ENERGY CO OF MINAS GERAIS
Form 20-F
April 29, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

or

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

For the fiscal year ended December 31, 2014

or

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

or

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

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

Commission file number 1-15224

COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG

(Exact name of Registrant as specified in its charter)

ENERGY CO OF MINAS GERAIS

(Translation of Registrant s name into English)

BRAZIL

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

Title of each class:	**Name of exchange on which registered:**
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:

420,764,708 Common Shares

838,076,946 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 x 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 x

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 x 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 x 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 x Other ¨

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 x

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

Table of Contents

Table of Contents

Table of Contents

PRESENTATION OF FINANCIAL INFORMATION

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

We maintain our books and records in *reais*. We prepare our financial statements in accordance with accounting practices adopted in Brazil, and with International Financial Reporting Standards or IFRS , as issued by the International Accounting Standards Board (IASB). For purposes of this annual report we prepared the consolidated statements of financial position as of December 31, 2014 and 2013 and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders equity for the years ended December 31, 2014, 2013 and 2012, in reais in accordance with 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, 2014, 2013 and 2012, as stated in their report 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). 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 to 2012 and 2011 for comparison purposes pursuant to IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). The adoption of this new pronouncement impacted several line items of our consolidated financial statements. The information for 2010 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.

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$2,6563 to US$1.00, as certified for customs purposes by the U.S. Federal Reserve Board as of December 31, 2014. See Item 3. Key Information Exchange Rates for additional information regarding exchange rates. We cannot guarantee that U.S. dollars can be converted into reais, or that reais can be converted into U.S. dollars, at the above rate or at any other rate.

Table of Contents

MARKET POSITION AND OTHER INFORMATION

The information contained in this annual report regarding our market position is, unless otherwise indicated, presented for the year ended December 31, 2014 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, 2010, a 10.00% stock dividend was paid on the preferred and common shares. On May 10, 2010, a corresponding adjustment was made to the ADSs through the issuance of additional ADSs. On April 30, 2012, a 25.00% stock dividend was paid on the preferred shares and common shares. On May 11, 2012, a corresponding adjustment was made to the ADSs through the issuance of additional ADSs. On April 30 2013, a 12.85% stock dividend was paid on the preferred and common shares. On May 14, 2013, a corresponding adjustment was made to the ADSs through the issuance of additional ADSs. On January 3, 2014, a 30.76% stock dividend was paid on the preferred and common shares (in each case paid in preferred shares). On January 10, 2014, a corresponding adjustment was made to the ADSs through the issuance of additional Preferred ADSs to holders of Preferred ADSs and Common ADSs. The Preferred ADSs are evidenced by Preferred ADRs, issued pursuant to a Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, as amended on June 11, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of Preferred ADSs evidenced by Preferred ADRs issued thereunder (the Second Amended and Restated Deposit Agreement). The Common ADSs are evidenced by Common ADRs, issued pursuant to a Deposit Agreement, dated as of June 12, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of Common ADSs evidenced by Common ADRs issued thereunder (the Common ADS Deposit Agreement and, together with the Second Amended and Restated Deposit Agreement, and on the Deposit Agreements).

Table of Contents

FORWARD-LOOKING INFORMATION

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

- general economic, political and business conditions, principally in Latin America, Brazil, the State of Minas Gerais, or Minas Gerais, the State of Rio de Janeiro, 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;
- 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 intend forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

Table of Contents

PART I

Item 1. Identity of Directors, Senior Management and Advisers
Not applicable.

Item 2. Offer Statistics and Expected Timetable
Not applicable.

Item 3. Key Information
Selected Consolidated Financial Data

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

The selected consolidated financial data as of December 31, 2014 and 2013 and for each of the three years ended December 31, 2014, 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$2.6563 per US$1.00, the exchange rate as of December 31, 2014. In light of the depreciation of the Brazilian real compared to the U.S. dollar since December 31, 2014, we have also presented these amounts translated into U.S. dollars at the commercial selling rate at closing as of April 17, 2015 of R$3.0639 to US$1.00. 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. 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). We retroactively applied IFRS 11 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.

We have not restated data for 2010 to reflect the application of IFRS 11. In particular, data 2010 reflect the results of our joint venture entities through proportional consolidation in, 2010, as opposed to the equity method of accounting applicable in 2014, 2013, 2012, and 2011 and therefore data for 2010 is not comparable to data for 2011, 2012, 2013 and 2014.

Table of Contents

Selected Consolidated Financial Data in IFRS

	Year ended December 31,						
	2014	**2014**	**2014**	**2013**	**2012**	**2011**	**2010 (5)**
	(in millions of US$) (1)	in millions of US$) (2)	(in millions of R$ except per share/ ADS data or otherwise indicated)				
Income Statement Data:							
Net operating revenues:							
Electricity sales to final consumers	5,617	4,870	14,922	12,597	13,691	12,522	13,219
Revenue from wholesale supply to other concession holders	870	754	2,310	2,144	1,689	1,504	1,469
Revenue from use of the electricity distribution systems (TUSD)	322	279	855	1,008	1,809	1,771	1,658
CVA and Other financial components of tariffs increases	417	361	1,107				
Transmission concession revenue	210	182	557	404	662	612	1,141
Transmission indemnity revenue	158	137	420	21	192		
Construction revenues	354	307	941	975	1,336	1,232	1,341
Transactions in electricity on the CCEE	884	766	2,348	1,193	387	175	133
Other operating revenues	642	557	1,706	1,047	506	362	924
Deductions from revenue	(2,118)	(1,836)	(5,626)	(4,762)	(6,135)	(5,785)	(6,095)
Net operating revenue	7,356	6,377	19,540	14,627	14,137	12,393	13,790
Operating costs and expenses:							
Electricity purchased for resale	(2,796)	(2,424)	(7,428)	(5,207)	(4,683)	(3,330)	(3,722)
Charges for the use of the national grid	(280)	(243)	(744)	(575)	(883)	(748)	(729)
Depreciation and amortization	(302)	(261)	(801)	(824)	(763)	(786)	(927)
Personnel	(471)	(409)	(1,252)	(1,284)	(1,173)	(1,104)	(1,212)
Gas purchased for resale	(96)	(83)	(254)				(225)
Royalties for use of water resources	(48)	(41)	(127)	(131)	(185)	(153)	(140)
Outsourced services	(359)	(311)	(953)	(917)	(906)	(858)	(923)
Post-retirement liabilities	(80)	(69)	(212)	(176)	(134)	(124)	(107)
Materials	(143)	(124)	(381)	(123)	(73)	(81)	(134)
Operating provisions (reversals)	(219)	(190)	(581)	(305)	(671)	(166)	(138)
Employee and managers profit shares	(94)	(81)	(249)	(221)	(239)	(219)	(325)
Construction costs	(355)	(308)	(942)	(975)	(1,336)	(1,232)	(1,328)
Other operating expenses, net	(197)	(172)	(527)	(493)	(481)	(327)	(321)
Total operating costs and expenses	(5,440)	(4,717)	(14,451)	(11,231)	(11,527)	(9,128)	(10,231)
Equity in earnings of unconsolidated investees, net	79	69	210	764	865	539	
Gain on disposal of equity investment				284			
				(81)			

