114 (São Francisco Basin): Cemig (24.5%), Codemig (24.5%) and Imetame (51%);

Blocks SF-T-120 and SF-T-127 (São Francisco Basin): Cemig (24.5%), Codemig (24.5%), Cemes (51%), being the last a company composed by Imetame, Sipet and Orteng;

Block REC-T-163 (Recôncavo Basin): Cemig (24.5%), Codemig (24.5%) and Imetame (51%).

The activities committed in the concession agreement are on the way, and include geological studies to assess the real potential to produce natural gas in the region. Those studies encompass seismic acquisition, surface geochemical survey, drilling of exploratory wells, rock petrophysical evaluation, among others, CEMIG's projected investment is not expected to exceed R\$ 30 million in the exploratory phase.

At the end of the exploratory phase the consortia will decide to move on to the development and production phase, if previous assessment demonstrates that the resources eventually identified have technical and economic feasibility for production.

Telecommunications, Internet and Cable Television

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

stock of Cemig Telecomunicações.

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

Cemig Telecomunicações provides the network for cable television signal transport service in 11 cities in Minas Gerais pursuant to a 15-year service agreement, amended to, among others, expand its terms for another 20 years that expires on May 16, 2035, with Brasil Telecomunicações, and Minas Cabo. Additionally, the Company has a similar contract with OiTV, which expires in 2015. All these companies are concession holders to provide cable television and Internet service in certain cities in Minas Gerais, under which Cemig Telecomunicações allows them to use its network infrastructure. In return, Brasil Telecomunicações and Minas Cabo are obligated pay a monthly fixed fee to Cemig Telecomunicações, according to a contract amendment made in 2013, and OiTV pays per kilometer of the network used.

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

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

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

In 2013 Cemig Telecomunicações inaugurated offices in Salvador (Bahia), Goiânia, (Goiás), Recife (Pernambuco), where the Company is deploying telecommunications network, expanding its operation into those States. Also, network expansion investments are planned in the following states: Rio de Janeiro, Rio Grande do Norte, Ceará, Maranhão, Alagoas, Paraíba, Sergipe, Distrito Federal e Tocantins.

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CEMIG Telecomunicações, through Ativas Data Center S.A., an affiliated company, provides IT infrastructure services, such as hosting, colocation, database storage, information security (InfoSec) professional services, and access sell and internet bandwidth connectivity. The Data Center construction, classified as a Tier III category (Uptime Institute), was concluded on January, 2011.

Consulting and Other services

In 2013 Efficientia signed contracts with clients in the industrial and services sectors for implementation of the following projects for modernization of systems of illumination, photovoltaic generation and co-generation:

- KDB: Replacement of the industrial illumination system (expected savings of 419MWh/year), Investment: R\$ 336,161.00
- Fapemig: Development and implementation of a Photovoltaic Solar Generation Plant (for planned output of 219 MWh/year), Investment: R\$ 842,751.00
- Patense: Co-generation from industrial process steam (expected savings of 12,745 MWh/year), Investment: R\$ 16,000,000.00

Over recent years Efficientia has carried out several service contracts for clients in the sugar-alcohol sector that were setting up or expanding their plants in Minas Gerais.

The plan for connection of the Santa Vitória thermoelectric generation plant was completed in 2013, for execution in 2014. This thermal plant will be able to generate up to 20 MW from sugar cane bagasse.

Sale and Trading of electricity

We provide services related to the sale and trading of electricity in the Brazilian electricity sector, such as evaluation of scenarios, representation of consumers in the CCEE, structuring and intermediating of electricity purchase and sale transactions, and consultancy and advisory services, besides services related to the purchase and sale of electricity in the Free Market through our wholly-owned subsidiaries companies Cemig Trading S.A. and Empresa de Serviços de Comercialização de Energia Elétrica S.A.

Energy Losses

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

According to Cemig's Electric Energy Balance table, Cemig's Distribution total energy losses in 2013 were 6,290 GWh and decreased 0.43% from 2012 (6,317 GWh). The Electric Energy Trading Chamber (Câmara de Comercialização de Energia Elétrica), or CCEE, attributed to Cemig Distribution 437 GWh as losses in the national basic grid in 2013. The remaining energy losses, 5,853 GWh, include both technical and non-technical losses in the local distribution system.

The losses suffered by Light SESA in 2013 totaled 8,352 GWh, or 22.8% of the total load. This was 0.8 percentage points less than the percentage for 2012.

Technical losses accounted for approximately 77.6% of Cemig Distribution's and of Light's energy losses in the local distribution system in 2013. These losses are the inevitable result of the step-down transformation process and the transportation of electric energy. We attempt to minimize technical losses by performing rigorous and regular evaluations of the quality of our electricity supply and our facilities. We routinely upgrade and expand our transmission and distribution system in order to maintain quality and reliability standards, and consequently, reduce technical losses. In addition, we operate our transmission and distribution system at certain specified voltage levels in order to minimize losses.

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

Non-technical losses accounted for the remainder, approximately 22.4%, of Cemig Distribution's losses in its distribution system in 2013 – these were due to fraud, illegal connections, metering errors or defects in meters. To minimize non-technical losses, we regularly take preventive measures. These include: inspection of consumers' meters and connections; modernization of metering systems; training of personnel responsible for meter reading; standardization of procedures for installation and inspection of meters; installation of meters that have quality control guarantees; updating of the database of consumers; and development of a distribution network that is protected against theft. Also, we have developed an integrated system planned and designed to help in detection and measurement of controllable losses in all parts of our distribution system.

Non-technical losses are partially comparable between electricity companies: they indicate both inefficiencies of the sector and the social complexities in the company's concession area. At the end of 2013, the indicators that measure the quality of supply by Cemig Distribution – (i) SAIDI (System Average Interruption Duration Index), expressed as a figure per consumer, in hours per year; and (ii)

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SAIFI (System Average Interruption Frequency Index), also expressed as a consumer-experienced average were 12.49 and 6.26 respectively, the best result in the last eight years. In 2012 the figures for SAIDI and SAIFI were respectively 14.73 and 7.03. At the end of 2013, the SAIDI and SAIFI of *Light* were respectively 18.40 and 8.31, compared to 18.15 and 8.39 in 2012. *Light*'s commercial (non-technical) losses in 2013 totaled 5,738 GWh, representing 42.18% of the electricity invoiced in the low voltage market (by the Aneel criterion) (equivalent to 15.7% of total load). This was a reduction of 3.24 percentage points from the percentage of 45.42% experienced in 2012. This result reflects the Company's commitment to combating this phenomenon, which is a veritable open wound. *Light* has adopted a commitment to reduce its commercial losses to a level of 30% by 2018. To strengthen its process of reduction of non-technical losses, it has been continually investing in a wide range of actions these include, as well as conventional fraud inspection procedures, modernization of the network, and of its measurement systems, and its Zero Loss Zone (*Área de Perda Zero*, or APZ) Project.

The *Light* Legal project was also finalized in 2013, as a major instrument for action to reduce commercial losses. In 2013, covering 26 localities and 416,000 clients, it achieved significant results. In this area of action, the level of losses, previously 45.6%, fell to 20.3%, and default, previously 9.83%, was reduced to close to zero.

Consumers and Billing

Consumer Base

The Cemig Group(1) sells electricity through the companies Cemig Distribuição (Cemig Distribution, referred to as *Cemig D*), Cemig Geração e Transmissão (Cemig Generation and Transmission, or *Cemig GT*), and other wholly-owned subsidiaries Horizontes Energia, Termelétrica Ipatinga, Sá Carvalho, Termelétrica de Barreiro, Cemig PCH, Rosal Energia and Cemig Capim Branco Energia.

This market comprises sales of electricity to:

- (i) captive consumers in Cemig's concession area in the State of Minas Gerais;
- (ii) Free Consumers both in the State of Minas Gerais and other States of Brazil, through the Free Market (Ambiente de Contratação Livre, or ACL);
- (iii) other agents of the electricity sector traders, generators and independent power producers, also in the ACL;
- (iv) Distributors, in the Regulated Market (Ambiente de Contratação Regulada, or ACR); and

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(v) the wholesale trading chamber (Câmara de Comercialização de Energia Elétrica, or CCEE) (eliminating transactions between companies of the Cemig Group).

The Cemig Group traded a total of 64,699 GWh in 2013 this was 2.8% more than in 2012. The volume of electricity sold to captive consumers totaled 25,645 GWh, 4.1% greater than in 2012, due to expansion of the market in the Residential, Commercial and services, and Rural user categories, reflecting government policies on employment and income, and stimulation of acquisition of appliances associated with the supply of credit.

The volume of electricity sold to Free Consumers totaled 19,749 GWh, 8.3% less than in 2012, reflecting reduction of electricity consumption by the Industrial user category, reflecting lower productive activity, in turn responding to the low level of investment in Brazil and adverse conditions in the international economic context.

Sales of electricity to other agents of the electricity sector, in the Free and Regulated markets, totaled 16,127 GWh an increase of 22.9% from 2012.

The 15.7% year-on-year growth in sales to Distributors in the Regulated Market reflects new contracts, coming into effect in 2013. The growth of 47.7% in sales in the Free Market reflects short-term commercial opportunities created by high spot market prices in 2013.

Sales in the CCEE (wholesale trading chamber) were 12.5% lower. This reflects the adverse hydrological situation, the low level of water storage in reservoirs, and dispatching of the thermal plants in the effort to achieve security of future electricity supply for the country as a whole, since the beginning of the 2012-13 rainy season.

(1) This is a consolidation of the Cemig Group's market in accordance with new accounting practices (IFRS 11), which came into effect on January 1, 2013.

The tables below show the Cemig Group's market in more detail, itemizing transactions in 2013 compared with 2012.

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Type of sale	GWh		Change, %
	2013	2012	2012 13
Sales to final consumers	45,394	46,167	-1.7
Residential	9,473	8,871	6.8
Industrial	23,452	25,428	-7.8
Commercial and services	6,035	5,718	5.6
Rural	3,028	2,857	6.0
Public authorities	861	831	3.6
Public lighting	1,267	1,242	2.0
Public services	1,242	1,186	4.7
Own consumption	35	34	3.0
Wholesale sales (1)	16,127	13,122	22.9
Regulated Market	11,716	10,122	15.7
Free Market	4,411	2,999	47.1
Sales on the CCEE (2)	3,177	3,631	-12.5
Total	64,699	62,920	2.8

(1) Sales in the regulated market to Distributors and in the Free Market to Traders and Generators.

(2) Sum of the monthly balances of: purchases (), and sales (+).

The number of clients billed by Cemig in December 2013 was 7,781,000 or 3.3% more than in December 2012.

Cemig GT – Generation and Transmission – added 48 new industrial and commercial Free Consumer clients, in Minas Gerais and other states of Brazil; and Cemig D – Distribution – added 246,288 new captive consumers in the year.

Consumer category	Total number of consumers		Change, %
	Dec. 2013	Dec. 2012	2012 13
Final consumers	7,781,454	7,535,117	3.3
Residential	6,249,373	6,032,910	3.6
Industrial	77,184	77,450	-0.3
Commercial and services	709,500	690,691	2.7
Rural	670,529	660,138	1.6
Public authorities	60,463	60,457	0.0
Public lighting	3,861	3,467	11.4
Public services	9,788	9,195	6.4
Own consumption	756	809	-6.6
Wholesale	54	52	3.8
Regulated Market	36	36	0.0
Free Market	18	16	12.5
Total	7,781,508	7,535,169	3.3

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The ten largest industrial clients served by the Cemig Group, located in Minas Gerais and other states of Brazil, are itemized in this table, in order of revenue:

Client	Activity
Usiminas	Steel
ArcelorMittal Brasil S.A.	Steel
Kinross	Mining
Fiat	Automotive
V&M	Steel
Samarco	Mining
Saint Gobain	Chemicals
Rima	Ferroalloys
Holcim	Non-metallic minerals
White Martins	Chemicals

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This table gives Cemig Group's sales to the Industrial user category as a whole in 2013, by sector of activity:

Sector of activity	Volume invoiced, GWh	%
Metals	9,906	42.2
Mining	2,704	11.5
Non-metallic minerals	1,898	8.1
Foods	1,699	7.2
Chemicals	1,615	6.9
Machinery and equipment	1,018	4.3
Automotive	1,016	4.3
Other sectors	3,596	15.3
Total, industrial consumers	23,452	100.0

Billing

Our monthly billing and payment procedures for the distribution of electricity vary according to the level of tension voltage. Our large customers that have direct connections to our transmission network are generally billed within five days after the reading of their meters and receive their invoices by e-mail. Payment must be made within five days of delivery of the bill.

Other customers who receive medium voltage electricity (approximately 13,000 consumers receive electricity at a voltage level equal to or greater than 2.3 kV or connected through by underground distribution lines) are billed within two working business days of the reading of their meters, with payment to be made at least five working business days from after delivery of the bill. This group of consumers receive printed invoices and also by email.

In 2013 we completed the implementation of the meter reading automation for consumers who receive medium voltage electricity.

Our low-voltage customers are billed within five business days after the reading of their meters, with payment to be made at least five working business days from the delivery invoice of their bill, or 10 business days after delivery of their bill in the case of public sector institutions. Bills are prepared from meter readings or based on a basis of estimated consumption.

We are in the process of implementing the modality immediate billing for low voltage consumers, with simultaneous reading and printing of invoices. We utilized this billing system on approximately 2,500,000 customers in 2013 and with projected range project to increase this figure to of 5,000,000 customers by the end of 2014.

In June/2013, we implemented the option of sending invoices by email, for low voltage residential customers, reaching in December/2013. As of December 31, 2013 approximately 20,000 residential low voltage customers registered to receive their invoices by e-mail.

