

ENERGY CO OF MINAS GERAIS

Form 20-F

April 30, 2014

[Table of Contents](#)

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

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**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**

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**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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Table of Contents

**Table of Contents**

<u>PART I</u>		4
<u>Item 1.</u>	<u>Identity of Directors, Senior Management and Advisers</u>	4
<u>Item 2.</u>	<u>Offer Statistics and Expected Timetable</u>	4
<u>Item 3.</u>	<u>Key Information</u>	4
<u>Item 4.</u>	<u>Information on the Company</u>	20
<u>Item 4A.</u>	<u>Unresolved Staff Comments</u>	71
<u>Item 5.</u>	<u>Operating and Financial Review and Prospects</u>	71
<u>Item 6.</u>	<u>Directors, Senior Managers and Employees</u>	94
<u>Item 7.</u>	<u>Major Shareholders and Related Party Transactions</u>	104
<u>Item 8.</u>	<u>Financial Information</u>	106
<u>Item 9.</u>	<u>The Offer and Listing</u>	113
<u>Item 10.</u>	<u>Additional Information</u>	117
<u>Item 11.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	133
<u>Item 12.</u>	<u>Description of Securities Other than Equity Securities</u>	135
<u>PART II</u>		136
<u>Item 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	136
<u>Item 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	136
<u>Item 15.</u>	<u>Controls and Procedures</u>	136
<u>Item 16A.</u>	<u>Audit Committee Financial Expert</u>	138
<u>Item 16B.</u>	<u>Code of Ethics</u>	138
<u>Item 16C.</u>	<u>Principal Accountant Fees and Services</u>	138
<u>Item 16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	139
<u>Item 16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	140
<u>Item 16F.</u>	<u>Change in Registrant's Certifying Accountant</u>	140
<u>Item 16G.</u>	<u>Corporate Governance</u>	140
<u>PART III</u>		140

Edgar Filing: ENERGY CO OF MINAS GERAIS - Form 20-F

<u>Item 17.</u>	<u>Financial Statements</u>	141
<u>Item 18.</u>	<u>Financial Statements</u>	141
<u>Item 19.</u>	<u>Exhibits</u>	142

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Table of Contents

**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.

Table of Contents

**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).

Table of Contents

**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.

Table of Contents

**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

Table of Contents**Selected Consolidated Financial Data in IFRS****Selected Consolidated Financial Data in IFRS**

	As and for the year ended December 31,					
	2013 (in millions of US\$)(1)	2013	2012 (4)	2011(4)	2010(5)	2009(5)
	(in millions of R\$ except per share/ADS data or otherwise indicated)					
<b>Income Statement Data:</b>						
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)	427	1,008	1,809	1,771	1,658	1,332
Revenue from use of the concession transmission system	171	404	662	612	1,141	879
Transmission indemnity revenue	9	21	192	-	-	-
Construction revenues	413	975	1,336	1,232	1,341	1,291
Transactions in electricity on the CCEE	505	1,193	387	175	133	137
Other operating revenues	444	1,047	506	362	924	652
Taxes on revenue and regulatory charges	(2,017)	(4,762)	(6,135)	(5,785)	(6,095)	(5,737)
Total net operating revenues	6,196	14,627	14,137	12,393	13,790	13,425
Operating costs and expenses:						
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	(74)	(176)	(134)	(124)	(107)	(150)
Materials	(52)	(123)	(73)	(81)	(134)	(114)
Provisions for operating losses	(129)	(305)	(671)	(166)	(138)	(124)
Employee and managers profit shares	(94)	(221)	(239)	(219)	(325)	(239)
Construction costs	(413)	(975)	(1,336)	(1,232)	(1,328)	(1,410)
Other operating expenses, net	(210)	(493)	(481)	(327)	(321)	(316)
Total operating costs and expenses	(4,758)	(11,231)	(11,527)	(9,128)	(10,231)	(9,767)
Equity in Subsidiaries	324	764	865	539		-
Gain on disposal of investment	120	284	-	-		-
Unrealized gain on disposal of investment	(34)	(81)	-	-		-
Operational profit before Financial revenue (expenses) and Taxes	1,848	4,363	3,475	3,804	3,559	3,658
Financial revenues (expenses), net	(130)	(309)	(1,629)	(640)	(753)	(326)
Pretax Profit	1,717	4,054	5,104	3,164	2,806	3,332
Income taxes expense	(402)	(950)	(832)	(749)	(548)	(1,126)
Net profit for the year	1,315	3,104	4,272	2,415	2,258	2,206
Other comprehensive income (loss)	91	213	(412)	(74)	-	(73)
Comprehensive income	1,405	3,317	3,860	2,341	2,258	2,133
Basic 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
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