Unrealized gain on disposal of investment							
Gain on acquisition of control of investee	106	92	281				
Income before Financial income (expenses) and taxes	2,101	1,821	5,580	4,363	3,475	3,804	3,559
Financial revenues (expenses), net	(415)	(359)	(1,101)	(309)	1,629	(640)	(753)
Income before income tax and social contribution tax	1,686	1,462	4,479	4,054	5,104	3,164	2,806
Income taxes expense	(505)	(438)	(1,342)	(950)	(832)	(749)	(548)
Net profit for the year	1,181	1,024	3,137	3,104	4,272	2,415	2,258
Other comprehensive income (loss)				213	(412)	(74)	
Net income for the year	1,181	1,024	3,137	3,317	3,860	2,341	2,258
Basic earnings (loss) (3):							
Per common share	0.94	0.81	2.49	2.47	3.40	1.92	1.79
Per preferred share	0.94	0.81	2.49	2.47	3.40	1.92	1.79
Per ADS	0.94	0.81	2.49	2.47	3.40	1.92	1.79
Diluted earnings (loss) (3):							
Per common share	0.94	0.81	2.49	2.47	3.40	1.92	1.79
Per preferred share	0.94	0.81	2.49	2.47	3.40	1.92	1.79
Per ADS	0.94	0.81	2.49	2.47	3.40	1.92	1.79

Table of Contents

	Year ended December 31,						
	2014 (in millions of US$) (1)	2014 (in millions of US$) (2)	2014	2013	2012	2011	2010 (4)
			(in millions of R$ except per share/ADS data or otherwise indicated)				
Balance sheet data:							
Assets:							
Current assets	2,467	2,139	6,554	6,669	8,804	5,768	8,086
Property, plant and equipment, net	2,087	1,809	5,544	5,817	6,109	6,392	8,229
Intangible assets	1,272	1,103	3,379	2,004	1,874	2,779	4,948
Financial assets of the concessions	2,814	2,440	7,475	5,841	5,475	3,834	7,672
Account receivable from the Minas Gerais State Government						1,830	1,837
Other assets	4,536	3,932	12,048	9,483	10,308	9,018	2,702
Total assets	13,176	11,423	35,000	29,814	32,570	29,621	33,474
Liabilities:							
Current portion of long-term financing	1,992	1,727	5,291	2,238	6,466	4,504	2,203
Other current liabilities	1,819	1,577	4,832	3,684	6,332	3,595	4,200
Total current liabilities	3,811	3,304	10,123	5,922	12,798	8,099	6,403
Non-current financing	3,094	2,682	8,218	7,219	3,950	6,000	11,024
Post-retirement liabilities non-current	933	809	2,478	2,311	2,575	1,956	2,062
Other non-current liabilities	1,090	945	2,896	1,724	1,697	1,900	2,509
Total non-current liabilities	5,117	4,436	13,592	11,254	8,222	9,856	15,595
Share capital	2,369	2,054	6,294	6,294	4,265	3,412	3,412
Capital reserves	725	628	1,925	1,925	3,954	3,954	3,954
Profit reserves	977	847	2,594	3,840	2,856	3,293	2,874
Equity Valuation Reserve:							
Deemed cost of property, plant and equipment	294	255	780	850	959	1,080	1,209
Other Comprehensive Income	(118)	(102)	(312)	(271)	(484)	(73)	2
Equity attributable to non-controlling shareholders	1	1	4				25
Total shareholders equity	4,248	3,683	11,285	12,638	11,550	11,666	11,476
Total liabilities and shareholders equity	13,176	11,423	35,000	29,814	32,570	29,621	33,474
Other data:							

	2014	2013	2012	2011	2010 (5)
Outstanding shares basic: (3)					
Common	420,764,639	420,764,639	420,764,639	420,764,639	420,764,639
Preferred	837.516.297	837.516.297	837.516.297	837.516.297	837.516.297
Dividends per share (3)					
Common	R$ 0.63	R$ 1.28	R$ 2.20	R$ 1.03	R$ 0.95
Preferred	R$ 0.63	R$ 1.28	R$ 2.20	R$ 1.03	R$ 0.95

Dividends per ADS (3)	R$	0.63	R$	1.28	R$	2.20	R$	1.03	R$	0.95
Dividends per share (4) (3)										
Common	US$	0.24	US$	0.48	US$	0.83	US$	0.39	US$	0.36
Preferred	US$	0.24	US$	0.48	US$	0.83	US$	0.39	US$	0.36
Dividends per ADS (4) (3)	US$	0.24	US$	0.48	US$	0.83	US$	0.39	US$	0.36
Outstanding shares diluted: (3)										
Common		420,764,639		420,764,639		420,764,639		420,764,639		420,764,639
Preferred		837,516,297		837,516,297		837,516,297		837,516,297		837,516,297
Dividends per share diluted (3)										
Common	R$	0.63	R$	1.28	R$	2.20	R$	1.03	R$	0.95
Preferred	R$	0.63	R$	1.28	R$	2.20	R$	1.03	R$	0.95
Dividends per ADS diluted (3)	R$	0.63	R$	1.28	R$	2.20	R$	1.03	R$	0.95
Dividends per share diluted (4) (3)										
Common	US$	0.24	US$	0.48	US$	0.83	US$	0.39	US$	0.36
Preferred	US$	0.24	US$	0.48	US$	0.83	US$	0.39	US$	0.36
Dividends per ADS diluted (4) (3)	US$	0.24	US$	0.48	US$	0.83	US$	0.39	US$	0.36

(1) Converted at R$ 2.6563/US$, the exchange rate on December 31, 2014. See: Exchange rates .
(2) Converted at R$ 3.0639/US$, the exchange rate on April 17, 2015. See: Exchange rates .
(3) Per share numbers have been adjusted to reflect the stock dividends on our shares in March 2014 - the total number of shares on the date of the filing of this report is unchanged since that date - and per ADS numbers have been adjusted to reflect the corresponding adjustments to our ADS.
(4) This information is presented in U.S. dollars at the exchange rate in effect as of the end of each year.
(5) 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, adopted from January 1, 2013. The information for 2010 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.