Seasonality

CEMIG's sales of electricity are affected by seasonality. Historically, consumption by industrial and commercial consumers increases in the fourth quarter due to increases in their activities. The seasonality of rural consumption is usually associated with rainfall periods. During the dry season between the months of May and November, more electricity is used to irrigate crops. The table below shows quarterly figures for electricity Cemig billed final users, captive consumers and Free Consumers from 2011 to 2013:

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2013	10,805	11,125	11,545	11,918
2012	11,003	11,476	11,812	11,876
2011	12,415	12,456	12,828	12,705

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Competition

Contracts with Free Consumers

The portfolio of Cemig GT, in December 2013, had contracts with 375 industrial and commercial free consumers as of December 31, 2013, an increase of 14,7% compared to 2012. Of this total, 127 customers were located outside the state of Minas Gerais, amounting to 24,3% of the total energy sold by Cemig in 2013.

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

At the end of 2013 we were the largest seller of energy to Free Consumers in the Free Market, with approximately 21,9% of the sales in this segment of the CCEE.

Concessions

Each concession that we currently hold is subject to a competitive bidding process upon its expiration. However, in accordance with the Concessions Law, existing concessions can be extended by the Brazilian federal government without a bidding process for additional periods of up to 20 years upon application by the concession holder, provided that the concession holder has met minimum performance standards and that the proposal is acceptable to the federal government. On September 22, 2004, we applied to Aneel for a 20-year extension of the concessions of the *Emborcação* and *Nova Ponte* hydroelectric plants. On June 14, 2007, the federal government approved extension of the concessions of these power plants for a period of 20 years from July 24, 2005. The related concession contract was amended on October 22, 2008 to reflect the granting of this extension to Cemig's new unbundled company, Cemig Generation and Transmission (Cemig GT).

However, with the enactment of Provisional Measure 579 (PM579), converted into Law No. 12,783, the concessions granted after Law No. 9074 of July 7, 1995, may be extended only once for a period of up to 30 years, at the discretion of the concession-granting authority, as from September 12, 2012.

We believe that the renewal of our distribution concessions, under the terms of Law No. 12,783, will not have any impact on the tariffs charged by those concessions.

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On December 4, 2012, the Company signed the Second Amendment to Transmission Concession Contract 006/1997, which extended the concession for 30 years under the terms of PM 579 from January 1, 2013, which resulted in an adjustment of the Permitted Annual Revenue (*Receita Anual Permitida*, or RAP), of approximately 60%. Transmission assets, existing and not depreciated as from May 31, 2000, were re-valued and indemnified by the Concession-granting power, in accordance with Mining and Energy Ministry/Finance Ministry Interministerial Order 580, of November 1, 2012, minimizing the impact of the reduction of the RAP. At the same time, for those assets not yet depreciated and existing before May 31, 2000, the Company is awaiting their re-valuation and indemnity, in accordance with Aneel Normative Resolution 589/2013.

The Company opted not to request extension of the concessions for various plants, in the terms of PM579/2012, which have expiry dates over the period 2013-2017. These plants have already undergone one extension upon the conditions established in General Concession Contract 007/1007. For the plants that have yet to undergo their first extension, which includes the generating plants *Jaguara*, *São Simão* and *Miranda* Generation Concession Contract Number 007/1997 guarantees their extension for a further 20 years on the conditions existing in that provision.

Based on this understanding, Cemig GT has applied to the Courts for an order of *mandamus* against an act of the Mining and Energy Ministry with the objective of safeguarding, for that company, its rights in relation to the extension of the period of the concession of the *Jaguara* Hydroelectric Plant, under Clause 4 of Concession Contract Number 007/1997, obeying the original bases of that Contract, which are prior to Law N° 12,783/2013. The Court granted interim relief, which is still in effect, in favor of the Company, namely enabling it to continue its commercial operation of the *Jaguara* Hydroelectric Plant until final judgment is given on this action for *mandamus*. Within the classification adopted by the Company of legal actions in which it is involved namely that the chances of loss are assessed as probable, possible, or remote the Company has classified the chance of loss in this action as possible, reflecting its nature and the complexity involved in this specific case. The case has several particular elements characterizing the contingency: (i) the singular nature of Concession Contract Number 007/1997; (ii) the unprecedented nature of the

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matter of the case; and (iii) the fact that the action which has been filed will be a leading case in the consideration by the Brazilian Courts of the extension of concessions.

For the other generating plants that have concessions that expire over the period from 2013 to 2017, which includes the *Três Marias*, *Salto Grande*, *Itutinga*, *Camargos*, *Piau*, *Gafanhoto*, *Peti*, *Tronqueiras*, *Joasal*, *Martins*, *Cajuru*, *Paciência*, *Marmelos*, *Sumidouro*, *Anil*, *Poquim*, *Dona Rita* and *Volta Grande* generation plants, we have opted to return them to the concession-granting power.

The Dona Rita plant has been returned to the Concession-Granting Power, in August 2013, and is provisionally under the responsibility of Furnas Centrais Elétricas, until a tender is held for its concession, as per Mining and Energy Ministerial Order Number 189/2013.

Raw Materials

Fluvial water is our main raw material used for the hydroelectrical generation of energy. Currently, 64 of the 70 hydroelectric plants use of this source and are responsible for 96% of the generation. The costs of the water may be considered null, since water is a natural resource that comes from rivers and rain.

In a smaller proportion, the company also produces energy from the wind source (also with a null cost) and an electric plant from oil fuel (the cost varies with the price of oil on the international market).

Environmental Matters

Overview

Our generation, transmission and distribution of electricity and our distribution of natural gas are subject to federal and state legislation relating to preservation of the environment. The Brazilian Constitution gives the federal government, states and municipalities powers to enact laws designed to protect the environment and issue enabling regulations under these laws. While the federal government has the power to promulgate general environmental regulation, state governments have the power to enact specific and even more stringent environmental regulation and municipalities also have the power to enact laws in their local interest. A violator of Law 9605/1998 - the Law on Environmental Crime (*Lei de Crimes Ambientais*) may be subject to administrative and criminal sanctions, and will have an obligation to repair and/or provide compensation for environmental damages. Federal Decree 6514/2008 specifies the penalties applicable to each type of environmental infraction, setting fines that vary between a minimum of R\$ 50,00 and a maximum of R\$ 50 million, as well as suspension of activities. Criminal sanctions applicable to legal entities may include fines and restriction of rights, whereas, for individuals, they may include imprisonment, which can be imposed against executive officers and employees of companies that commit environmental crimes.

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

In accordance with our environmental policy, we have established various programs to prevent and minimize damage, aiming to limit our risks related to environmental issues.

Management of Vegetation in the electricity system

The Environmental Management unit of Cemig Distribution, among other activities, develops methods and procedures for dealing with urban trees in relation to distribution networks. Vegetation management arises from the obligation to ensure the operational security of the system, and from the high number of interruptions in supply of electricity caused by trees. In 2013, trees were the cause of 31,337 electricity supply outages, in both urban and rural areas, and were the second largest cause of accidental outages in the Company's distribution system.

Investments have been directed to technical improvements in tree pruning, so that the process can take place in such a way as to reduce risks to the employee, the system and the population. The interventions are carried out by directional pruning, a technique considered to be more appropriate for coexistence between large trees and electricity distribution networks. A process of certification of pruning operatives is being put in place in partnership with the companies that provide maintenance services and with the National Industrial Apprenticeship Service (*Serviço Nacional de Aprendizagem Industrial*, or Senai).

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Environmental Licensing

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

Failure to obtain an environmental license to construct, implement, operate, expand or enlarge an enterprise that causes significant environmental impact, such as the energy plants operated and in implementation by CEMIG, is subject to administrative sanctions, such as the suspension of activities and the payment of a fine, ranging from R\$500 thousand to R\$10 million, as well as criminal sanctions, which include the payment of a fine, imprisonment for individuals and restriction of rights for legal entities.

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

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

Corrective Environmental Operation Licensing

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

Federal Law No. 9,605, of February 12, 1998, sets penalties for facilities that operate without environmental licenses. In 1998, the federal government issued Provisional Measure 1,710 (currently Provisional Measure 2,163/41), which allows project operators to enter into agreements with the relevant environmental regulators for the purpose of coming into compliance with Federal Law No. 9,605/98. Accordingly, we have been negotiating with the Brazilian Environmental and Renewable Natural Resources Institute (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*, or Ibama) and the Regional Environmental Management Units (*Supram* s) of the State of Minas Gerais to obtain the corrective environmental operation licensing for all our plants and transmission lines that began operating prior to February 1986. We have agreed with the *Supram* s to bring our generation facilities located in Minas Gerais into compliance on a gradual basis. We do not currently anticipate any costs and commitments in connection with any recommendations that may be made by Ibama and by the *Supram* s.

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

At present there are 22 separate proceedings which have been formalized for obtaining Corrective Operational Licenses. Of these, 21 are with the *Suprams* and 1 is with Ibama. All the related studies have been prepared and presented to the relevant regulatory bodies. With the enactment of the new Minas Gerais State Forest Law, consideration of the Corrective Operational Licenses that are under consideration by the *Suprams* will be resumed with a request for preparation of an Environmental Plan for Conservation and Use of the Surroundings of an Artificial Lake (*Plano Ambiental de Conservação e Uso do Entorno do Reservatório Artificial*, or *Pacuera*) for each reservoir. There are also a total of 10 proceedings to obtain renewal of Operational Licenses that have been formalized with various *Suprams*. No demand of this type has been formalized with Ibama.

In 2013, 110 licenses and authorizations for of CEMIG's projects were obtained as follows: (i) Environmental Authorizations for Functioning (Autorizações Ambientais de Funcionamento, or AAF); (ii) 33 Certificates Not Subject to Licensing (Certidões Não Passíveis de Licenciamento); (iii) 70 Authorizing Documents for Environmental Interventions (Documento Autorizativo para Intervenção Ambiental, or DAIA), of which five were related to the support parties accessing the power and, (iv) two Operating Licenses (Licenças de Operação, or LO) and one renewed LO.

Only one of the aforementioned licenses and authorizations was granted by Ibama while the others were filed with *Suprams* in the State of Minas Gerais. Currently, 13 procedures are under analysis by *Regional Suprams*, of which nine are AAF and four are DAIA.

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With respect to the corrective operationg licenses (Licenças de Operações Corretivas, or LOC) Cemig Distribuição S.A has entered in agreement with *Supram* so that the transmission lines constructed before Normative Resolution 74/2004 was passed by Minas Gerais State Council of Enviromental Policy, dividing its projects into seven regional grids: North South, Triangulo, West and Center. At present, we have obtained five LOCs, and we have been fulfilling their conditions and showing evidence (would be in compliance with resolution) of such fulfillment to the environmental authority The Center and East grids are currently waiting for environmental approval by the competent *Suprams*, and we expect A decision will be reached in 2014.

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

The environmental licenses issued by state or federal bodies are subject to certain conditions imposed in light of foreseen environmental impacts. The environmental conditions contained in the operational licenses have to be met during the period of their validity. Non-compliance with these conditional requirements can result in administrative penalties, including fines, suspension or repeal of the license. Cemig has been complying with the demands of the environmental conditions of its licenses and periodically sends reports to the environmental regulatory authorities.

Environmental Legal Reserves

Under Article No, 12 of Federal Law No, 2,651, of May 25, 2012 (the new Brazilian Forest Code), a Legal Reserve (the term in the legislation is *Reserva Legal*) is an area located inside a rural property or holding that is necessary for the sustainsable use of natural resources, conservation or rehabilitation of ecological processes, conservation of biodiversity or for shelter or protection of native fauna and flora. As a general rule, all owners of rural properties have to preserve an area as a Legal Reserve. However, the Article 12, §7 of the new Brazilian Forest Code establishes that a Legal Reserve will not be required for areas acquired or expropriated by the holder of a concession, permission or authorization to exploit hydroelectric power potential, in which projects for electric power generation, or electricity substations or transmission or distribution lines are functioning.

In Minas Gerais, Law 20922, enacted on October 17, 2013, made provisions on the Forest Policy and the Biodiversity Protection Policy in the state, adapting the environmental legislation to the terms of the Forest Code, This had the effect of revoking the requirement for a Legal Reserve in the case of hydroelectric generation projects, enabling the processes of Corrective Environmental Licensing that had been held up in the previous year for this reason to be resumed, In the federal sphere, IBAMA s technical licensing team, in the corrective licensing of Cemig s plants, expressed an opinion, in correspondence sent to the Company on July 29, 2008, taking a position against the need for the constitution of a Legal Reserves.

The approval of the new Forestry Law and the exclusion of the hydropower projects of the need to Registration of Legal Reserve this issue is equated, enabling continuing the process of environmental licensing of the company, with the acquisition of the pending Operation Licenses and the maintenance of its legal compliance.

Permanent preservation areas

Brazilian law also requires the mandatory establishment of permanent preservation areas around artificial reservoirs and preparation of an Environmental Plan for Conservation and Use of the Surroundings of an Artificial Lake (*Plano Ambiental de Conservação e Uso do Entorno de Reservatórios Artificiais*, or *Pacuera*) in order to regulate conservation, restoration, usage and occupation of areas around artificial reservoirs. With the new Forest Policy Law of Minas Gerais State, it was decided that preparation and approval of the *Pacuera* is a requirement for granting of Operational Licenses. Hence this requirement is now incorporated into the proceedings for obtaining Corrective Licenses and renewal of Operational Licenses.

Compensation Measures

According to Federal Law No. 9,985, of July 18, 2000, and Decree No. 4,340, of September 22, 2002, companies whose activities result in major environmental impacts are required to invest in protected areas in order to offset those impacts. The competent environmental body stipulates the environmental compensation for each company depending on the specific degree of pollution or damage to the environment. Federal Decree No. 6,848/2009, of May 14, 2009, and Minas Gerais State Decree No. 45,175 of September 17, 2009 regulate the methodology for deciding the compensation measures. Up to 0.5% of the total amount invested in the implementation of a project that causes significant environmental impact must be applied in compensation measures.

