

ENERGY CO OF MINAS GERAIS

Form 20-F

April 30, 2014

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

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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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**PRESENTATION OF FINANCIAL INFORMATION**

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

We maintain our books and records in *reais*. We prepare our financial statements in accordance with accounting practices adopted in Brazil, and with International Financial Reporting Standards or IFRS, as issued by the International Accounting Standards Board (IASB). For purposes of this annual report we prepared the consolidated statements of financial position as of December 31, 2013 and 2012 and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2013, 2012 and 2011, in *reais* in accordance with International Financial Reporting Standards or IFRS, as issued by the IASB. Deloitte Touche Tohmatsu Auditores Independentes has audited our consolidated financial statements as of and for the years ended December 31, 2013 and 2012 and KPMG Auditores Independentes has audited our consolidated financial statements as of and for the year ended December 31, 2011, as stated in their respective reports appearing elsewhere herein.

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

This annual report contains translations of certain *real* amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such U.S. dollar amounts have been translated from *reais* at an exchange rate of R\$2.3608 to US\$1.00, as certified for customs purposes by the U.S. Federal Reserve Board as of December 31, 2013. See Item 3. Key Information Exchange Rates for additional information regarding exchange rates. We cannot guarantee that U.S. dollars can be converted into *reais*, or that *reais* can be converted into U.S. dollars, at the above rate or at any other rate.

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**MARKET POSITION AND OTHER INFORMATION**

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

Certain terms are defined the first time they are used in this annual report. As used herein, all references to GW and GWh are to gigawatts and gigawatt hours, respectively, references to MW and MWh are to megawatts and megawatt-hours, respectively, and references to kW and kWh are to kilowatts and kilowatt-hours, respectively.

References in this annual report to the common shares and preferred shares are to our common shares and preferred shares, respectively. References to Preferred American Depositary Shares or Preferred ADSs are to American Depositary Shares, each representing one preferred share. References to Common American Depositary Shares or Common ADSs are to American Depositary Shares, each representing one common share. Our Preferred ADSs and Common ADSs are referred to collectively as ADSs, and Preferred American Depositary Receipts, or Preferred ADRs and Common American Depositary Receipts, or Common ADRs, are referred to collectively as ADRs.

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

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**FORWARD-LOOKING INFORMATION**

This annual report includes forward-looking statements, principally in Item 3. Key Information, Item 5, Operating and Financial Review and Prospects and Item 11. Quantitative and Qualitative Disclosures about Market Risk. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions relating to, among other things:

- general economic, political and business conditions, principally in Latin America, Brazil, the State of Minas Gerais, in Brazil, or Minas Gerais, the State of Rio de Janeiro, in Brazil, or Rio de Janeiro, as well as other states in Brazil;
- inflation and changes in currency exchange rates;
- enforcement of legal regulation in Brazil's electricity sector;
- changes in volumes and patterns of consumer electricity usage;
- competitive conditions in Brazil's electricity generation, transmission and distribution markets;
- our expectations and estimates concerning future financial performance, financing plans and the effects of competition;
- our level of debt and the maturity profile of our debt;
- the likelihood that we will receive payment in connection with accounts receivable;
- trends in the electricity generation, transmission and distribution industry in Brazil, and in particular in Minas Gerais and Rio de Janeiro;



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- changes in rainfall and the water levels in the reservoirs used to run our hydroelectric power generation facilities;
- our capital expenditure plans;
- our ability to serve our consumers on a satisfactory basis;
- our ability to renew our concessions, approvals and licenses on terms as favorable as those currently in effect or at all;
- existing and future governmental regulation as to electricity rates, electricity usage, competition in our concession area and other matters;
- our ability to integrate the operations of companies we have acquired and that we may acquire;
- existing and future policies of the Federal Government of Brazil, which we refer to as the Federal Government;
- existing and future policies of the government of Minas Gerais, which we refer to as the State Government, including policies affecting its investment in us and the plans of the State Government for future expansion of electricity generation, transmission and distribution in Minas Gerais; and
- other risk factors as set forth under Item 3. Key Information Risk Factors.

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

- delay or prevent successful completion of one or more projects;
- increase the costs of projects; and
- result in the failure of facilities to operate or generate income in accordance with our expectations.