Table of Contents

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 depositary 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 .

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.

	Reais per US$1.00			
Month	**Low**	**High**	**Average**	**Period-end**
October 2014	2.3901	2.5429	2.4495	2.4535
November 2014	2.4964	2.6030	2.5527	2.5720
December 2014	2.5549	2.7306	2.6419	2.6563
January 2015	2.5644	2.7284	2.6346	2.6843
February 2015	2.7016	2.8806	2,8170	2.8618
March 2015	2.8765	3.2931	3.1414	3.1843
April 2015 (1)	3.0180	3.1547	3.0884	3.0639

(1) As of April 17, 2015.

	Reais per US$1.00			
Year Ended December 31,	**Low**	**High**	**Average**	**Period-end**
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
2014	2.1940	2.7306	2.3498	2.6563

Source: U.S. Federal Reserve Board.

Table of Contents

Risk factors

The investor should take into account the risks described below, and the other information contained in this Annual Report, when evaluating investment in our Company.

Risks relating to CEMIG

We are not certain that new concessions will be obtained, nor that our present concessions will be renewed on terms as favorable as those currently in effect, nor that the indemnities received in the event of non-renewal of a concession will correspond to the expected value.

We operate most 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 of 2012 (PM 579), later converted into Law Nº 12,783 of January 11, 2013, which governs extension of the concessions granted prior to Law Nº 9074 of July 7, 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, extending this concession for 30 years under the terms of Provisional Measure 579 (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 Nº 12,783/13, 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*).

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 the issuance of PM 579, namely 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 Nº 12,783/2013. The Company was granted an interim injunction, which is still in effect, to remain in control of the operation of the Jaguara hydroelectric plant until a judgment is given by the courts on the application for mandamus.

On the same grounds, and with expiry imminent of the period originally specified for the concession of the São Simão Hydroelectric Plant (the São Simão Plant), Cemig Generation and Transmission (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, under Clause 4 of Concession Contract 007/1997, obeying the original bases of this contract, which were prior to Law Nº 12783/2013. The Company obtained initial interim relief from the court, which

is still in force, to enable it to continue in control of the commercial operation of the São Simão Plant until judgment is given in the application for mandamus in relation to the Jaguara Plant (referred to above). The Reporting Justice of the Court stated in his interim decision that in the event that the judgment on the mandamus in the Jaguara case is not given within 45 days after the start of the activities of the First Section of the Higher Appeal Court (Tribunal Superior de Justiça, or STJ) in 2015, he may re-examine the case. The chances of loss in both these actions relating to the Jaguara Plant and the São Simão Plant have been classified in the category possible , due to their nature and the complexity involved in these particular cases. 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 two actions will be regarded as leading cases when extension of concessions is considered by the Brazilian Courts. In January 2015, the Company, through its CEO, indicated to the market that it assumes the commitment to negotiate continuity of the concession of the plants referred to, that is to say the Jaguara, São Simão, and Miranda hydroelectric plants.

Table of Contents

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 new concession contracts and renewal of existing concessions, and due to the new provisions established by PM 579 (and subsequently Law 12,783/13) for renewals of distribution, generation and transmission concession contracts, we cannot guarantee: (i) that new concessions will be obtained; nor (ii) that our present concessions will be renewed on terms as favorable as those currently in effect; nor (iii) that the indemnities received in the event of non-renewal of a concession will be in the amount expected. In this context, unfavorable events in relation to the concessions could adversely affect our business, results of operations and financial condition

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 has a complementary thermal generation system with about 20% of its total power generation capacity. It also has accumulation reserves, for the purposes of maintaining water from the rainy season to the dry season and from one year to the next. However, these mechanisms are not capable of absorbing all the adverse consequences of a prolonged shortage of water, such as the one that has occurred in 2014, to date.

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, the ONS can reduce generation by hydroelectric plants and increase thermal generation, which results in higher costs for the hydroelectric generators as it did in 2014. In the distribution companies, this increase in costs generates an increase in the price of purchase of electricity that is not always passed through directly to the consumer, causing mismatches in cash flows, with adverse effect on business, and financial conditions. Also, in the event of extreme shortages of electricity due to adverse hydrological situations, the system could undergo rationing, which can mainly result in a reduction of cash flow.

To mitigate the effect of the seasonality of generation of the hydroelectric plants, the Energy Reallocation Mechanism (*Mecanismo de Realocação de Energia, or MRE*) was created. This mechanism shares the generation of all the hydraulic plants in the system in such a way as to compensate the shortage of generation of one plant with excess generation by another, thus completing the generation necessary from all the plants in the MRE. However, this mechanism is not capable of mitigating the whole of the risk of the generation agents, because when there is a very adverse hydrological situation, such that all the plants in aggregate are unable to reach the sum of their Physical Guarantee levels of power output, this mechanism makes an adjustment to the Physical Guarantee of each plant through the Physical Guarantee Adjustment Factor (*Fator de Ajuste da Garantia Física, or GSF*), leading the generating companies to an exposure to the short-term (spot) market .

In 2014, factors such as reduction of consumption, low storage levels in the reservoirs, low hydrology and higher dispatching of thermoelectric plants led to reduction in hydroelectric generation which in turn affected the GSF factor, causing it be lower. The generators are aware of this risk they normally separate approximately 5% of their physical guarantee levels to mitigate the levels of the GSF. However, as we have seen extraordinary events led to a GSF below the values expected by the generators, closing the year of 2014 at 0.91. This means a reduction of almost 10% in the output of the generators and when there is no excess to compensate this reduction the results is that they are exposed to the spot market. The exposures to the spot market, and the balance between requirements and resources, are measured monthly by the CCEE. These exposures, negative or positive, are valued by the spot price (PLD). If the exposures are negative the generator will have a debit in the CCEE, thus affecting its cash flow.