State Decree No. 45,175/2009 was amended by Decree No. 45,629/2011, which established the reference value of projects that cause significant environmental impact, as follows:

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I For projects executed before the publication of Federal Law No. 9,985 of 2000, the net book value will be used, excluding revaluations or, in its absence, the value of the investment presented by the representative of the project; and

II Compensation for environmental projects executed after the publication of Federal Law No. 9,985 of 2000 will use the reference established in Item IV of Article 1 of Decree No. 45,175 of 2009, calculated at the moment of execution of the project, and updated based on an inflation-linked adjustment index.

Due to the impact of the 2013 Electricity Concessions Law (Law N° 12,783, of January 11, 2013) on the enterprises of Cemig GT, the Company filed a consultation with the Minas Gerais State Forests Institute (Instituto Estadual de Florestas, or IEF), to be informed about the environmental compensation payable in relation to the Transmission System. The IEF passed the inquiry on to the Federal General Attorneys Office (Advocacia Geral da União, or AGU). Up to time of writing Cemig GT has not received a reply to this consultation.

In addition to the environmental compensation referred to above, forest compensations for cleaning of electricity tower paths and accesses in which vegetation has been suppressed are included as routine. Other requirements can be applied based on the impacts arising from implementation of projects, such as structuring and operation of programs to monitor fauna and flora of regions surrounding facilities of the electricity system, environmental education programs, and programs for recovery of degraded areas (Programas de Recuperação de Áreas Degradadas, or PRAD).

Fish Management Peixe Vivo Program

Construction of hydroelectric plants can create a risk for fish that inhabit rivers, due to various changes in the aquatic environment caused by the use of dams. One of our environmental area's principal activities is to ensure that environmental accidents involving the native fish population do not take place at our hydroelectric power plants. Also, to mitigate the impacts caused by operation of our plants, Cemig has developed a methodology for evaluating the risk of fish deaths at the plants. We also carry out research projects in partnership with universities and research centers to develop scientific knowledge to serve as a basis for more effective fish population conservation programs to be implemented by the Company.

In spite of these efforts, an incident occurred in 2007, at the *Três Marias* Hydroelectric Power Plant, resulting in the death of approximately 17 tons of fish, as estimated by the Environmental Police (8.2 tons, by our estimate). The volume of dead fish was not measured. As a result of the event, the Minas Gerais State Forests Institute imposed two fines, totaling approximately R\$ 5.5 million, and on April 8, 2010 Cemig and the Public Attorneys Office of Minas Gerais State signed a Conduct Adjustment Commitment (*Termo de Ajuste de Conduta*, or TAC), for R\$ 6.8 million in compensatory measures for environmental improvements in the area affected by the *Três Marias* power plant, in *Três Marias*, Minas Gerais. Both these financial commitments have now been settled, and the environmental improvements in the affected area, such as automation of the fish protection grids, are being implemented.

In this context, in June 2007 we created the *Peixe Vivo* (*Fish Alive*) Program, arising from the perception by members of senior management that it was necessary to take more effective measures to preserve fish populations of the rivers where the company has operations. The Program's main actions are summed up in its mission, which is: To minimize the impact on fish species, seeking handling solutions and technologies that will integrate electricity generation by Cemig with conservation of native fish species, promoting involvement of the community. Since its

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creation, the program has been operating on two fronts – one seeking preservation of fish populations in the state of Minas Gerais, and the other focusing on forming protection strategies to avoid and prevent fish deaths at Cemig's hydroelectric plants. The adoption of scientific criteria for decision-making, establishment of partnerships with other institutions and modification of practices adopted as a result of the information generated, are the principles that guide the work of the *Peixe Vivo* team. Also, publication of the resulting information to society is important ensuring transparency of the program, and creating opportunities for the community to express its concerns and suggestions.

On average, over the period 2007 to 2013, Cemig spent R\$ 6.5 million per year in actions and research projects in relation to the *Peixe Vivo* program. It invested a further R\$ 6 million in physical barriers to prevent fish from entering the draft tube, and modernization of the main hatchery station at the *Volta Grande* Environmental Station.

In spite of all the advances in fish management achieved by the *Peixe Vivo* Program, there are still major challenges to be studied and understood. In 2012, an estimated 1.8 tons of fish died in an occurrence at the Três Marias hydroelectric plant. The cause of death is still unknown, and the event was not expected – there was no precedent for the particular circumstances of this accident. However, with the adoption of measures to control this environmental incident, and as a result of our prompt reporting to the environmental authorities, the fine that we were charged for the accident, a total of fifty thousand Reais, was reduced by 45%, as specified by law due to immediate communication of the damage or danger to the environmental authority, and collaboration with the environmental bodies in solving the problems arising from our conduct. The fine imposed in 2012 was 40 times greater (per kilogram

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of fish killed) than the one applied by the Minas Gerais State Forests Institute (*Instituto Estadual de Florestas*, or IEF) in the 2007 accident. The *Peixe Vivo* Program studied the circumstances of the accident to decide optimum forms of control and avoid similar occurrences.

In 2013, the *Peixe Vivo* Program presented its research activities in important meetings, such as the meetings with the State Environment and Sustainable Development Secretary, AES Tietê, Gerda, Tractebel and Smith-Root. Also, the First Symposium of Results from the *Peixe Vivo* Program was organized, at which the results of the research study *Evaluation of the risk of fish deaths at Cemig plants*, were presented, pointing to one of the best practices for mitigation of direct impact on fish caused by the plants. The Program has 14 current scientific projects in partnership with research institutions, involving more than 160 students and researchers. These partnerships have resulted in more than 170 technical publications up to today's date, and have also been referenced nationally and internationally for the practices of fish conservation and dialog with the community, presenting Cemig's work in several countries, and various states of Brazil. These academic results, jointly with the involvement of the community, have been used to create more efficient and practical conservation programs that make it possible for fish to coexist with generation plants in Brazilian rivers.

Since it was created the *Peixe Vivo* Program has also received external recognition in awards. In 2009-10, it was awarded the Brasil Environment Prize (*Prêmio Brasil de Meio Ambiente*) in the category *Best fauna and flora preservation work*. In 200, it was first placed in the Aberje Award in the category *Communication about programs centered on corporate sustainability*, a first for Cemig. In 2011 a work presented by the *Peixe Vivo* Program, entitled *Development of a methodology for evaluating risks of fish deaths in Cemig's plants*, presented at the 21st Brazilian National Seminar on Production and Transmission of Electricity (*Seminário Nacional de Produção e Transmissão de Energia Elétrica*, or SNPTTE), was selected as the best work presented in the *Environmental Impact* group. In 2013 it was the finalist in the *Brasil 2013 Green Project Awards*, in the category *Products or Services*.

Urban Occupation of Rights of Way and Reservoir Banks

Gas Pipelines Our piped natural gas distribution networks are underground, crossing through inhabited areas and using public rights of way in common with underground piping utilities operated by other public concession holders and public agencies. This increases the risk of unauthorized work without prior communication and consultation of our natural gas distribution network registers, and there is a possibility accidents that could cause potential significant personal, property and environmental damage in case of ignition or a leak. However, all our gas networks are explicitly, and intensively, marked and signaled. Gasmig has several inspectors monitoring its network daily, to prevent illegal or non-notified excavations in urban roads, invasions or constructions erosions, as applicable, or any other problem that might cause risk to the pipeline. Gasmig, through its Dig Safely (*Escave com Segurança*) program, has been building partnerships with the community, mainly with public authorities and holders of concessions, to disclose their registrations to companies that perform excavation on urban roads, to ensure that before digging close to the natural gas network, they call Gasmig's 24-hour helpline, and request guidance and support for safe execution of their work. In 2013 Gasmig had no natural gas emissions related incidents.

Transmission Lines We have easements for our transmission and subtransmission networks over land with approximately 13,670 miles in length. A significant portion of such land is occupied by unauthorized constructions, including residential constructions. This type of occupation causes risks of electric shock and accidents involving local residents, and constitutes an obstacle to maintenance of our electricity system. We are currently seeking solutions for this problem, which could involve either removal of these occupants, or improvements that would make it possible to maintain our electricity system safely and efficiently. The Invasion Risk in the Transmission and Subtransmission Security Lines Monitoring Committee was created to mitigate these risks by monitoring and recording invasions and by taking action to prevent invasions on the safety paths of the transmission and subtransmission lines. A number of measures have been adopted to preserve the security of these lines, including: contracting of a company for systematic inspection and implementation of security measures and works to minimize the risks of accidents; education of the communities about the risks of accidents involving electric shocks as result of and the building of residences; creation of community vegetable gardens; and removal of occupation of the security by entering into agreements with local housing and other

authorities.

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

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Preservation Areas (*Áreas de Preservação Permanente*), or APPs, around the reservoirs. To patrol the reservoir areas, we have covered approximately 140,000 km, 800 hour navigating and more than 9,000 surveys.

The Carbon Market

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

CEMIG group takes part in CDM projects at various stages of development, including seven Small Hidroeletric Plants with a capacity of 116MW and a hidroeletric plant with a capacity of 140MW and several wind plants which totaled 671MW and a solar plant with a capacity of 3 MW. So far no carbon credits have been commercialized.

Management of equipment and wastes contaminated with PCBs (Polychlorinated Biphenyls)

At Cemig the large-scale equipment that contained PCBs and had date of manufacture prior to 1981 was withdrawn from the electricity system and delivered for incineration in 2001.

Brazilian law has prohibited sale of PCBs since 1981, but allows its use in equipment that is still in operation. The smaller equipment is still being identified, withdrawn from use, and sent for incineration.

A Normative Resolution is being prepared, under the aegis of the National Environment Council (Conselho Nacional de Meio Ambiente, or Conama), which will govern appropriate and controlled environmental management of Polychlorinated Biphenyls (PCBs) and their related wastes.

The resolution provides for management in two main phases: The first phase calls for preparation of a quantitative and qualitative inventory, in up to 3 years from publication of the Resolution, aiming to evaluate the amounts of PCB in the country and the possible holders. This inventory will be published in the Federal Technical Registry (Cadastro Técnico Federal, or CTF), and updated annually. In the second phase, the contaminated equipment, material and waste matter identified in the inventory will be eliminated in a controlled manner.

The holders of such equipment will have up to 2025 to withdraw both the equipment and also all contaminated material from operation or use, and until 2028 to dispose of it in a way that is environmentally satisfactory, in accordance with periods agreed in the Stockholm Convention.

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The draft resolution is being considered by the Technical Chamber of Conama, after having been discussed in the Conama Working Group created for this purpose. The workgroup has held six meetings, which have not resulted in a final consensus between the members on some points.

Cemig considers this information to be important. The control flow diagram currently followed in the Company may undergo some complementary adjustments necessary for full compliance with the requirements of the Resolution. This may result in high operational costs.

Cemig has participated in the discussions through the Brazilian Electricity Distributors Association (Associação Brasileira de Distribuidores de Energia, or Abradee) and the Electricity Industry Environment Forum (Fórum de Meio Ambiente do Setor Elétrico, or FMASE).

Operational Technologies

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

Load Dispatch Center

CEMIG's System Operation Center (*Centro de Operação do Sistema*), or COS, located at our head office in Belo Horizonte, is the nerve center of our operations. It coordinates the operations of our entire electricity and energy system, in real time, providing operational integration of the generation and transmission of our energy. It also provides the link with other generation, transmission and distribution companies. The supervision and control executed by the COS now extends to more than 49 extra high and high voltage substations, approximately 29 major generating power plants and 7 Small Hidroelectric Plants.

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

Distribution Operation Center

Our distribution network is managed by a Distribution Operation Center (*Centro de Operações de Distribuição*), or COD, located in Belo Horizonte. The COD monitors and coordinates our distribution network operations in real time. The COD is responsible for the supervision and control of 386 distribution substations, 301,870 miles of medium voltage distribution lines, 10,700 miles of sub-transmission lines and 7,5 million consumers in our concession area, comprising 774 municipalities of Minas Gerais.

We provided an average of 11,728 services a day in 2013. The COD is certified according to ISO Quality Standard 9001: 2000. There are various systems in use to automate and support the COD's processes including: trouble call, field crew management, distribution substation supervision and control, restoration of power, emergency switching, network disconnection, and inspection. Technologies including a geographic information system and satellite data communication help to reduce consumer service restoration time and provide better consumer service. These are devices, installed along our distribution network, that sense and interrupt fault currents, and automatically restore service after momentary outages, improving operational performance and reducing restoration time and costs.

Geospatial Information & Technology

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

Internal Telecommunications Network

We believe we have one of the largest telecommunication networks among Brazilian electric power companies. It includes high performance microwave links with more than 267 communication stations, an optical system with 1,746,8 miles of optical fibers and a mobile communication system with 897 radios including 644 trunking and VHF radios and 253 UHF and VHF portable radios. A total of 420 mobile radios have data interface to mobile terminals installed in vehicles for dispatch systems (operation and maintenance), which also have 1,650 mobile terminals connected through satellites and General Packet Radio Services (GPRS).

Corporate Data Network

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Our corporate data network has 226 sites in 132 towns in Minas Gerais. The physical and logical architecture of the network employs security resources such as firewalls, Intrusion Prevention Systems (IPSs), Data Loss Prevention Systems (DLP) and anti-virus and anti-spam systems, which are continually updated to protect information against unauthorized access, in compliance with ISO 27002. A system of event logs makes it possible to investigate occurrences and also guarantee a historical record base to meet legal requirements.

IT Governance Program

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

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

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

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Customer Relationship Channels

We have five major channels of service to our customers of Minas Gerais , The calls , whether emergency or requests for public services can be made via our call center, being able to serve up to 250,000 calls an atypical day, and operating with a efficient electronic service through the Interactive Voice Response (IVR or URA), the staff , service present in 774 municipalities of the concession, our Virtual Branch agencies , situated on the site www.cemig.com.br and offering to all 17 types of services , SMS and more recently , the social networks Facebook (CEMIG, ATENDE) and Twitter (@ CEMIG_ATENDE).