Table of Contents

	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)
<b>Balance Sheet Data:</b>						
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
<b>Total assets</b>	<b>12,629</b>	<b>29,814</b>	<b>32,570</b>	<b>29,621</b>	<b>33,474</b>	<b>30,294</b>
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
<b>Total current liabilities</b>	<b>2,508</b>	<b>5,922</b>	<b>12,798</b>	<b>8,099</b>	<b>6,403</b>	<b>10,279</b>
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
<b>Total non-current liabilities</b>	<b>4,767</b>	<b>11,254</b>	<b>8,222</b>	<b>9,856</b>	<b>15,595</b>	<b>8,850</b>
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)
<b>Total shareholders' equity</b>	<b>5,354</b>	<b>12,638</b>	<b>11,550</b>	<b>11,666</b>	<b>11,476</b>	<b>11,165</b>
<b>Total liabilities and shareholders' equity</b>	<b>12,629</b>	<b>29,814</b>	<b>32,570</b>	<b>29,621</b>	<b>33,474</b>	<b>30,294</b>

**Other Data:**

	2013	2012(4)	2011(4)	2010(5)	2009(5)
Outstanding shares basic:(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 (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



Table of Contents

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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	<i>Reais per US\$1.00</i>			
	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

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(1) As of April 18, 2014

Year Ended December 31,	<i>Reais per US\$1.00</i>			
	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

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Source: U.S. Federal Reserve Board

Table of Contents

**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

Table of Contents

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,

Table of Contents

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.

Table of Contents

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:

Table of Contents

- 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

Table of Contents

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.*

Table of Contents

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.*

Table of Contents

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.

Table of Contents

**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.

Table of Contents

*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.

Table of Contents

*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.

Table of Contents

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.

Table of Contents

**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.

Table of Contents

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.

Table of Contents

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.:

Table of Contents

Table of Contents

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.

Table of Contents

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 Guanhões Energia S.A. ( Guanhões 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 Guanhões 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)

Table of Contents

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;

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- (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.

Table of Contents

**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 prospects 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:

Table of Contents

- (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:

<b>Contracted capacity (MW)</b>	<b>1090</b>
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
<b>Certified projects (MW)</b>	<b>2200</b>
<b>Projetos Projects in development (MW)</b>	<b>2400</b>

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.

Table of Contents

**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

Table of Contents

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 ).

Table of Contents

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:

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

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.

Table of Contents

**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
<b>REQUIREMENTS</b>	<b>85,844</b>	<b>83,747</b>	<b>81,523</b>
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

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

Table of Contents

*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 produced 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:

Table of Contents

	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
<b>Hydroelectric plants</b>						
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

Table of Contents

	Installed capacity (MW)	Assured power level (1) (average MW)	Started operation	Installed capacity % of total	Expiry of concession or authorization	Cemig stake
<b>Thermoelectric plants</b>						
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%
<b>Wind farms</b>						
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%
<b>Hydroelectric plants of Light</b>						
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%
<b>TOTAL</b>	<b>7,145.30</b>	<b>4,369.03</b>	<b>-</b>	<b>100%</b>	<b>-</b>	<b>-</b>

(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.

Table of Contents

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 Manhuaçu 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.

Table of Contents

*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.

Table of Contents

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 s 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:

Table of Contents

**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 Dores de Guanhães; and one, *Fortuna II*, is in the counties of Virginópolis and Guanhães, all in Minas Gerais State. They 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 Dores 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 Itaocara Consortium:** Since 2008, Cemig GT has held a 49% interest, with Itaocara 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 *Itaocara* power plant, a 151-MW small hydro plant, to be built on the Paraíba do Sul river, between the municipalities of Itaocara 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 Itaocara hydro plant:* A new auction will be held for the concession to operate the *Itaocara* 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	As of December 31		
	2013(1)	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
<b>Total</b>	<b>3,051</b>	<b>5,847</b>	<b>5,807</b>

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

Voltage of Transmission Lines	As of December 31		
	2013(1)	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.

Table of Contents

*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:

Table of Contents

**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

Table of Contents

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.

Table of Contents

*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 Electronuclear 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

Table of Contents

*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 m<sup>3</sup>/day further to the contracts for supply to the thermoelectric generation plants, which total 1,6 million m<sup>3</sup>/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 m<sup>3</sup> 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).

Table of Contents

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, Sîpet 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.

Table of Contents

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 are (i) SAIDI (System Average Interruption Duration Index), expressed as a figure per consumer, in hours per year; and (ii)

Table of Contents

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.

## Table of Contents

Type of sale	GWh		Change, %
	2013	2012	2012 13
<b>Sales to final consumers</b>	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
<b>Wholesale sales (1)</b>	16,127	13,122	22.9
Regulated Market	11,716	10,122	15.7
Free Market	4,411	2,999	47.1
<b>Sales on the CCEE (2)</b>	3,177	3,631	-12.5
<b>Total</b>	<b>64,699</b>	<b>62,920</b>	<b>2.8</b>

(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
<b>Final consumers</b>	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
<b>Wholesale</b>	54	52	3.8
Regulated Market	36	36	0.0
Free Market	18	16	12.5
<b>Total</b>	<b>7,781,508</b>	<b>7,535,169</b>	<b>3.3</b>

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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:

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

Table of Contents

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
<b>Total, industrial consumers</b>	<b>23,452</b>	<b>100.0</b>

*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

Table of Contents

**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 N° 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

Table of Contents

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).

Table of Contents

*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 filled 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.

Table of Contents

With respect to the corrective operation 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 Environmental 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 sustainable 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 Lic