The rules for electricity trading and market conditions may affect the sale prices of electricity.

Under the applicable law, our generation companies are not allowed to sell electricity directly to our distribution companies: the power produced by our generation companies is sold in the Regulated Market (Ambiente de Contratação Regulado, or ACR also referred to as the Pool) through public auctions conducted by ANEEL, or in the Free Market (Ambiente de Contratação Livre, or ACL). The applicable legislation allows the distributors that enter into contracts with the generation companies in the Regulated Market (ACR) to reduce the quantity of energy contracted by up to 4% per year, in relation to the value of the original contract, for the entire period of the contract, and this exposes our generation companies to the risk of not being able to sell this power, that has been de-contracted, at adequate prices.

Table of Contents

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 allow this type of consumer to buy a higher or lower volume of electricity from our generation companies than originally contracted (by 5% on average), and this could adversely affect our business, results of operations and financial situation. Other contracts do not allow for this kind of flexibility in the purchase of electricity, but 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 the Free Consumers referred to above, there is a category of clients referred to as Special Consumers , which are those with contracted demand between 500 kW and 3 MW. Special Consumers are eligible to enter the Free Market provided 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, and since 2009 the volume of sales of this type of incentive-bearing power supply has been gradually increased, and the Company has formed a portfolio of purchase contracts that now occupies an important space in the Brazilian electricity market for incentive-bearing alternative power sources. 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 historic behavior of these loads. Higher or lower levels of consumption by these clients may cause purchase or sale exposures to spot prices, which can have an adverse impact on our business, operation results and/or financial situation. Market variations, such as variations of prices for signature of new contracts, and of volumes consumed by our clients in accordance with flexibilities previously contracted, can lead to spot market positions, with the potential of a negative financial impact on our results.

The Energy Reallocation Mechanism (Mecanismo de Realocação de Energia, or MRE) was created to reduce the exposure of the hydroelectric generators, such as our generation companies, to the uncertainties of hydrology. It functions as a pool of generators, in which the generation of all the plants participating in the MRE is shared in such a way as to meet the demand of the pool. When the totality of the plants generates less than the amount demanded, the mechanism reduces the assured offtake levels of the plants, causing a negative exposure to the short-term (spot) market and, as a consequence, the need to purchase power supply at the spot price (the *Preço de Liquidação de Diferenças, or PLD*). Analogously, when the totality of the plants generates more than the volume demanded, the mechanism increases the assured offtake level of the plants, leading to a positive exposure, permitted the sale of power at the spot rate (PLD). In years of very critical hydrology the reduction factor applying to the assured energy levels can reduce those levels of the hydroelectric plants by up to 20% or more.

Low liquidity or volatility in future prices, due to market conditions and/or perceptions, could negatively affect our results of operations. Also, if we are unable to sell all the power that we have available (our own generation capacity plus 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 in the Electricity Trading Chamber (*Câmara de Comercialização de Energia Elétrica*, or CCEE) at the spot price (*PLD*), which tends to be very volatile. If this occurs in periods of low spot prices, our revenues and results of operations could be adversely affected.

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

The prices of electricity purchase contracts signed by electricity distribution concession holders such as ourselves are linked to certain variables that are not under their control, such as hydrological conditions and dispatching of thermoelectric plants. Although any increases are passed through to the electricity distribution concession holders in the form of tariff increases at the time of their tariff adjustments, this situation can result in mismatches of cash flow, with an adverse impact on the Company s business, results of operations and financial condition.

In the trading year of 2013, the mismatch in the distributors cash flow was significantly reduced by the 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 pay a significant proportion of these expenses. In 2014, the hydrological situation led to an increase in the spot price (PLD), and consequently the cost of these contracts, added to effect of increased exposure to the spot market, further pressured the cash flow of the distributors. To alleviate the problem the government created an operational measure through the Electricity Trading Chamber (*Câmara de Comercialização de Energia Elétrica*, or CCEE), consisting of a series of bank loans paid to the distributors through the ACR Account (or Conta-ACR). This account, managed by the CCEE, passes through to the distributors, each month, the amounts necessary to cover their exposure to the short-term market and their availability contracts. Subsequently, starting in 2015, this amount will be paid by an extra charge on tariffs to the consumer. Other measures taken by the government to relieve the pressure on the cash of the distributors were: (i) to hold an auction during the year, where power contracts for five years were traded; (ii) to reduce, in the spot market, the maximum spot price (PLD) for settlement of differences between the volumes contracted and consumed by the distributors; (iii) adoption of a system of tariff bands , starting in 2005, which will more rapidly transfer part of the costs to the consumers when the generating system is under adverse hydrological conditions. Also there is a provision for an adjustment of tariffs to be made by an extraordinary review of the concession contracts of distribution companies.

Table of Contents

In 2014 the federal government undertook another round of funding support transactions, with funds from the Energy Development Account (Conta de Desenvolvimento Energético, or CDE). These funds relate to subsidies, including those for low-income consumers, and other components, including access for irrigators, access to water and water services, and rural consumption, which had been withdrawn from the tariff adjustment process at the implementation of Law Nº 12,783/2013. These funds were sourced from the federal government, and paid through Eletrobrás.

We note that if there is a delay in these payments it could cause problems of mismatch in the cash flow of our distribution company (Cemig D).

We are subject to extensive and uncertain governmental legislation and regulation and any changes to such legislation and regulation could have a materially adverse effect on our business, results of operations and financial condition.

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 added 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.

Alterations in the legislation or in the regulations relating to the Brazilian electricity industry could adversely affect our business strategy and the conduct of our activities if we are not able to anticipate the new conditions or if we are unable to absorb the new costs or pass them through to clients.

Programs of investment and acquisitions will require additional capital, which might not be available on acceptable terms.

We will need funds to finance acquisitions and investments. However, we cannot guarantee that we will have our own funds or that we will be able to raise such funds in a timely manner and in the necessary amounts, or at competitive rates (by issuance of debt securities, or raising of loans) to finance investments and acquisitions. If we are unable to obtain 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.