Commercial Management System

We have consolidated an efficient customer care system, based on our CCS/CRM platform and totally integrated into our ERP and BI that support our decision-making processes, The CCS serves approximately 8 million consumers of high, medium and low voltage, The system is a competitive tool, adding safety, quality and productivity to CEMIG 's business processes, and adapts itself with great efficiency and speed to legal, regulatory and market changes and requirements.

Maintenance and Repair Systems

The 10,698,13miles of high voltage distribution lines in Cemig Distribution 's network, operating at 34,5 kV to 161 kV, are supported by approximately 55,876 structures, mainly made of metal, Cemig Generation and Transmission 's network has 3,051 miles of high voltage transmission lines, supported by approximately 11,507 structures, The majority of the service interruptions to our distribution and transmission lines are due to lightning, fire, vandalism, wind, and corrosion, The entire high voltage transmission line systems of both Cemig Distribution and Cemig Generation and Transmission are inspected once a year with a helicopter, with Cemig Distribuição using a Gimbal , which is a gyro-stabilized system consisting of conventional and infra-red cameras, allowing for simultaneous visual and thermographic (infra-red) inspections, Land-based inspections are also carried out at intervals of between one and three years, depending on the line characteristics, such as time in operation, number of outages, type of structure, and the line 's importance to the electricity system as a whole.

We use modern modular aluminum structures to minimize the impact of emergencies involving fallen structures, Most of our maintenance work on transmission lines is done using live-wire methods, Being the first company in Brazil to use bare-hand, live-wire techniques in the maintenance of transmission lines and substations, we have accumulated over 34 years of experience in this area, We have a well-trained staff and special vehicles and tools to support live- and dead-wire activities.

Our set of spare equipment (transformers, breakers, arresters etc) and mobile substations are of great importance in the prompt reestablishment of power to our customers in case of emergencies involving failed substations.

The Plant Overhaul and Modernization Program that was scheduled for execution over the next 15 years, with investment of R\$1,7 billion, was cancelled after promulgation of Provisional Measure 579 (Medida Provisória 59, or MP 579), which was subsequently converted into Law 12783, The principal reason for the cancellation was Cemig not having accepted the conditions proposed by the Federal Government for renewal

of the concessions of the plants that were included in the program and for a lack of definition on the form of remuneration for these investments in the future.

Information Security Management

Information security, a permanent concern of ours, is ensured by a management system based on the Brazilian Standard (ABNT) NBR ISO/IEC 27001:2013, and aligned with the best market practices. Our information security management system includes processes for policy, risk, communication, information classification and information security management and control. In addition, recurring actions for improvement in processes, communication, awareness and training strengthen the Company's information security practices.

Management Tools

In 2013 we continued to improve the operation of the SAP Integrated Management System (ERP), which includes the processes related to finances, procurement, sales, materials, services and human resources, and adapt it to the changes and requirements of the legislation, regulations and rules governing the market. We have made significant progress in relation to: capitalization of assets, works and materials, logistics planning, maintenance, and processes related to regulations on electronic tax invoices, and other aspects related to electronic payment of taxes. These have provided the Company with significant gains. In 2013 we also implemented SAP HSM (Occupational Health and Safety), issuance of electronic Tax Invoices, automation of selection of the rate of ISS tax rate and the decision on which municipality receives it, and the Risk Management (RM) and Process Control (PC) modules. The latter have not only enabled integration of strategic and operational risks but also improvement of the whole of Cemig's

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process of corporate risk management. These advances and solutions implanted in the ERP also help us to raise the necessary information for planning, monitoring and taking of decisions, and to make this information available to our Board of Directors and Executive Board.

Properties, Plant, Equipment and Intangible Assets

Our principal properties consist of the power generation plants and transmission and distribution facilities described in this Item 4. Our net book value of total property, plant and equipment and intangible assets, including our investment in certain consortia that operate electricity generation projects, including projects under construction, was R\$13,871 million at December 31, 2013. Generation facilities represented 40,33% of this net book value, intangible assets represented 14,45% of this net book value (distribution facilities on intangible assets represented 95,85 % and other intangible and other miscellaneous property and equipment, including transmission and telecommunication facilities, represented 45,22%. The average annual depreciation rate applied to these facilities was 2,86 % for hydroelectric generation facilities, 8,88 % for administration facilities, 5,93 % for telecommunication facilities and 4,45% for thermoelectric facilities. Apart from our distribution network, no single one of our properties produced more than 10% of our total revenues in 2013. Our facilities are generally adequate for our present needs and suitable for their intended purposes. We have rights of way for our distribution lines, which are our assets and do not revert to the landowner upon expiration of our concessions.

The Brazilian Power Industry

General

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

However in Dilma Rousseff's administration (2011-current) significant changes were implemented by Provisional Act 579/2012, which became law in 12,783/2013, which established new rules for the renewal of concessions or rebidding of hydroelectric power generation.

The New Industry Model

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

separated into two types of transactions which will always be by auction: (i) contracting of the electricity of the new plants, which targets expansion; and (ii) contracting of the electricity of the existing plants, which targets the existing electricity demand.

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

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

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

The electricity arising from (1) low capacity generation projects located near the consumption points (such as certain co-generation plants and the Small Hydroelectric Power Plants), (2) plants qualified under the Proinfa Program, (3) Itaipu, (4) purchase and sale agreements entered into before the New Industry Model Law and (5) the concessions extended by Law No. 12,783, are not subject to the public auctions for the supply of electricity at the Pool, The electricity generated by Itaipu, located on the border of Brazil and Paraguay, is traded by Eletrobrás, The rates at which the Itaipu generated electricity is traded are denominated in U.S. dollars and established by Aneel pursuant to a treaty between Brazil and Paraguay, as well as compulsory procurement volumes, As a consequence, Itaipu rates rise or fall in accordance with the variation of the U.S. Dollar/real exchange rate, Changes in the price of Itaipu generated electricity are, however, neutralized by the Federal Government which buys all the energy credits from Eletrobras.

Challenges to the Constitutionality of the New Industry Model Law

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

Coexistence of two Electricity Trading Environments

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

The Regulated Market (the ACR or the Pool)

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

Energy purchases will take place through two types of bilateral contract: (i) Energy Agreements (*Contrato de Quantidade de Energia*) and (ii) Capacity Agreements (*Contratos de Disponibilidade de Energia*), Under an Energy Agreement, a generator commits to supply a certain

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

The regulation under the New Industry Model Law stipulates that distribution companies that contract less than 100% of their total load consumption, accounted in the CCEE, will be subject to fines. There are mechanisms to reduce this possibility, such as participate in the MCS-D mechanism that compensates surpluses and deficits between distribution companies, or purchase energy in auctions during the year. Any remaining shortfall from 100% of total load consumption can be bought at the spot market price. If a company contracts more than 105% of its load consumption, it would be subject to price risk if it sells this energy in the spot market in the future. To reduce such price risk, a company may reduce the purchase contracts in the existing energy auction by up to 4% each year, and reduce those contracts due to loss of consumers that became free and are supplied by generators directly.

The Free Market (the ACL) In the free market, electricity is traded between power generators. The free market also includes existing bilateral contracts between generators and distributors until they expire. Upon expiration, such contracts must be executed under the New Industry Model Law.

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

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Once a consumer has opted for the free market, it may only return to the regulated system once it has given the distributor of its region five years notice, provided that the distributor may reduce such term at its discretion. This extended notice period seeks to assure that, if necessary, the distributor can purchase additional energy to supply the re-entry of Free Consumers into the regulated market. In addition, distributors may also reduce the amount of energy purchased according to the volume of energy that they will no longer distribute to Free Consumers. State-owned generators may sell electricity to Free Consumers, but as opposed to private generators, they are obliged to do so through an auction process.

Restricted Activities of Distributors

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

Contracts Executed prior to the New Industry Model Law

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

Reduction of the Level of Contracted Electricity

Decree No. 5,163/04, which regulates the trade of electricity under the New Industry Model Law, allows distribution companies to reduce their CCEARs: (1) to compensate for the exit of Potentially Free Consumers from the regulated market, pursuant to a specific declaration delivered to MME, (2) by up to 4,0% per year of the initial contracted amount due to market deviations from the estimated market projections, at the distribution companies' discretion, beginning two years after the initial electricity demand was declared and (3) in the event of increases in the amounts of electricity acquired pursuant to contracts entered into before March 17, 2004. This reduction can be made only with CCEARs of existing power plants.

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

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

Limitation on Pass-Through

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

- no pass-through of costs for electricity purchases that exceed 105% of regulatory demand;
- limited pass-through of costs for electricity purchases made in an A-3 auction, if the volume of the acquired electricity exceeds 10% of the demand verified in A-5 auctions;
- limited pass-through of electricity acquisition costs from new electricity generation projects if the volume re-contracted through CCEARs of existing generation facilities is below a Contracting Limit defined by Decree No. 5,163;

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- electricity purchases from existing facilities in the A-1 auction are limited to 0,5% of distribution companies' demand frustrated purchases in previous A-1 auctions and involuntary exposure to captive consumer's demand, plus the replacement, defined as the amount of energy needed to replace the power from power purchase contracts that expire in the current year (A-1), according to Aneel Resolution 450/2011. If the acquired electricity in the A-1 auction exceeds the limit, pass-through of costs of the exceeding portion to final consumers is limited to 70,0% of the average value of such acquisition costs of electricity generated by existing generation facilities. The MME will establish the maximum acquisition price for electricity generated by existing projects;
- electricity purchases in market adjustment auctions are limited to 0% of a distribution concessionaire's total demand (except for the years 2008 and 2009, when the limit was 5%) and pass-through of costs is limited to Annual Reference Value; and
- if distributors fail to comply with the obligation to fully contract their demand, the pass-through of the costs from energy acquired in the short-term market will be the equivalent to the lower of the PLD or the Annual Reference Value.

Rationing Under The New Industry Model Law

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

Rates

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

Concessionaires of electricity distribution are also entitled to periodic revisions (*revisão periódica*). Our concession agreements establish a five-year period between periodic revisions. These revisions are aimed at (i) assuring necessary revenues to cover efficient operational costs determined by the regulator and adequate compensation for investments deemed essential for the services within the scope of each company's concession and (ii) determining the X factor, which is calculated based on the average productivity gains from increases in scale and labor costs. The X factor is a result of three components: productivity as mentioned before, quality named, Factor XQ, that punishes or rewards the distribution company depending on the quality of the service provided and the last component, called Factor Xt, which has the objective of reducing or increasing the regulatory operational costs during the five-year period between the rates revisions to reach the level defined for the last year of the revision cycle.

In 2011, Aneel finalized Public Hearing 040/2010, in which it dealt with the methodology for the third periodic revision. To calculate the rate of return Aneel uses the methodology of Weighted Average Cost of Capital (WACC), which resulted in a rate of 7,50% after taxes compared to the rate of 11,25% applied in the last cycle.

Aneel also changed the methodology used to calculate the X-Factor from the discounted cash flow methodology to the Total Factor Productivity (TFP) method, which consists in defining potential productivity gains for each company based on the average productivity gains. It was also included the other two components as mentioned XQ and Xt. The X factor determined in the 2013 revision for the next period was Xt 0,68%, Xpd 1,15%. For the 2014 readjustment it will be calculated the XQ that will be added to the two previous ones.

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

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Land Acquisition

The concessions granted to us by the Federal Government do not include a grant of the land upon which the plants are located, Electricity concessionaires in Brazil typically have to negotiate with the individual landowners to obtain needed land, However, in the event that a concessionaire is unable to obtain needed land in this way, such land may be condemned for the concessionaire's use through specific legislation, In cases of governmental condemnation, the concessionaires may have to participate in negotiations relating to the amount of compensation with landowners and the resettlement of communities to other locations. We make all efforts to negotiate with the communities before applying to the judiciary.

The Brazilian Electricity System Overview

Brazil's power production and transmission is a large-scale hydroelectric and thermal system made up predominantly of hydroelectric power stations, with multiple owners. The Brazilian Grid is comprised of companies in the southern, southeastern, west-central, and northeastern regions and part of the northern region of Brazil. Approximately 2% of the country's electricity production capacity is not connected to the Brazilian Grid, in small isolated systems located mainly in the Amazon region, Brazil's abundant hydrological resources are managed through storage reservoirs, It is estimated that Brazil has a hydroelectric power generation potential close to 244,976 MW, of which only 35,4% has been developed or is under construction, according to Eletrobrás studies consolidated in December 2012.

Brazil has an installed capacity in the interconnected power system of 121,316 GW as of December 2013, approximately 70,1% of which is hydroelectric, according to the Operation monthly Plan for 2013 from the ONS, This installed capacity includes half of the installed capacity of Itaipu a total of 14,000 MW owned equally by Brazil and Paraguay, There are approximately 64,623 miles of transmission lines with voltages equal to or higher than 230 kV in Brazil.

Approximately 35% of Brazil's installed generating capacity and 55% of Brazil's high voltage transmission lines are operated by Eletrobrás, a company owned by the Federal Government. Eletrobrás has historically been responsible for implementing electric policy, conservation and environmental management programs. The remaining high voltage transmission lines are owned by state-controlled or local electric power companies, Distribution is conducted by approximately 60 state or local utilities, a majority of which have been privatized by the Federal Government or state governments.