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

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**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**Selected Consolidated Financial Data**

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

The selected consolidated financial data as of December 31, 2013, 2012 and 2011 and for each of the years ended December 31, 2013, 2012 and 2011, in IFRS, has been derived from our audited consolidated financial statements and the notes thereto included elsewhere in this annual report. U.S. dollar amounts in the table below are presented for your convenience. Unless otherwise indicated, these U.S. dollar amounts have been translated from *reais* at R\$ 2.3608 per US\$1.00, the exchange rate as of December 31, 2013. The real has historically experienced high volatility. We cannot guarantee that U.S. dollars can be converted into *reais*, or that *reais* can be converted into U.S. dollars, at the above rate or at any other rate. On April 18, 2014, the exchange rate for *reais* was R\$2.2370 per US\$1.00. See Exchange Rates.

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

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

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



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	As and for the year ended December 31,					2009(5)
	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)	
<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





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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

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**Risk factors**

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

**Risks relating to Cemig**

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

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

*We cannot be certain of the renewal of our concessions.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*We may incur losses in connection with pending litigation.*

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*There are contractual restrictions on our capacity to incur debt.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Our ability to distribute dividends is subject to limitations.*



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

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

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

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

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

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

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

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

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

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

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

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

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**Risks relating to Brazil**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Political and economic instability in Brazil may affect us.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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**Item 4. Information on the Company**

**Organization and Historical Background**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Also in 2012, Cemig began the following activities:

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

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

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

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

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

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

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

**Strategy**

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

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

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

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

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

#### **Acquisition of Interest in Light**

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

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

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

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

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

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

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

On February 10, 2012, Light approved the acquisition of 26,520,000 common shares (equivalent to a 51% equity interest) of 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)

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

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

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

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

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

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

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

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

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

### **Acquisition of the São Gotardo substation by TAESA**

On June 6, 2012, TAESA won Lot E of Aneel Auction 005/2012, TAESA created a special-purpose company ( SPC ) named São Gotardo Transmissora de Energia S.A. to which Aneel granted the right to commercial operation of the concession comprising two transmission functions within the São Gotardo 2 substation in the state of Minas Gerais. TAESA did not offer a discount in relation to the initial base RAP of R\$ 3,74 million and should complete construction in the first semester of 2014.

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**TAESA follow-on equity offering**

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

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

**Acquisition of interest in Renova**

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

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

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

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

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

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

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



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

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

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

This table shows Renova's portfolio of projects:

<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.

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

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

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

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

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

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

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

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

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

**Increase of stockholding in Gasmig**

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

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

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

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

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

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

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

**Investment in Madeira Energia S.A. - Mesa**

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

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

**Creation of Aliança Geração de Energia S.A.:**

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

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

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

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

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

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

**Creation of Cemig Transmissão ( Cemig T - Transmission)**

On October 10, 2013 the Board of Directors of Cemig approved creation of Cemig Transmissão S.A. ( Cemig T ), to be responsible for the management of all the transmission assets at present under the responsibility of Cemig GT. Creation of Cemig T aims to adapt the Cemig Group s structure to the new regulatory environment created by Law 12783 of 2013, also creating greater focus on the transmission business, and improved clarity in management of the revenues and costs of that business.

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

**Capital expenditures**

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

	<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.



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**Business Overview**

*General*

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

*Cemig*

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

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

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

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

**CEMIG S ELECTRIC ENERGY BALANCE (6)**

(GWh)

	2013	2012	2011
RESOURCES	85,884	83,912	81,523
Electricity generated by CEMIG (1)	24,525	35,382	31.276
Electricity generated by auto-producers	841	1,100	997
Electricity generated by Ipatinga	243	309	308
Electricity generated by Barreiro	69	82	60
Electricity generated by Sá Carvalho	338	405	356
Electricity generated by Horizontes	76	54	53

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Electricity generated by Cemig PCH	87	70	51
Electricity generated by Rosal Energia	261	249	251
Electricity generated by Amador Aguiar	406	656	580
Electricity bought from Itaipu	8,374	8,422	8,475
Electricity bought from CCEE and other companies (2)(3)	50,664	37,057	38,953
<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.

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*Generation*

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

*Transmission*

We are engaged in the electric power transmission business, which consists of transporting electric power from the facilities where it is 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:

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

**Power Generation and Trading***Overview*

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

	Installed capacity (MW)	Assured power level (1) (average MW)	Started operation	Installed capacity % of total	Expiry of concession or authorization	Cemig stake
<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					