Disruptions in the operation of, or deterioration of the quality of, our services, or those of our subsidiaries, could have an adverse effect on our business, financial situation and results of operations.

The operation of complex electricity generation, transmission and distribution systems and networks involves various risks, such as operational difficulties and unexpected interruptions, caused by accidents, breakage or failure of equipment or processes, performance below expected levels of availability and efficiency of assets, or disasters such as explosions, fires, natural phenomena, landslides, sabotage, vandalism, or other similar events. Furthermore, operational decisions by the authorities responsible for the electricity network, the environment, operations and other issues that affect electricity generation, transmission or distribution could adversely affect the functioning and profitability of the operations of our generation, transmission and distribution systems. If such factors occur, our insurance cover might be insufficient to cover in full the costs and losses that we might incur due to damage caused to our assets, or due to outages.

Further, the revenues that the Company and its subsidiaries generate from establishing, operating and maintaining its facilities are related to the availability of the equipment and assets, and to the quality of the services (continuity and service in accordance with levels demanded by the regulations). Under the related concession contracts, the Company and its subsidiaries are subject to: (i) reduction of their Portion B allocation (due to increase of the component Q in the formula for the X Factor at the time of the tariff review for the distributors; (ii) reduction of the Permitted Annual Revenue (Receita Anual Permitida, or RAP), for the transmission companies; (iii) effects on the Availability Factor (Fator de Indisponibilidade, or FID) and the offtake guarantee levels for the generation facilities; and (iv) application of penalties and payment of compensation amounts, depending on the scope, severity and duration of non-availability of the services and equipment. Therefore, outages or stoppages in our generation, transmission and distribution facilities, or in substations or networks, may cause a material adverse effect on our business, financial situation and results of operations.

Table of Contents

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

As our controlling shareholder, the government of the Brazilian State of Minas Gerais exercises substantial influence on the strategic orientation of our business. Currently it holds 51% of our common shares and, consequently, has the majority of votes in decisions of the General Meetings of Shareholders, and can: (i) elect the majority of the members of the Board of Directors; and (ii) approve matters that require a specific quorum of our shareholders. The latter include transactions with related parties, shareholding reorganizations and the date and payment of any dividends.

The state government, in its status as our controlling shareholder, has the capacity to orient the Company to concentrate on activities and make investments that are intended to promote its own economic or social objectives, which may be not strictly in alignment with the strategy of the Company.

Our subsidiaries may suffer intervention by public authorities to ensure appropriate provision of services, or imposition of fines by ANEEL, for failing to comply with their concession agreements and/or authorizations, 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 for breach of contract of up to 2.0% of the concession holder s revenues in the 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. It can also intervene in concessions for the purpose of ensuring adequacy in provision of services, and faithful compliance with relevant provisions of contracts, regulations or law, and may also interfere in the

operations of, and revenues arising from, the operations of the facilities of the Company and its subsidiaries.

Delays in the implementation and construction of new electricity 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 termination of concessions or authorizations.

ANEEL may 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 smaller, due to fines or other penalties. Rescission of our concession contracts, or imposition of penalties, could adversely affect the Company s business, results of operations and financial condition.

ANEEL has discretion to establish the rates that distribution companies charge their consumers. These rates are determined by ANEEL in such a way as to preserve the economic and financial balance of concession contracts entered into with ANEEL.

Table of Contents

Concession agreements and Brazilian law establish a mechanism that permits three types of rate adjustment: (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 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 variations in costs referred to above; remunerate the assets that the company has built in the period; and establish a factor based on 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 that significantly alters the economic-financial equilibrium of the concession. Thus, although our concession contracts specify that the economic and financial balance of the contract shall be preserved, we cannot guarantee that ANEEL will set tariffs that adequately remunerate us in relation to the investments made or in relation to the operational costs incurred by reason of the concession.

Anee has discretion in setting the Permitted Annual Revenue (Receita Annual Permitida or RAP) of our transmission companies; if any adjustments result in a reduction of the RAP, this could have a material adverse effect on our results of operations and financial condition.

The 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) the annual tariff adjustments; and (ii) the Periodic Tariff Review (Revisão Tarifária Periódica). 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 12,783/2013 changed the tariff review period to five years. Our last tariff review was in July, 2009, and the next is estimated for 2018 considering the Extraordinary Review occurred in 2013 with the edition of Law n. 12,783/13. 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, results of operations and financial condition.

As mentioned, we extended the concessions of certain of our transmission lines, under Law Nº 12,783/13, 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 12,783/13, 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.

Delays in the expansion of facilities, in new investments and in capitalizations in our generation, transmission and distribution companies could adversely affect our business results of operations and financial condition.

We are currently engaged in the construction of additional hydroelectric and wind power plants, transmission lines, distribution lines and substations, and assessment of other potential expansion projects. Our ability to complete expansion project, new investments and the related capitalizations on schedule and within budget, without adverse

economic effects, is subject to a number of risks. For example:

- we may experience problems in the phase of planning and construction of an expansion project or a new investment (e.g.: labor stoppages, embargos on works, unforeseen geological and meteorological conditions, political and environmental uncertainties, and liquidity of partners, contractors or subcontractors);

- we may face regulatory or legal challenges that delay the initial operation date of expansion projects;

- our new facilities may possibly not operate at the planned capacity, or their 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, distribution lines, transmission lines or substations.

Table of Contents

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

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

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, can have as consequence, 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 imprisonment and restriction of rights, 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, results of operations and financial condition.

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 (Decree 45,175) 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 July 18, 2000 (Federal Law 9,985), 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.

Among the provisions of law that can lead to operational investments and expenses, one is compliance with the Stockholm Convention on Persistent Organic Pollutants, to which Brazil is a signatory, assuming the international commitment to withdraw use of PCB by 2025, and its complete destruction by 2028, through Decree No. 5472, of

June 20, 2005. The legislation to be passed for this purpose could have a strong effect on the electricity industry and on Cemig, due to the possibility of obligations to list, replace and dispose of equipment and materials containing substances included in the Convention such as Polychlorinated Biphenyls (PCBs).

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, results of operations and financial condition.

It is possible that we may not succeed in implementing, in a timely fashion, or without incurring unforeseen costs, the strategies contained in our Long-term Strategic Plan[(1)], and this could have adverse consequences for our businesses, results of operations and financial condition.