Historical Background

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

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

- The Brazilian Constitution was amended in 1995 to authorize foreign investment in power generation. Prior to this amendment, all generation concessions were held either by a Brazilian individual or an entity controlled by Brazilian individuals or by the Federal or state governments.
- The Federal Government enacted Law No, 8,987 on February 13, 1995, or the Concessions Law, and Law No, 9,074 on July 7, 1995, or the Power Concessions Law, that together:
- required that all concessions for the provision of energy-related services be granted through public bidding processes;
- gradually allowed certain electricity consumers with significant demand (generally greater than 3 MW), referred to as Free Consumers, to purchase electricity directly from suppliers holding a concession, permission or authorization;
- provided for the creation of generation entities, or Independent Power Producers, which, by means of a concession, permission or authorization, may generate and sell all or part of their electricity to Free Consumers, distribution concessionaires and trading agents, among others;
- granted Free Consumers and electricity suppliers open access to all distribution and transmission grids; and

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- eliminated the need for a concession to construct and operate power projects with capacity from 1 MW to 30 MW, or Small Hydroelectric Power Plants, which was amended on May 28, 2009 by Law No. 11,943, raising the limit from 30 MW to 50 MW, independently of being a Small Hydroelectric Power Plant or not.
- The creation of Aneel and of the CNPE, in 1997.
- In 1998, the Federal Government enacted Law No. 9,648, or the Power Industry Law, to overhaul the basic structure of the electricity industry. The Power Industry Law provided for the following:
 - the establishment of a self-regulated body responsible for the operation of the short-term electricity market, or the Wholesale Energy Market, which replaced the prior system of regulated generation prices and supply contracts;
 - the creation of the ONS, a non-profit, private entity responsible for the operational management of the generation and transmission activities of the interconnected power system; and
 - the establishment of public bidding processes for concessions for the construction and operation of power plants and transmission facilities, in addition to the bidding process requirements under the Concessions Law and the Power Concessions Law.
- On March 15, 2004, the Federal Government enacted Law No. 10,848, or the New Industry Model Law, in an effort to further restructure the power industry with the ultimate goal of providing consumers with secure electricity supplies combined with low rates. On July 30, 2004 the Federal Government published Decree 5,163, governing the purchase and sale of electricity under the New Industry Model Law, as well as the granting of authorizations and concessions for electricity generation projects. These include rules relating to auction procedures, the form of power purchase agreements and the method of passing costs through to final consumers.
- On September 12, 2012 the Federal Government enacted PM 579, converted into the Law No. 12,783, aiming to decrease tariffs on generation, transmission and distribution of energy and enact regulatory charges on the Brazilian energy market. PM 579 alters the revision and extension of certain concessions and implements new bidding process rules for certain utilities, as well as adjustments to tariffs, changes to regulation regarding the industry participants' mobility between the ACR and ACL and the allocation of energy offered to both markets.

Rationing and Extraordinary Rate Increases

Rationing of electricity; government measures to compensate electricity concession holders.

In late 2000 and early 2001, low levels of rainfall, significant growth in demand for electricity, and Brazil's significant dependence on electricity generated from hydroelectric sources resulted in an abnormal fall in levels at several of the reservoirs used by Brazil's largest hydroelectric generation plants. In May 2001 the federal government announced a group of measures requiring reduction in consumption of electricity in response to those conditions (the Brazilian electricity rationing plan). Under this agreement electricity distribution and generation companies (such as our Company) were recompensed for the losses of revenue resulting from the rationing imposed by the federal government either due to lower volume of sales, or reduction in electricity selling prices, or purchases of electricity on the CCEE. This compensation was given in the form of the right to charge extraordinary increases in electricity tariffs to consumers over a future period, which averaged 74 months, and ended in March 2008.

However, the New Industry Model (one of the principal purposes of which is to guarantee supply of electricity) created auctions for the Regulated Market (*Ambiente de Contratação Regulado*, or ACR), in which it is possible to buy electricity from new plants to guarantee supply. Since the New Industry Model was introduced, approximately 47,000MW of capacity have been placed in these auctions, for installation between 2008 and 2017.

Of this amount, a total of 5.97MW was contracted in Reserve Auctions that is to say, this power capacity is not committed to any contract, or to any minimum supply.

In the rainy season of late 2012 and early 2013, there was much less rainfall than expected in Brazil's Southeastern region (November to March), and in this situation the thermoelectric plants were activated to generate complementary supply to meet the system's electricity consumption needs. In this period the principal strategy of the national system operator (*Operador Nacional do Sistema Elétrico*, or ONS) was to preserve storage capacity at the reservoirs of hydroelectric plants, to ensure supply of the system's

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energy needs over the whole of the year 2013. This resulted in a high level of expenses on thermoelectric generation, and a sustained increase in the spot market price which averaged R\$ 121.29/MWh in July 2013.

In the rainy season of 2013-14, rainfall in the Southeast has again been significantly lower than the expected averages. This has placed the system in a state of alert at the beginning of 2014, focusing on means of maintaining the capacity to supply the system's consumption needs. Storage levels are again lower than expected for the period, and final figures for rainfall and flows in the period were awaited, to give a complete picture of the need for adjustments of load to preserve the capacity to serve the market. At this moment the state is one of alertness to the need to preserve this capacity.

Concessions

Companies or consortia that wish to build or operate electricity generation, transmission or distribution facilities in Brazil must apply to the Mining and Energy Ministry (MME) or to Aneel, delegated by MME, as concession-granting power, for grant of a concession, permission or authorization, as the case may be. Concessions give rights to generate, transmit or distribute electricity in a specific area, for a specific period. This period is usually 35 years for new generation concessions and 30 years for new transmission or distribution concessions. For renewal of existing concessions, the period for distribution contracts was normally 20 years; for transmission the period was 20-30 years depending on the contract; and for generation the period was specific to each contract. Existing concessions granted before the publication of Law 10848 of March 15, 2004, may be renewed for one more period, at the exclusive option of the concession-granting power. Concessions granted after the publication of Law 10848 could not be renewed.

However, with the enactment of Provisional Measure 579 (PM579), converted into Law No. 12783, the concessions granted after Law No. 9,074 of July 7, 1995 may be extended, once only, for a period of up to 30 years, at the discretion of the concession-granting authority, as from September 12, 2012.

We believe that the renewal of our distribution concessions, under the terms of Law N° 12.783, will not have any impact on the tariffs charged by those concessions.

On December 4, 2012 the Company signed the Second Amendment to Transmission Concession Contract N°006/1997, which extended the concession for 30 years, under Provisional Measure 579/2012, as from January, 2013, resulting in a reduction of the Permitted Annual Revenue (*Receita Anual Permitida*, or RAP), by approximately 60%. Transmission assets, existing and not depreciated as from May 31, 2000, were re-valued and indemnified by the Concession-granting Power, in accordance with MME/MF Interministerial Order 580, of November 1, 2012, which minimized the impact of the reduction of the RAP. At the same time, for those assets not yet depreciated and existing before May 31, 2000, the Company awaits their re-valuation and indemnity, in accordance with Aneel Normative Resolution 589/2013.

However, The Company opted not to request extension of the generation concessions of various plants, under the terms of PM579/2012, which expire in the period 2013 through 2017. These plants have already undergone an extension according to the conditions established in General Concession Contract 007/1997. For the plants that have yet to undergo their first extension, which includes the *Jaguara*, *São Simão* and *Miranda* generating plants, Generation Concession Contract 007/1997 guarantees the extension of these concessions for a further 20 years on the conditions existing in the provision referred to.

Based on this understanding, Cemig GT applied to the Judiciary for an order of *mandamus* against an act of the Mining and Energy Ministry with the objective of safeguarding, for that company, its rights in relation to the extension of the period of the concession of the *Jaguara* Hydroelectric Plant, under Clause 4 of Concession Contract N° 007/1997, obeying the original bases of that Contract, which are prior to Law N° 12,783/2013. The Court granted interim relief in favor of the Company, which is still in effect, namely enabling it to continue its commercial operation of the *Jaguara* Hydroelectric Plant until final judgment is given in the action for *mandamus*. Within the classification adopted by the Company of legal actions in which it is involved – namely that the chances of loss are assessed as *probable*, *possible*, or *remote* – the Company has classified the chance of loss in this action as *possible*, reflecting its nature and the complexity involved in this specific case. The case has several particular elements characterizing the contingency: (i) the singular nature of Concession Contract N° 007/1997; (ii) the unprecedented nature of the matter of the case; and (iii) the fact that the action which has been filed will be a leading case in the consideration by the Brazilian Courts of the extension of concessions.

For the other generation plants that have concessions that expire over the period from 2013 to 2017, which includes the *Três Marias*, *Salto Grande*, *Itutinga*, *Camargos*, *Piau*, *Gafanhoto*, *Peti*, *Tronqueiras*, *Joasal*, *Martins*, *Cajuru*, *Paciência*, *Marmelos*, *Sumidouro*, *Anil*, *Poquim*, *Dona Rita* and *Volta Grande* generation plants, we have opted to return them to the Concession-Granting Power.

The *Dona Rita* plant, which was returned to the Nation in August 2013, is provisionally under the responsibility of *Furnas Centrais Elétricas*, until a tender is held for its concession, as per Ministerial Order N° 189/2013 of the Mining and Energy Ministry.

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Principal Regulatory Authorities

National Energy Policy Council CNPE

In August 1997, the National Energy Policy Council (*Conselho Nacional de Política Energética*), or CNPE, was created to advise the Brazilian president regarding the development and creation of the national energy policy. The CNPE is presided over by the MME, and the majority of its members are officials of the Federal Government. The CNPE was created to optimize the use of Brazil's energy resources and to assure the supply of electricity to the country.

Ministry of Mines and Energy MME

The MME is the Federal Government's primary regulator of the power industry. Following the adoption of the New Industry Model Law, the Federal Government, acting primarily through the MME, undertook certain duties that were previously under the responsibility of Aneel, including the drafting of guidelines governing the granting of concessions and the issuance of directives governing the bidding process for concessions relating to public services and public assets.

National Electric Energy Agency Aneel

The Brazilian power industry is regulated by Aneel, an independent federal regulatory agency. After enactment of the New Industry Model Law, Aneel's primary responsibility is to regulate and supervise the power industry in line with the policy to be dictated by MME and to respond to matters which are delegated to it by the Federal Government and or MME.

National System Operator ONS

The ONS was created in 1998 as a non-profit private entity comprised of Free Consumers and energy utilities engaged in the generation, transmission and distribution of electricity, in addition to other private participants such as importers and exporters. The New Industry Model Law, granted the Federal Government the power to appoint three directors of the ONS, including the Director-general. The primary role of the ONS is to coordinate and control the generation and transmission operations in the interconnected power system, subject to Aneel's regulation and supervision.

Electric Energy Trading Chamber CCEE

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One of the main roles of the CCEE is to conduct public auctions in the regulated market, including the auction of existing electricity and new electricity. Additionally, the CCEE is responsible, among other things, for (1) registering the volume of all the energy purchase agreements within the regulated market (*Contratos de Comercialização de Energia no Ambiente Regulado*), or CCEAR, and the agreements resulting from the free market, and (2) the accounting for and clearing of short-term transactions.

Under the New Industry Model Law, the price of electricity bought or sold in the spot market, known as the Price of Liquidation of Differences (*Preço de Liquidação de Diferenças*), or PLD, takes into account factors similar to the ones used to determine the Wholesale Energy Market spot prices prior to the New Industry Model Law. Among these factors, the variation of the PLD will be mainly linked to the equilibrium between the market supply and demand for electricity as well as the impact that any variation on this equilibrium may have on the optimal use of the electricity generation resources by the ONS.

The CCEE is comprised of power generation, distribution, trading agents and Free Consumers, and its board of directors is comprised of four members appointed by these agents and one by the MME, who is the chairman of the board of directors.

Energy Research Company EPE

On August 16, 2004, the Federal Government enacted the decree that created the Electricity Research Company, or EPE, a state-owned company, which is responsible for conducting strategic research on the energy industry, including, among others, electric energy, oil, gas, coal and renewable energy sources, EPE is responsible for (i) studying projections of the Brazilian energy matrix, (ii) preparing and publishing the national energy balance, (iii) identifying and quantifying energy resources and (iv) obtaining the required environmental licenses for new generation concessionaires. The research carried out by EPE will be used to subsidize MME in its policymaking role in the domestic energy industry, EPE is also responsible for approving the technical qualification of new electric energy projects to be included in the related auctions.

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The Electricity Sector Monitoring Committee CMSE

Decree 5,175, of August 9, 2004, established the Electricity Sector Monitoring Committee, or CMSE, which acts under the direction of the MME. The CMSE is responsible for monitoring and permanently evaluating the continuity and security of the electricity supply conditions and for indicating necessary steps to correct identified problems.

Ownership Limitations

On November 10, 2009, Aneel issued Resolution No. 378, which established that Aneel, upon identifying an act that may cause unfair competition or may result in relevant market control, must notify the Secretariat of Economic Law (*Secretaria de Direito Econômico*) (SDE) of the Ministry of Justice, pursuant to art. 54 of Law No. 8,884 of June 11, 1994. After the notification, the SDE must inform CADE. On November 30, 2011 Law No. 8,884 was revoked and replaced by Law 12,529. This new law extinguished SDE and replaced it with the General Superintendency (Superintendência Geral). If necessary, the General Superintendency will require Aneel to analyze the aforementioned acts, CADE will decide if there should be any punishment regarding those acts, which may vary from pecuniary penalties to the split of the company, pursuant to articles 37 and 45 of the abovementioned law.

Incentives for Alternative Sources of Power

In 2000, a Federal decree created the Thermoelectric Priority Program (*Programa Prioritário de Termoeletricidade*), or PPT, for purposes of diversifying the Brazilian energy matrix and decreasing its strong dependency on hydroelectric plants.

In 2002, the Proinfa was established by the Federal Government to create certain incentives for the development of alternative sources of energy, such as wind energy projects, Small Hydroelectric Power Plants and biomass projects.

Law 9,427/96, as amended by Law 10,762/03, further established that hydroelectric plants with an installed capacity of 1MW or less, generation plants classified as Small Hydroelectric Plants, and those with qualifying solar, wind, biomass or cogeneration sources, with an injected capacity of 30MW or less, used for independent production or self-production, will have the right to a discount of at least 50% on the rates for use of the transmission and distribution system, charged on production and consumption of the energy sold. This legal provision was regulated by Aneel through its Resolutions 077/2004, 247/2006 and 271/2007.

Also the government promoted two alternative energy generation auctions and four backup regulated auctions where the plants that are allowed to sell energy on pursuant to these auctions are either wind energy projects, SHP projects or biomass projects.

Regulatory Charges

Global Reversion Fund and Public Use Fund RGR and UBP

In certain circumstances, power companies are compensated for assets used in connection with a concession if this concession is eventually revoked or is not renewed. In 1971, the Brazilian Congress created a Global Reversion Fund (*Reserva Global de Reversão*), or RGR, designed to provide funds for such compensation. In February 1999, Aneel revised the assessment of a fee requiring all distributors, transmission companies and certain generators operating under public service regimes to make monthly contributions to the RGR at an annual rate equal to 2,5% of the company's fixed assets in service, but not to exceed 3,0% of total operating revenues in any year. In recent years, the RGR has been used principally to finance generation and distribution projects.

The Federal Government has imposed a fee on IPPs reliant on hydrological resources, except for Small Hydroelectric Power Plants and generators under the public services regime, similar to the fee levied on public-industry companies in connection with the RGR. IPPs are required to make contributions to the Public Use Fund (*Fundo de Uso de Bem Público*), or UBP, according to the rules of the corresponding public bidding process for the granting of concessions. Eletrobrás received the UBP payments until December 31, 2002. All payments to the UBP since December 31, 2002 are paid directly to the Federal Government.

Since January 2013, the Global Reversion Fund is not charged to any (i) distribution company; (ii) transmission and generation utilities that extended its concessions granted under Law No. 12,783; and (iii) any transmission utility which had commenced its bidding procedure from September 12, 2012 onward.

Fuel Consumption Account CCC

The Fuel Consumption Account (*Conta de Consumo de Combustível*), or CCC, was created in 1973 to generate financial reserves to cover elevated costs associated with the use of thermoelectric energy plants, especially in the northern region of Brazil given the higher operating costs of thermoelectric energy plants compared to hydroelectric energy plants. Each energy company is

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required to contribute annually to the CCC, The annual contributions were calculated on the basis of estimates of the cost of fuel needed by the thermoelectric energy plants in the following year, The CCC, in turn, was used to reimburse energy companies for a substantial portion of the fuel costs of their thermoelectric energy plants, The CCC was administered by Eletrobrás.

Since January 2013, the Fuel Consumption Account is not charged to any kind of utility and or market participant due to the provisions of Law No, 12,783/2013

Charge for the Use of Water Resources

With the exception of Small Hydroelectric Power Plants, all hydroelectric utilities in Brazil must pay fees to Brazilian states and municipalities for the use of hydrological resources, Such amounts are based on the amount of electricity generated by each utility and are paid to the states and municipalities where the plant or the plant's reservoir is located.

Energy Development Account - CDE

In 2002, the Federal Government instituted the Energy Development Account (*Conta de Desenvolvimento Energético*), or CDE, which is funded through annual payments made by concessionaires for the use of public assets, penalties and fines imposed by Aneel and, since 2003, the annual fees to be paid by agents offering electricity to final consumers, by means of a charge to be added to the rates for the use of the transmission and distribution system, These fees are adjusted annually, The CDE was created to support the (1) development of electricity production throughout the country, (2) production of electricity by alternative energy sources, (3) universalization of energy services throughout Brazil, With the enactment of Law No, 12,783/2013 these fee was used to assure, the decreasing the electricity tariffs, The CDE shall be in effect for 25 years and shall be managed by Eletrobras.

The New Industry Model Law establishes that the failure to pay the contribution to RGR, Proinfa Program, the CDE or payments due by virtue of purchase of electricity in the regulated market will prevent the non-paying party from receiving a rate readjustment (except for an extraordinary revision) or receiving resources arising from the RGR or CDE.

Aneel Inspection Charge - TFSEE

Energy Services Inspection Charge, or TFSEE, is an annual tax charged by Aneel for its administrative and operational costs, The tax is calculated according to PRORET (Procedimento de Regulação Tarifária) - Subtitle 5,5 Energy Services Inspection Charge - TFSEE based on the type of service provided (including independent production), and is proportional to the size of the concession, permission or authorization, The TFSEE is limited to 0,4% of the annual economic benefit, considering the installed capacity, earned by the concessionaire, permit holder or authorized party and must be paid directly to Aneel in 12 monthly installments.

Energy Reallocation Mechanism

The Energy Reallocation Mechanism (*Mecanismo de Realocação de Energia*), or MRE, attempts to mitigate the risks involved in the generation of hydroelectric power by mandating that all hydrogenerators share the hydrological risks within the Brazilian Grid. Under Brazilian law, the revenue arising from the energy sales by generators does not depend on the amount of energy they in fact generate, but rather on Guaranteed Energy or Assured Energy of each plant. The Guaranteed or Assured Energy is indicated in each concession agreement.

Any imbalances between the power energy actually generated and the Assured Energy is covered by the MRE. In other words, the MRE reallocated the energy, transferring surplus from those who generated in excess of their Assured Energy to those who generated less than their Assured Energy. The volume of electricity actually generated by the plant, either more or less than the Assured Energy, is priced pursuant to an Energy Optimization Tariff which covers the operation and maintenance costs of the plant. This revenue or additional expense will be accounted for on a monthly basis by each generator.

Although the MRE is efficient to mitigate the risks of individual plants that have adverse hydrological conditions in a river basin, it does not succeed in mitigating this risk when low hydro levels affect the National Interconnected System (System) as a whole or large regions of it. In extreme situations, even with the MRE, generation of the entire System won't attain the level of the Assured Energy and hydro generators may be exposed to the spot market. In these situations, the shortage in hydro resources is going to be compensated by greater use of thermal generation and spot prices will be higher.

Rates for the Use of the Distribution and Transmission Systems

Aneel oversees rate regulations that govern access to the distribution and transmission systems and establish rates (i) for the use of the local distribution system, or Distribution Usage Rates, or TUSD, and (ii) for the use of the interconnected transmission grid, or Transmission Usage Rates, or TUST. Additionally, distribution companies of the South, South-East and Midwest interconnected

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system pay specific charges for the transmission of electricity generated at Itaipu. All this rates are set by Aneel, The following is a summary of each rate or charge:

TUSD

The TUSD is paid by generation companies, others distribution companies and consumers for the use of the distribution system to which they are connected, It is readjusted annually according to an inflation index and the variation of costs for the transmission of energy and regulatory charges. This readjustment is passed to customers of the Distribution network in the Annual Rate Adjustment or Revisions.

TUST

The TUST is paid by generation and distribution companies and Free Consumers for the use of the basic transmission grid to which they are connected, It is adjusted annually according to an inflation index and the annual revenue of the transmission companies adjustment, According to criteria established by Aneel, owners of the different parts of the transmission grid were required to transfer the coordination of their facilities to the ONS in return for receiving regulated payments from the transmission system users, Generation and distribution companies and Free Consumers also pay a fee for exclusive transmission connections to some transmission companies, The fee is set by the regulator for a 12 month period and it is paid monthly through the issuance of invoices.

Distribution

Distribution rates are subject to review by Aneel, which has the authority to adjust and review rates in response to changes in electricity purchase costs, charges payments or transmissions payments, or others related to market conditions,, Aneel divides the costs of all distribution companies between (1) costs that are beyond the control of the distributor, or Parcel A costs, and (2) costs that are under the control of the distributor, or Parcel B costs, The rate adjustment is based on a formula that takes into account the division of costs between the two categories.

Parcel A costs include, among others, the following:

- Regulatory Charges (RGR, CCC, CDE, TFSEE and Proinfa);
- Costs of electricity purchased for resale (CCEAR, Itaipu's Energy and bilateral agreements); and

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- Transmission fee (Transmissions National Grid, Transmission Frontier Grid, Transport of Electricity from Itaipu, Use of network Connection to others transmission companies, use of others distributions company network and ONS).

Parcel B costs are those that are within our control and include:

- return on investment;
- taxes;
- regulatory default;
- depreciation costs; and
- operation costs of the distribution system,

In general, Parcel A costs are fully passed through to consumers, Parcel B costs, however, are restated for inflation in accordance with General Market Price Index (*Índice Geral de Preços do Mercado*), or IGP-M index, adjusted by an X Factor. Electricity distribution companies, according to their concession contracts, are also entitled to periodic revisions (*revisão periódica*). These revisions are aimed at (1) assuring necessary revenues to cover efficient Parcel B operational costs and adequate compensation for investments deemed essential for the services within the scope of each company's concession and (2) determining the X factor.

The X factor is used to adjust the proportion of the change in the IGP-M index that is used in the annual adjustments and to share the company's productivity gains with final consumers.

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In addition, concessionaires of electricity distribution are entitled to extraordinary review of rates (*revisão extraordinária*), on a case by case basis, to ensure their financial equilibrium and compensate them for unpredictable costs, including taxes, that significantly change their cost structure.

Item 4A, Unresolved Staff Comments

Not Applicable.

Item 5. Operating and Financial Review and Prospects

You should read the information contained in this section together with our financial statements contained elsewhere in this annual report. The following discussion is based on our financial statements, which have been prepared in accordance with IFRS and presented in reais.

Statement of Compliance

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

Basis of measurement

The consolidated financial statements have been prepared based on the historical cost basis except for the following material items in the statement of financial position:

- Financial instruments and derivative financial instruments measured at fair value
- Non-derivative financial assets measured at fair value through profit or loss
- Financial assets held for trading measured at fair value,

- Financial assets of the Concession measured by the New Replacement Value (VNR), equivalent to fair value,

The consolidated financial statements are presented in *reais*, which is the Company's subsidiaries and joint controlled entities functional currency.

Critical Accounting Estimates

The following discussion describes those areas that require the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates we make in these contexts require us to make assumptions about matters that are highly uncertain. The discussion addresses only those estimates that we consider most important based on the degree of uncertainty and the likelihood of a material impact if we used a different estimate. There are many other areas in which we use estimates about uncertain matters, but the reasonably likely effect of changed or different estimates is not material to our financial presentation. For more detailed information about our Critical Accounting Policies and Estimates, please refer to Note 2 to our audited consolidated financial statements as of December 31, 2013.

Allowance for Doubtful Accounts

We record an allowance for doubtful accounts in an amount that we estimate to be sufficient to cover presently foreseeable losses as follows: (i) for consumers with material debts, an individual analysis of the balance is made, taking into account the history of default, negotiations in progress and the existence of real guarantees; (ii) for other consumers, the debts that are more than 90 days past due for residential consumers, or more than 180 days past due for commercial consumers, or more than 360 days past due for the other consumer types, are provisioned at 100%. These criteria are the same as those established by Aneel.

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We continuously monitor collections and payments from consumers and review and refine our estimation process. A future change in our estimates could result in an increase in the allowance for doubtful accounts which could have a material adverse impact on our operating results and financial condition.

Deferred income tax and social contribution

We account for income taxes in accordance with IFRS. IFRS requires an asset and liability approach to recording current and deferred taxes. Accordingly, the effects of differences between the tax basis of assets and liabilities and the amounts recognized in our consolidated financial statements have been treated as temporary differences for the purpose of recording deferred income tax.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to establish a valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results.

Property, plant and equipment

The goods in Property, plant and equipment are valued at the cost incurred on the date of their acquisition or formation, including deemed cost, and capitalized financial costs, less accumulated depreciation. The cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labor, and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Intangible assets

The following criteria are applied to individual cases: (i) Intangible assets acquired from third parties are measured at total acquisition cost, less expenses of amortization; and (ii) intangible assets generated internally are recognized as assets in the phase of development, provided that the technical feasibility of using them is demonstrated and that the future economic benefits are probable. They are measured at cost, net of accumulated amortization and accumulated impairment losses.

Financial assets of the concession

Our accounting treatment for financial assets of the concession depends on the evaluation criteria of the assets linked to the concession.

For the distribution activity assets - We measure the value of the assets which will not be fully amortized by the end of the concession agreement period and reports this amount as a financial asset of the concession because it is an unconditional right to receive cash or other financial asset directly from the grantor. The portion of the assets of the concession that will be fully amortized during the concession period is recorded as intangible assets and is amortized in full during the concession agreement period.

New assets are recorded initially in Intangible assets, valued at acquisition cost, including capitalized borrowing costs. When the assets start operation they are split into financial assets and intangible assets, according to the criterion mentioned in the previous paragraph: The portion of the assets that is recorded in financial assets is valued based on the new replacement cost, having as a reference the amounts homologated by the Concession-granting power for the Asset Base for Remuneration in the processes of tariff review.

For the transmission activity assets - Since the transmission contracts determine that the concession holders have an unconditional right to receive cash or another financial asset directly from, or in the name of the Concession-granting power, for the new transmission concessions, we recorded a financial asset at fair value, corresponding to the transmission revenue to be received during the whole period of the concession.

Depreciation and Amortization

Depreciation and Amortization is computed using the straight-line method, at annual rates based on the estimated useful lives of the assets, in accordance with Aneel regulations and industry practice in Brazil.

Our accounting treatment for amortization of intangible assets depends on the nature of the intangible asset. Intangible assets linked to a service concession agreement, net of residual value, are amortized in accordance with IFRIC 12 on a straight-line basis

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over the concession period stipulated in the concession contract. Other intangible assets are amortized on a straight-line basis over the estimated useful economic lives of the assets in conformity with the amortization rates established by Concession-granting power.

To the extent that the actual lives differ from these estimates, there would be an impact on the amount of depreciation and amortization accrued in our consolidated financial statements. A significant decrease in the estimated useful life of a material amount of property, plant and equipment, intangibles, or in the assets of the electricity generation project consortium in which we are a partner, could have a material adverse impact on our operating results in the period in which the estimate is revised and in subsequent periods.

Employee Post-Retirement Benefits

We sponsor a defined-benefit pension plan and defined-contribution pension plan covering substantially all of our employees.

The determination of the amount of our obligations for pension and other post-retirement benefits depends on certain actuarial assumptions. These assumptions are described in Note 22 to our consolidated financial statements and include, among others, the expected long-term rate of return on plan assets and increases in salaries and healthcare costs. While we believe that our assumptions are appropriate, significant differences in actual results or significant changes in our assumptions may materially affect our pension and other post-retirement obligations.