(1) This contains the long-term strategic planning and the fundamentals, targets, objectives and results to be pursued and achieved by the Company. It is reviewed annually by the Executive Board and approved by the Board of Directors.

Table of Contents

Our capacity to achieve strategic objectives depends, largely, on successful, timely implementation with good cost-benefit ratio, of our Long-term Strategic Plan. The following are some of the factors that could affect this implementation:

Capacity to generate cash flow or obtain future financings necessary for implementation of the projects.

Delays in the delivery of equipment by suppliers.

Delays resulting from failures of suppliers or third parties in compliance with their contractual obligations.

Significant alterations in the economic, regulatory, hydrological or other scenarios.

Any delays, such as those referred to, or significant increases in our costs, could delay or prevent successful implementation of our Long-term Strategic Plan, which could cause adverse effects on our businesses, results of operations and financial condition.

It is possible that the Company might face difficulties in maintaining the results expected in the business plan, at the time of acquisition of companies or those recently acquired, which might be adverse for its business, results of operations and financial condition.

The Company has been acquiring interests in other companies, and has the intention in the future of maintaining a profile of expansion of its businesses. However, there is a possibility that it might not obtain the benefits expected from these acquisitions. The process of integration of any business that is acquired might subject the Company to certain risks, such as: unexpected expenses, our not being able to integrate the activities of the companies acquired, aiming for economies of scale and the expected efficiency gains, potential delays related to the integration of the operations of the companies, exposure to unexpected potential contingencies, and legal claims made against a business acquired, before we acquired it. The Company might not be successful in dealing with these and other risks or problems related with the most recent transactions or with any other operation of a future acquisition. The Company s inability to integrate its operation successfully, or any significant delay in achieving such integration, could adversely affect it.

There are restrictions on our capacity for re-investment and indebtedness, which could adversely affect our business, results of operations and financial condition.

We are subject to certain restrictions on our capacity for re-investment and raising of funds from third parties, which might prevent us from entering into new contracts for financing of our operations, or for re-financing of our existing obligations, and adversely affect our business, results of operations and financial condition.

In relation to reinvestment, 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, access to the domestic and international capital markets, 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 (Law 8,666/1993).

In relation to loans from outside parties we note three points: (i) 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 BACEN, and also for operating on electricity sector which are also subject to rules and limits established by ANEEL, which provides for indebtedness of electricity sector companies. Those bodies set certain parameters and indicator for financial institutions to be able to offer credit to companies of the public sector or the electricity industry. State-controlled companies, for example, may use the proceeds of external transactions with commercial banks (debt, including bonds) only for the purpose of refinancing financial obligations, or in transactions guaranteed by duplicates of trade bills. Another rule that exists is the need for approval by the Finance Ministry and the BACEN before carrying out certain international financial transactions, this approval usually being given only if the purpose of the transaction is to finance importation of goods or rollover our external debt. As a result of these rules, (i) our capacity to incur debt is limited. (ii) recording of loans with covenants could restrain our operational flexibility. Today we record financing contracts with this profile with the Brazilian Development Bank (BNDES). In the event of non-compliance by ourselves with an obligation contained in any of these financing contracts, we are required to strengthen the guarantees of the financing, on penalty of early maturity of the contract. In the past, there have been occasions when we have been non-compliant with financial covenants, which had conditions that were more restrictive than the present ones these related to lending transactions that have been settled. 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; (iii) our by-laws express the obligation upon us to keep certain financial indicators, including ratios related to debt and reinvestment, within certain limits, which could affect our operational flexibility.

Table of Contents

Instability of inflation rates and interest rates could adversely affect our economic results and financial situation.

The Company and its subsidiaries are exposed to losses linked to variations in domestic interest rates and inflation rates, due to the existence of assets and liabilities indexed to the variations in the Selic and CDI rates, and the IPCA and IGP-M inflation indices.

A significant increase in interest rates or inflation would have an adverse effect on our financial expenses and financial results as a whole. At the same time, a significant reduction in the CDI rate, or in inflation, could negatively affect the revenue generated by our financial investments, and also the positive effect of updating adjustments to the balances of Financial Assets of our Concessions(1).

A reduction in our credit risk rating could adversely affect the availability of new financings and increase our cost of capital.

The credit risk rating agencies Fitch Ratings, Moody s, and Standard and Poor s each attribute a rating to the Company and its debt securities on the Brazilian basis, and also a rating for the Company on the global basis.

Ratings reflect, among other factors, the outlook for the Brazilian electricity sector, the hydrological conditions of the country, the political and economic context, country risk, and the rating and outlook for the Company s controlling stockholder, the State of Minas Gerais. If our ratings are downgraded due to any external factor, operational performance or high levels of debt, a possible scenario would be increase of the cost of capital and/or inclusion of financial covenants in the instruments that regulate our debts. Further, our operational or financial results and/or the availability of future financings could be adversely affected.

A situation of shortage of working capital might result in adverse effects for our business, operational results or financial situation.

In 2014 Consolidated current liabilities exceeded Consolidated current assets, mainly due to new financings with short-term maturities obtained to finance the Company s investment program, and because of the greater outflow of cash in the electricity distribution business for payment of purchases of electricity at the higher average prices caused by the higher dispatching of the thermoelectric generation plants.

A continuing situation of deficiency of working capital in 2015, which might occur mainly as a result of (i) the need to raise short-term funding to provide for our investment programs, or (ii) higher disbursements to pay for supply of electricity, which could be high if the scarcity of water flows in Brazil persists, could have an adverse effect on our business, operational results and financial situation.

It is important to point out that a large proportion of our debt (39.16%) becomes due in 2015; it is primarily in Promissory Note issues. Although we have frequently raised funding in the capital markets, we cannot guarantee that we will be able to obtain funding in a timely manner or on appropriate conditions of cost and maturities for payment.

Our processes of governance, risk management and compliance could fail to avoid regulatory penalties, damages to our reputation, or adverse effects on our businesses, results of operations and financial condition.

Our Company is subordinated to various regulatory structures, such as: (i) the laws and regulations of the Brazilian electricity industry, including Law Nº 10,848/2004, regulations of the Brazilian regulator (National Electricity Agency ANEEL), among others; (ii) the laws and regulations that apply to listed companies with securities traded on the Brazilian capital markets, such as Law Nº 6404/1976, regulations of the Brazilian Securities Commission (Comissão

de Valores Mobiliários, or CVM), among others; (iii) the laws and regulations that apply to Brazilian companies which have majority public-sector ownership, such as Law Nº 8666/1993 (the Tenders Law), among others; (iv) and the laws and regulations that apply to companies that have securities traded in the US capital markets, such as the Sarbanes-Oxley Law (SOX), the Foreign Corrupt Practices Act (FCPA), and regulations of the Securities and Exchange Commission (SEC), among others.

Due to the majority interest held by the State Government in our stockholding structure, we are required to contract the greater part of our works, services, advertising, purchases, disposals and rentals, through competitive tenders and administrative contracts, ruled by the Tenders Law and other complementary legislation. Also, we operate in a sector in which there is an intense use of competitive tenders and administrative contracts of high value and with a large number of suppliers and clients, which exposes us to risks of fraud and administrative impropriety that are inherent to these forms of contracting.

In recent years Brazil has intensified and improved its legislation and structures relating to defense of competition, combat of improbity and combat of corrupt practices. Law Nº 12,846/2013 made Brazilian companies strictly liable if they commit acts against the Brazilian, or foreign, public administration, including acts relating to processes of competitive tenders and administrative contracts, and laid down heavy penalties for the companies that are punished.

Our Company has structures and policies for prevention and combat of fraud and corruption, auditing and internal controls, as well as adopting the recommendations for Best Corporate Governance Practices recommended by the Brazilian Corporate Governance Institute (Instituto Brasileiro de Governança Coorporativa, or IBGC) and the framework of COSO (Committee of Sponsoring Organizations of the Treadway Commission). However, our processes of governance, risk management and compliance might be unable to avoid future violations of the laws and regulations to which we are subject, or violations of our internal control mechanisms, our Declaration of Ethical Principles and Code of Professional Conduct, or the occurrence of fraudulent or dishonest behavior by some of our employees, or individuals or legal entities that are contracted, or other agents that may represent the company in dealings with third parties, especially with the Public Authorities. Non-compliance with laws and regulations, among other rules, might result in fines, losses of licenses, damage to our reputation or significant financial losses.

(1) These refer to infrastructure in which investment has been made that will be the subject of indemnity by the Concession-granting power, during the period of the concessions and at their termination, as set out in the regulatory framework of the electricity sector, and in the transmission and distribution concession contract signed with ANEEL by Cemig and its subsidiaries.

Table of Contents

Our ability to distribute dividends is subject to limitations.

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.

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.

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

On December 31, 2014, the total of our past due receivables owed by final consumers, leaving out of account the allowance for doubtful receivables, was approximately R$2.688 billion, corresponding to 13.76% of our consolidated net revenue in 2014, and our provision for doubtful receivables was R$650 million. The possibility exists that we might be unable to collect amounts payable by various consumers in arrears. If such debts are not totally or partially settled, we will suffer an adverse impact on our business, operation results and/or financial situation. Additionally, the amount of debts in arrears from our consumers that exceeds the provision that we have constituted could cause an adverse effect on our business, operational results and/or financial condition.

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.

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$ 755 million, as of December 31, 2014, 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.

Table of Contents

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.

Risks Relating to Brazil

Political instabilities in Brazil could have effects in the economy and affect us.

There is an expectation that 2015 will be a year of low economic growth in Brazil and also of unpopular measures, aiming to make macroeconomic adjustments for resumption of Brazil s growth.

When the economic context is bad, the population tends to be less in favor of the government. In 2015, the government s low level of popularity could result in political instability in Brazil, which could in turn result in a further reduction of the credibility of the country s public institutions. Further, the country is suffering from the public consequences of irregularities that are being investigated in important Brazilian companies, which could result in a significant deterioration in the markets. Moreover, uncertainty with regard to ongoing investigations into allegations of corruption in state controlled enterprises and certain other Brazilian companies may also affect the confidence of investors and the general public.

Political instabilities and loss of confidence of investors may have an adverse impact on the Brazilian economy and the Brazilian capital market, which, in turn, could adversely affect the market price of Brazilian publicly traded companies securities, including our preferred and common shares and ADSs, as well as the access of Brazilian companies to international capital markets. In addition, any political instability resulting from such events, may result in our having to re-evaluate our strategy.

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, results of operations and financial condition 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, might generate uncertainties in the Brazilian economy, and increase the volatility of the domestic capital market, adversely affecting our business, results of operations and financial condition. If the political and economic situations deteriorate, we may face increased costs.

Table of Contents

Taking into account the Brazilian presidential system of government, and the considerable influence of the executive power, 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.

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

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 2012, 2013 and 2014 were 5.84%, 5.91% and 6.41%, 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, results of operations and financial condition. 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, results of operations and financial condition or adversely affect the market value of our shares and as a result, of our preferred ADSs and common ADSs.

Instability of the exchange rate could adversely affect the value of remittances of dividends outside Brazil, and also the market price of the ADSs.

Many Brazilian and global macroeconomic factors have influence on the exchange rate. In this context, the Brazilian government, through the Brazilian Central Bank, has in the past occasionally intervened for the purpose of controlling unstable variations in exchange rates. We cannot predict whether the Central Bank or the federal government will continue to allow the real to float freely or whether it will intervene through a system involving an exchange rate band, or the use of other resources.

This being so, the real might fluctuate substantially in relation to the United States dollar, and other currencies, in the future. That instability could adversely affect the equivalent in US dollars of the market price of our shares, and as a result the prices of our ADSs, common and preferred, and also remittances of dividends outward from Brazil.

For more information see the section Exchange rates in Part I, Item 3 Selected Consolidated Financial Information.

Changes in economic and market conditions in other countries, especially Latin American and emerging market countries, may adversely affect our business, results of operations and financial condition, 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. In the future, this could make it more difficult for us to access the capital markets and finance our operations 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, results of operations and financial condition.

Table of Contents

The relative volatility and illiquidity of 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.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. This might substantially limit an 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 annual market capitalization of approximately R$1.81 trillion, and average daily trading volume of approximately R$7.29 billion in the year ended in December 31, 2014.

Holders of the preferred and common ADSs, 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.