Provision for Contingencies

We are party to certain legal proceedings in Brazil arising in the normal course of business regarding tax, labor, civil and other issues.

Such provisions are estimated based on historical experience, the nature of the claims, as well as the current status of the claims. Accounting for contingencies requires significant judgment by management concerning the estimated probabilities and ranges of exposure to potential liability. Management's assessment of our exposure to contingencies could change as new developments occur or more information becomes available. The outcome of the contingencies could vary significantly and could materially impact our consolidated results of operations, cash flows and financial position.

Unbilled electric power supplied

Unbilled retail supply of electric power, from the period between the last billing and the end of each month, is estimated based on the billing from the previous month and is accrued for at the end of the month. While we believe that our accruals are appropriate, significant differences in actual results or significant changes in our assumptions may materially affect our consumers receivables.

Derivative Instruments

Accounting for derivative transactions requires us to employ judgment to compute fair market values, which are used as the basis for recognition of the derivative instruments in our consolidated financial statements. Such measurement may depend on the use of estimates such as long term interest rates, foreign currencies and inflation indices, and becomes increasingly complex when the instrument being valued does not have counterparts with similar characteristics traded in an active market. For more detailed information about Derivative Instruments please refer to Note 29 to our audited consolidated financial statements as of December 31, 2013.

The subsidiary Cemig GT has granted to the Equity Fund that is a shareholder in Taesa an option to sell its shares in Taesa, exercisable in October 2014. The option is calculated through the sum of the value of the amounts injected by the fund into Taesa, plus running expenses of the Fund, less Interest on Equity, and dividends, paid by Taesa. The net amount is to be updated by the IPCA Index (published by the IBGE), plus financial remuneration. More details see explanatory note 15 to the financial statements.

New Accounting Pronouncements

In the current year, the company has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatory effective for the accounting period that begins on or after 1 January 2013. Below we highlight the main changes that have an effect on the financial statements.

IAS 19, revised *Employee benefits*

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Amendments to IAS 19, Employee Benefits eliminated the "Corridor" approach under which entities were able to opt for deferred recognition of a given portion of actuarial gains and losses, by establishing that all actuarial gains and losses must be recognized immediately in Equity. The amendments included significant changes in the presentation of cost components, as a result of which the service cost relating to post-employment benefit obligations (past service cost and plan curtailments and settlements) and net interest cost must be recognized in profit or loss and remeasurement component (comprising basically actuarial gains and losses) must be recognized in Equity - Other Comprehensive Income and may not be reclassified to profit or loss. In accordance with IAS 8, these amendments entail a change of accounting policy and, accordingly, they must be applied retrospectively as from January 1, 2013, by adjusting the opening balances of Equity for the earliest period presented as if the new accounting policy had always been applied. The effect arising from the adoption of the new accounting practices for recording of actuarial obligations for post-employment benefits, which was retrospectively applied, was a reduction in stockholders' equity on December 31, 2012 in the amount of R\$ 494 million (R\$ 79 million on January 1, 2012). The impact on the Statements of income for 2013 arising from the revision of the Standard represented a reduction of R\$ 18 million in the expense on post-employment benefits, in comparison with the expense which would have been recorded under the former accounting practice.

IFRS 11 *Joint arrangements*

IFRS 11 *Joint arrangements*: This replaced IAS 31 and states how an agreement for joint control should be presented in the financial statements. Under this new standard, the structure of a joint business is no longer the principal factor in determination of the type of business, and, consequently, of how it is accounted. Jointly-controlled enterprises (joint ventures) must be accounted by the equity method, and the proportional consolidation method will no longer be allowed. As from January 1, 2013, the Company ceased to proportionally consolidate its directly and indirectly jointly-controlled subsidiaries. These changes did not cause any impact on the Company's profit, but they did impact the individual account lines in the consolidated Statements of income, with a counterpart in Equity gain (loss) in subsidiaries, and also reduction in the lines of consolidated assets and liabilities, with counterpart in an increase in the line Investments, as shown in Explanatory Note 2.5 to the financial statements. There was also an impact between lines in the consolidated Statements of comprehensive income, Cash flows and Added value.

IFRS 10, Consolidated Financial Statements: this standard supersedes the previous IAS 27 and SIC 12, and introduces a single control-based consolidation model, irrespective of the nature of the investee. IFRS 10 modifies the previous definition of control. The new definition of control sets out the following elements of control: power over the investee; exposure, or rights, to variable returns from involvement in the investee; and the ability to use power over the investee to affect the amount of the investor's returns.

IFRS 12 *Disclosure of interests in other entities*. This is a disclosure standard applicable to entities that have holdings in subsidiaries, participation agreements, affiliates and/or structured entities that are not consolidated. In general, the requirements for disclosure under IFRS 12 are more wide-ranging than the previous rules. The impact is a greater disclosure of information on the jointly-controlled subsidiaries, included in Explanatory Note 15.

New Standards not yet adopted

The Company has not adopted the new and revised International Financial Reporting Standards listed below, which have been issued but not yet come into effect. Below are comments on those that it believes to be applicable to its operations:

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- Changes to IFRS 7 and IAS 32 Offsetting of financial assets and liabilities, and related disclosures (1)
- IFRS 9 Financial Instruments (2)
- Changes to IFRS 9 and IFRS 7: Mandatory effective date of IFRS 9 and Transition Disclosures (2)
- Changes to IFRS 10, IFRS 12 and IAS 27 Investment entities (1)
- IFRIC 21 Taxes (1)

(1) *In effect for annual periods starting on or after January 1, 2014.*

(2) *In effect for annual periods starting on or after January 1, 2018.*

Changes to IFRS 7 and IAS 32 Offsetting of financial assets and liabilities, and Related Disclosures

The changes to IAS 32 clarify questions of adoption existing in relation to the requirements for offsetting of financial assets and liabilities. Specifically, these alterations clarify the meaning of currently has a legally enforceable right to set off and simultaneous realization and settlement .

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The alterations to IFRS 7 require that entities disclose the information on the rights of offsetting and related agreements (such as requirements for guarantees) for the financial instruments that are subject to offsetting or similar contracts.

The changes to IFRS 7 are applicable for annual periods beginning on or after January 1, 2013 and periods intermediate to these annual periods. The disclosures are to be made retroactively (retrospectively) for all the periods compared. However, the changes to IAS 32 are not applicable to annual periods starting before January 1, 2014, with retrospectively adoption required.

Management believes that the adoption of these changes to IAS 32 and IFRS 7 could result in additional disclosures in relation to offsetting of financial assets and liabilities in the future.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial instruments*, issued in November 2009 and altered in October 2010, introduces new requirements for the classification, measurement and write-off of financial assets and liabilities.

IFRS 9 establishes that all the financial assets recognized that are within the scope of IAS 39 *Financial instruments: Recognition and measurement* must be subsequently measured at amortized cost or fair value.

The most significant effect of IFRS 9 in terms of the classification and measurements of financial liabilities is in accounting of changes in fair value of a financial liability (designated at fair value through profit or loss) that are attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, in relation to the financial liabilities recognized at fair value through profit or loss, the amount of the change in the fair value of the financial liability attributable to changes in the credit risk of that liability is recognized in Other comprehensive income, unless the recognition of the effects of the change in the credit risk of the liability in Other components of comprehensive income would result in or increase accounting mismatch in the Statements of income. Variations in fair value attributable to the credit risk of a financial liability are not reclassified in the Statements of income. Previously, under IAS 39, the total amount of the change in the fair value of the financial asset recognized at fair value through profit or loss was recognized in the Statements of income.

The Company's management expects that adoption of IFRS 9 in the financial statements will have a significant effect on the balances reported in financial assets and liabilities (for example, the financial assets of the concession currently classified as investments available for sale will be measured at fair value at the end of the subsequent reporting periods, and the alterations in fair value will be recognized in profit or loss). However, it is not possible to supply a reasonable estimate of this effect until a detailed review is carried out.

Changes to IFRS 10, IFRS 12 and IAS 27 *Investment entities*

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These define an investment entity, and require that a reporting entity which fits the definition should not consolidate its subsidiaries but, instead, value them at fair value through profit or loss in its consolidated and separate financial statements.

IFRIC 21 Taxes

This supplies orientations on when a liability for a tax defined by the government should be recognized.

The Company is analyzing the impacts of these alterations. No significant impact on the financial statements has been identified.

Principal Factors Affecting our Financial Condition and Results of Operations

Analysis of Electricity Sales and Cost of Electricity Purchased

Electricity rates in Brazil, related to electricity distribution companies sales to captive customers, are set by Aneel, which has the authority to readjust and review rates in accordance with the applicable provisions of the concession contracts. See Item 4, The Brazilian Power Industry Rates .

We charge captive consumers for their actual electricity consumption during each 30-day billing period at specified rates, Certain large industrial consumers are charged according to the electricity capacity contractually made available to them by us, with adjustments to those rates according to consumption during peak demand time as well as capacity requirements that exceed the contracted amount.

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In general, rates on electricity that we purchase are determined by reference to the capacity contracted for as well as the volumes actually used.

The following table sets forth the average rate (in *reais* per MWh) and volume (by GWh) components of electricity sales and purchases for the periods indicated. The term *average rate* refers to revenues for the relevant class of consumers divided by the MWh used by such class and does not necessarily reflect actual rates and usage by a specific class of end-users during any particular period.

	2013	Year ended December 31, 2012	2011
Electricity Sales:			
Average rate to final consumers (R\$/MWh)			
Industrial rate	171,54	172,26	167,59
Residential rate	476,93	551,23	507,52
Commercial rate	390,06	442,60	435,99
Rural rate	244,72	273,71	267,56
Public services rate and others	284,49	325,66	328,06
Total sales to final consumers (GWh)			
Industrial consumers	23,452	25,473	26,029
Residential consumers	9,473	8,871	10,742
Commercial consumers	6,035	5,723	6,985
Rural consumers	3,028	2,857	2646
Public services and other consumers	3,371	3,258	4001
Average rate (R\$/MWh)	277,50	296,24	296,71
Total revenues (millions of R\$)	12,597	13,691	14,955
Sales to distributors:			
Volume (GWh)	16,127	13,368	14,458
Average rate (R\$/MWh)	132,94	126,35	109,07
Total revenues (millions of R\$)(1)	2,144	1,689	1,577

(1) Does not include R\$ 39 million, R\$ 36 million and R\$ 24 million relating to Proinfa Program during 2013, 2012 and 2011 respectively.

Distribution Rates

Our operational results have been significantly affected by fluctuations in the levels of rates that Cemig Distribution (Cemig D) and Light are authorized to charge for distribution of electricity. The process of setting rates in Brazil has been influenced, historically, by government attempts to control inflation. With the restructuring of the Brazilian electricity sector, begun in 1995, and under the terms of the renewal of the concession contract that we signed with Aneel in 1997, there have been significant changes in the process of setting tariffs.

Every year, in April, Aneel issues a Resolution that establishes the average annual rate adjustment for Cemig D (Distribution). In 2011 this rate was 10.47%; in 2012, 5.24% and, in 2014, 16.33%. In 2013, the revision rate was 2.99%.

In January 2013 the Brazilian federal government published Law 12783, which removed some charges imposed on providers of electricity, reducing the prices of electricity sold by those generators that had their concession agreements renewed, and also the prices for transmission of electricity, due to reduction of the Permitted Revenue of those transmission companies that had their concessions renewed. On January 24, Aneel set new tariffs for the distributors to pass through the effects of that law to consumers. This adjustment was made by an Extraordinary Tariff Review, for all the distributors. For Cemig this tariff adjustment represented a reduction of invoiced revenue by 22%. However, this adjustment did not affect our operational revenue, because it was applied only in the costs of Portion A, which are the non-manageable costs.

On April 7, 2014 Aneel set the annual tariff adjustment for Cemig D (Distribution) at 16.33%. This had the following components: (i) an increase of 11.91%, due to the Tariff Adjustment Index; (ii) an increase of 3.08% due to the variation in Portion A

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costs CVA - non-manageable costs; (iii) increase of 1.33% related to other financial adjustments. The subsidies given to certain consumers have an external treatment tariffs since 2013 and no longer appear as the tariff adjustment index component.

The average annual tariff adjustments of Cemig D in 2014, 2013, 2012 and 2011 and the revision of their respective components, are given in this table:

	2014	2013	2012	2011
Average annual/periodic rate adjustment	16.33%	2.99%	5.24%	10.47%
Components				
Tariff adjustment index	11.91%	0.47%	2.90%	8.08%
Inter-year variation in fixed costs (CVA)	3.08%	1.03%	-2.70%	-1.06%
Subsidies	0.00%	1.45%	3.57%	5.03%
Other financial adjustments	1.33%	0.11%	1.47%	-1.58%

Transmission Rates

The revenue adjustment of the electricity transmission grids owned by CEMIG, as specified by the concession contract, occurs annually in June. The concession contract used to establish a four-year period between periodic revisions. After the implementation of Law 12,783/2013 - Extension of Concessions, from 2013 onward, the amended concession contracts establish a five-year period between periodic revisions.

In 2010, Aneel approved the results for the second periodic revision, again with a reassessment of the entire asset base of Cemig Generation and Transmission. The results were released through Resolution No. 988, on June 18, 2010 defining a decrease in the annual revenue of 15,88%., The readjustment is retroactive to 2009, since the regulator had been working on the definition of the rules to be applied for this revision.

The concession contract provides that the revenue requirements are restated for inflation annually. Until January 2013, the index used to restate the annual inflation was the General Market Price Index, IGP-M. This IGP-M index rose 4.26% from June 2011 to May 2012 increasing the revenue for the 2012-2013 cycle. In June 2011, Aneel approved an increase in the transmission revenue of 5,0%. After the implementation of Law 12,783/2013 - Extension of Concessions, from 2013 onward, the amended concession contracts establish the IPCA as the inflation index considered to readjust the RAP annually.

By the end of 2012, the Federal Government renewed Cemig's transmission concession and reduced the revenue from January 2013 to R\$148 million per year, which does not include Heritage Training Programme for Civil Servants (Programa de Formação do Patrimônio do Servidor Público, or PASEP) and Social Security (Contribuição para o Financiamento da Seguridade Social, or COFINS) taxes.

In July 2013, with the annual tariff adjustment, the RAP of Cemig GT was increased to R\$ 199 million, resulting from the addition of revenue from new works, a portion for adjustments related to the previous year, and the inflation adjustment by the IPCA index. The total variation in the RAP from January to July was 11.66%.

Rationing of electricity and government measures to compensate electricity concession holders

In late 2000 and early 2001, low levels of rainfall, significant growth in demand for electricity, and Brazil's significant dependence on electricity generated from hydroelectric sources resulted in an abnormal fall in levels at several of the reservoirs used by Brazil's largest hydroelectric generation plants. In May 2001 the federal government announced a group of measures requiring reduction in consumption of electricity in response to those conditions (the Brazilian electricity rationing plan). Under this agreement electricity distribution and generation companies (such as our Company) were recompensed for the losses of revenue resulting from the rationing imposed by the federal government either due to lower volume of sales, or reduction in electricity selling prices, or purchases of electricity on the CCEE. This compensation was given in the form of the right to charge extraordinary increases in electricity tariffs to consumers over a future period, which averaged 74 months, and ended in March 2008.

However, the New Industry Model (one of the principal purposes of which is to guarantee supply of electricity) created auctions for the Regulated Market (Ambiente de Contratação Regulado, or ACR), in which it is possible to buy electricity from new plants to guarantee supply. Since the New Industry Model was introduced, approximately 47,000MW of capacity have been placed in these auctions, for installation between 2008 and 2017.

Of this amount, a total of 5.97MW was contracted in Reserve Auctions that is to say, this power capacity is not committed to any contract, or to any minimum supply.

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In the rainy season of late 2012 and early 2013, there was much less rainfall than expected in Brazil's Southeastern region (November to March), and in this situation the thermoelectric plants were activated to generate complementary supply to meet the system's electricity consumption needs. In this period the principal strategy of the national system operator (Operador Nacional do Sistema Elétrico, or ONS) was to preserve storage capacity at the reservoirs of hydroelectric plants, to ensure supply of the system's energy needs over the whole of the year 2013. This resulted in a high level of expenses on thermoelectric generation, and a sustained increase in the spot market price which averaged R\$ 121.29/MWh in July 2013.

In the rainy season of 2013-14, rainfall in the Southeast has again been significantly lower than the expected averages. This has placed the system in a state of alert at the beginning of 2014, focusing on means of maintaining the capacity to supply the system's consumption needs. Storage levels are again lower than expected for the period, and final figures for rainfall and flows in the period were awaited, to give a complete picture of the need for adjustments of load to preserve the capacity to serve the market. At this moment the state is one of alertness to the need to preserve this capacity.

Early Settlement of Account Receivable from the Minas Gerais State Government

We had an account receivable from the State Government, referred to as the CRC Account, referred to as the CRC Agreement, related to some credits against the Federal Government that were transferred to the State Government, that totaled R\$ 2,422 million as of December 31, 2012.

On November 20, 2012, a commitment agreement was signed between Cemig and the State of Minas Gerais, subsequently ratified by the Board of Directors of Cemig (CRCA 124/2012, of December 21, 2012), under which the board agreed to an early payment by the State of Minas Gerais of the outstanding balance due under the CRC Agreement. On January 25, 2013, the commitment agreement was amended to rectify the amount of the debt, as authorized by the Board of Directors (CRCA 001/2013, of January 18, 2013).

Under the commitment agreement, as amended, the State of Minas Gerais recognized its obligation for the outstanding balance of the CRC Agreement debt in the total amount of R\$ 6,283 million, including accrued interest up to October 31, 2012, resulting, after application of an agreed upon 35% discount for the early settlement, in an updated debt obligation of R\$ 4,084 million as of the same October 31, 2012 base date.

The account receivable has been settled with the State of Minas Gerais through a payment to CEMIG of R\$ 4,211 million in some dates from December 18, 2012 to March 11, 2013.

In light of the early settlement of the CRC Account, Cemig decided to buy back the senior units of the FIDC to which Cemig had assigned all its receivables under the CRC Account and, once in possession of all the units, terminate the FIDC, with payment by assignment of the credit rights that comprise the FIDC portfolio, at the price recorded in the FIDC. We believe the repurchase of the outstanding units of the FIDC was necessary so that the CRC settlement agreement would be negotiated and entered into by State of Minas Gerais and Cemig, with no need to involve the FIDC.

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On December 5, 2012, Cemig repurchased, in the secondary market, the outstanding balance of the senior units of the FIDC owned by Banco Itaú BBA, Bradesco and two Bradesco mutual funds (Bradesco FI Multimercado CP Invest no Exterior and Bradesco FI Multimercado Pioneiro), for the amount of approximately R\$ 711,3 million. This amount represents the sum of the installment payments not yet due, adjusted by the accumulated CDI rate from the date of issuance of the senior units of the FIDC up to the date of the purchase, as per the criteria established in Article 38, Paragraph 7 of the Regulations of the FIDC for the eventuality of extraordinary amortization of the senior units, as authorized by the Board of Directors through Board Spending Decision (CRCA) 101/2012, of December 5, 2012.

Cemig, as holder of the totality of the subordinated units and senior units of the FIDC, liquidated the FIDC on December 17, 2012, by redeeming the totality of the senior and subordinated units issued by the FIDC in circulation, and subsequently terminated the activities of the FIDC, with the simultaneous termination of the senior units and subordinated units, with payment by assignment of the credit rights that comprised the FIDC portfolio, at the price registered in the FIDC of approximately R\$ 1,785 billion.

Exchange Rates

Substantially all of our revenues and operating expenses are denominated in *reais*. However, we have foreign currency-denominated debt. As a result, in reporting periods when the real declines against the dollar or other foreign currencies in which our debt is denominated, our operating results and financial position are adversely affected. Foreign exchange gain or loss and monetary variation gain or loss may impact our results of operations in periods in which there are wide swings in the value of the real relative to the dollar or high inflation. We have a number of financial and other contracts under which we owe, or are entitled to, amounts in respect of monetary variation as measured by an index of price inflation in Brazil. In 2012, the Company had swap contracts for the purpose of converting the original interest rate, of a particular financing, from an interest rate based on the variation in the exchange

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rate of the US dollar, to an interest rate based on the Brazilian Interbank CD Rate (the Certificado de Depósito Interbancário, or CDI, Rate). These transactions were settled during 2013. As a result, on December 31, 2013 the Company had no transactions of this nature outstanding.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012*Net Operating Revenues*

Net operating revenues increased 3,5% from R\$14,137 million in 2012 to R\$14,627 million in 2013.

	2013 (in millions of R\$)	% of net operating revenues	2012 (in millions of R\$)	% of net operating revenues	2013 versus 2012 %
Electricity sales to final consumers	12,597	86.1	13,691	96.8	(8.0)
Revenue from wholesale supply to other concession holders and PROINFA)	2,144	14.7	1,689	11.9	26.9
Revenue from use of the electricity distribution grid -TUSD	1,008	6.9	1,809	12.8	(44.3)
Revenue from use of the concession transmission system)	404	2.8	662	4.7	(39.0)
Transmission indemnity revenue	21	0.1	192	1.4	(89.1)
Construction revenues	975	6.7	1,336	9.4	(27.0)
Transactions in electricity on the CCEE	1,193	8.2	387	2.7	208.3
Other operating revenues	1,047	7.2	506	3.6	106.5
Taxes on revenue and regulatory charges	(4,762)	(32.6)	(6,135)	(43.4)	(22.4)
Total net operating revenues	14,627	100.0	14,137	100.0	3.5

Electricity sales to final consumers

Revenue from electricity sales to final consumers (excluding Cemig's own consumption) decreased R\$1,094 million or 8% from R\$13,691 million in 2012 to R\$12,597 million in 2013.

The variation mainly reflects the following factors:

- The average tariff charged to captive consumers of Cemig D – the Distribution company – was reduced by 18.14% by the Extraordinary Tariff Review created by Provisional Measure 579/2012. These tariffs were in effect from January 24, 2013 to April 7, 2013, the date on which the Periodic Tariff Review of Cemig D was completed.

- The total volume of electricity supplied to final consumers was 1.78% lower in 2013 than in 2012.
- Cemig D's Annual Tariff Adjustment of 2012 increased the average rate paid by captive consumers by 3.85% from April 8, 2012 (hole effect in 2013);
- The Tariff Review effective April 8, 2013 increased Cemig D's tariff charged to captive consumers by a further 2.99%, from April 8, 2013.
- Readjustment on the energy sales contracts to free consumers in 2013, most contracts being indexed to the variation of the IGP-M.

Revenue from wholesale supply to other concession holders

Revenue from wholesale supply to other concession holders increased by R\$455 million or 26,9% from R\$1,689 million in 2012 to R\$2,144 million in 2013. This variation comes from the increase of 5,2% on the average price for these sales that went from R\$126,35/MWh in 2012 to R\$ 132,948 /MWh in 2013 and from the increase of 20,6%, in the volume of electricity sold to other concession holders that went from 13,368,096 MWh in 2012 to 16,127,376 MWh in 2013.

Revenue from use of the electricity distribution grid (TUSD)

Revenue from the use of the electricity distribution system (TUSD) decreased R\$801 million, or 44,3%, from R\$ 1,809 million in 2012 to R\$1,008million in 2013. This revenue comes from charges for energy sold to Free Consumers located in CEMIG's

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concession area, and the variation in 2013 is due to the reduction on the rate arising from the tariff revision of Cemig D, with average effect perceived by free consumers of 33.22%, as of April 8, 2013, and reduced consumption of large industrial customers in 2013.

Revenue from use of the concession transmission system

Revenues from use of basic transmission system decreased by R\$ 258 million, or 39.1%, from R\$ 662 million in 2012 to R\$ 404 million in 2013. Such revenues come from the transmission capacity of Cemig GT available for the national system, and this variation is mainly due to the renewal of concessions old broadcast of the Company, from 2013 that came to be paid only for the operation and maintenance of infrastructure, according to the terms of Provisional Measure No. 579 (converted into Federal Law No. 12.783/13).

Transmission indemnity revenue

In 2012 the Company posted an estimated gain of R\$ 192 million, reflecting indemnity for the transmission assets that were within the criteria of Provisional Measure 579. In 2013 the amount was R\$ 21 million, due to revision of the estimate of the amounts posted the previous year. There are more details in Explanatory Note 4 to the consolidated financial statements.

Revenue from transactions in electricity on the CCEE

Revenue from transactions on the wholesale electricity market (*Câmara de Comercialização de Energia* – Electricity Trading Chamber – or CCEE) totaled R\$ 1,193 million in 2013, compared to R\$ 387 million in 2012 – an increase of 208.27% from the previous year. This mainly reflects a higher availability of electricity for settlement on the CCEE in the period, which in turn particularly reflects migrated energy of Free Consumers, and excess amounts of electricity under availability contracts – associated with the average spot price (*Preço de Liquidação de Diferenças*, or PLD) being 57.81% higher in 2013, at R\$ 263.06/MWh, compared to R\$ 166.69/MWh in 2012.

Sales on the Spot Market

Cemig GT had positive exposure of 3,464.5 GWh to the spot market in 2013. Of this total, 20.4% was sale of secondary electricity supply, made available by the system through the Electricity Reallocation Mechanism (*Mecanismo de Realocação de Energia*, or MRE), and 30.0% was from settlement of the energy from the *Jaguara* hydro plant, which is under the effect of a court injunction. The positive exposure in 2013 generated revenue of R\$ 1,001.4 million. From this result, it can be seen that a majority of resources available for sale came from firm bilateral contracts, both from Cemig's own plants and also from purchase of energy from third parties. The commercial opportunities that occurred provided the possibility of liquidation of part of our support supply, as well as secondary energy, at high spot rates, thus adding value and profit to the company.

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Cemig GT

	GWh	2011	2012	2013
Electricity sold on the CCEE		343	938	4,411
MRE adjustment (Secondary supply)		4150	2949	707
MRE adjustment (GSF <1)		-647	-1048	-2701
Jaguara Plant (Injunction)		0	0	1048
Total		3,846	2,840	3,465

In 2011, almost all of the electricity sold on the CCEE was secondary supply – it is mandatory that this should be placed and sold on the spot market. The trend was similar in 2012. Due to the high spot market prices at the beginning of 2013, the de-contracted supply that the company had in hand was seasonalized so as to be settled in January 2013 – the average spot price for that month was R\$ 413.95 / MWh.

Cemig D had negative exposure of 103.1GWh in the short-term market in 2013. This was due to the A-1 auction at the end of 2012 not taking place, and the lack of success of the auctions over the course of 2013. Cemig D also had involuntary exposure, due to delays in commercial start-up of plants that had sold electricity to distributors at the auctions held by the Mining and Energy Ministry (MME), and also because of the loss of the contracts of plants that were not built, in spite of having sold energy at MME auctions. Possible financial losses or gains from Cemig D's spot market exposure are accounted by Aneel for passing on to the final tariffs paid by the company's consumers.

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Cemig D

	GWh	2011	2012	2013
Electricity sold on the CCEE		465	-52	-1,376

Construction revenues

Construction revenues reduced R\$360 million, from R\$ 1,336 million in 2012 to R\$ 975 million in 2013, due to a smaller investment in concessions actives. Those revenues represent the investments in concessions assets. See Note 26 to our consolidated financial statements.

Other operating revenues

Other operating revenue increased by R\$ 541 million, or 106.92%, from R\$506 million in 2012 to R\$ 1,047 million in 2013, Our other operating revenues are:

	2013	2012
	(in millions of reais)	
Charged services	10	17
Telecommunication services	127	145
Rendering services	122	96
Grants	673	176
Rent and Lease	57	71
Other	58	1