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 from reais (R$) into foreign currencies. Restrictions of this type would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of preferred shares or common shares from reais (R$) into U.S. dollars (US$). 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 is subject to taxation in Brazil, regardless of whether the sale occurs inside or outside Brazil. This rule is valid whether the vendor is a Brazilian resident or a person not resident in Brazil, and also when both are resident outside Brazil.

There is no clear instruction as to the application of Law Nº 10,833/03. Accordingly, we are unable to predict whether Brazilian courts will decide whether it applies to sales of our preferred ADSs and common ADSs between non-residents of Brazil. However, in the event that the concept of sale of assets is interpreted to include a sale of our preferred ADSs and common ADSs, application of this tax law would result in the imposition of withholding taxes on sales of our preferred ADSs and common ADSs by a non-resident to either a resident or a non-resident of Brazil.

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

All of our directors and officers reside in Brazil. Substantially, 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 on them within the United States or other jurisdictions outside Brazil, or to attach their assets, or to enforce against them, or against our Company in United States courts, or in the courts of other jurisdictions outside Brazil, judgments that are predicated upon the civil liability provisions of the securities laws of the United States or the respective laws of such other jurisdictions.

Table of Contents

For a judgment given outside Brazil to be executed in Brazil, there is a need for it to be homologated by the Brazilian Federal Supreme Court, in accordance with the internal regulations of that Court, obeying the requirements of Articles 15 and 17 of the Law of Introduction to the rules of Brazilian Law.

Exchanging of 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, or 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.

Sales of a substantial number of shares, or the perception that such sales might 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, sales of shares by existing shareholders, or the perception that such a sale might occur, the market price of our shares and, by extension, of the preferred and/or common ADSs, may decrease significantly.

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 depositary.

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 specific circumstances. Holders of our preferred ADSs may also encounter difficulties in the exercise of certain rights, including the 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. 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.

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.

Table of Contents

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

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

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

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

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

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 is 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.

Table of Contents

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 an equity interest in 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.

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.

In December 2009 the Company signed a share purchase agreement with Andrade Gutierrez Concessões S.A., to acquire up to 13.03% of that company s holding in Light. This acquisition was completed in 2010, starting the process of building its position within the controlling stockholding group of Light.

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:

50% of União de Transmissora de Energia Elétrica S.A. Unisa, owner of four transmission assets, from Abengoa Concessões Brasil Holding S.A.;

Acquisition through Amazônia Energia S.A. (Cemig 74.5%, Light 25.5%) of shares representing 9.77% of Norte Energia S.A., which holds the concession for construction and operation of the Belo Monte Hydroelectric Plant, on the Xingu River, in the Brazilian state of Pará. The transaction added 818 MW of generation capacity to our total commercial operations, increasing our market share in the total Brazilian electricity generation market from 7% to 8%; and adding 280 MW to the total generation capacity of Light;

stockholding control of Renova Energia S.A., which has operated for 11 years in small hydroelectric plants and wind farms; and

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. 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).

Table of Contents

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 continues to be traded in the standard listing of 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;

- Creation by Renova Energia S.A. of 3 special-purpose company of wind generation with a 99.99% interest: Centrais Eólicas Itapuã VIII., Centrais Eólicas Itapuã XIII and Centrais Eólicas Itapuã XIX;

- 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;

- The Board of Directors of Cemig authorized dissolution of Cemig Serviços S.A. Extinction of the company was registered at the Minas Gerais Commercial Board (Jucemg) in August, and its corporate tax number (CNPJ) was

canceled in August and November, 2013;

Dissolution of the agreement that constituted the POT-T-603 Exploration Consortium;

Acquisition by EATE of the interest belonging to Orteng in Transmineiras (Companhia Transleste de Transmissão, Companhia Transirapé de Transmissão and Companhia Transudeste de Transmissão);

Transfer of investment in Taesa from Cemig GT to Cemig (the holding company). The holders of the debentures of the second and third issues of Cemig GT consented to reduction of the share capital of Cemig GT as a result of the transfer of shares in Taesa to Cemig (the holding company), as per consent given by ANEEL;

Taesa won Lot A (a 500kV electricity line) in ANEEL Auction 013/2013, and subsequently created Mariana Transmissora de Energia Elétrica S.A.;

Creation of Aliança Geração de Energia S.A., to be a platform for consolidation of generation assets held by Cemig GT and Vale S.A. in generation consortia, and investments in future electricity generation projects.

Negotiation for acquisition from Cemig GT of 49% of the future company Aliança Norte Energia Participações S.A., which will own the 9% interest in Norte Energia S.A. belonging to Vale S.A.

Activities relating to subsidiaries and jointly-controlled subsidiaries in 2014:

Creation by Renova Energia of 9 special-purpose companies operating in wind generation, with 99% equity ownership.

Creation by Guanhães Energia S.A. of 4 special-purpose companies operating in hydroelectric generation, with 100% equity interest;

Table of Contents

Creation of Cemig Overseas S.L, with head office in Spain, a wholly-owned subsidiary of Cemig (the holding company);

Creation by Light Energia S.A. of the wholly-owned subsidiary Lajes Energia S.A.;

Acquisition in Madeira Energia S.A. of equity interest held by Andrade Gutierrez Participações S.A. and subsequently by SAAG Investimentos S.A. Inclusion in Cemig GT of Fundo de Investimentos em Participações Malbec, Parma Participações S.A. and Fundo de Investimentos em Participações Melbourne, with direct stockholdings, and of FIP Melbourne, by acquisition of 83% interest in SAAG Investimentos S.A., which holds an interest of 12.4% in Madeira Energia S.A., which wholly-owns Santo Antônio Energia S.A.;

Creation by Renova Energia S.A. of 17 special-purpose companies operating in wind generation;

Creation by Light S.A. of the special-purpose company Energia Olímpica, (50.10 stake), in purpose of electricity infrastructure works for the Olympic Games in Rio de Janeiro;

Association with Gás Natural Fenosa for the creation of the company Gás Natural do Brasil S.A., which will be a platform for consolidation of assets, and investment, in natural gas projects;

Disposal of the totality of Light s equity interest in CR Zongshen E-Power Fabricadora de Veículos S.A.

Acquisition of the 40% equity interest in Companhia de Gás de Minas Gerais, belonging to Gaspetro, increasing Cemig s interest to 99.57% of the total of Gasmig;

Creation by Renova of Moinhos de Vento Consortium, with 99.99% equity interest;

Change in the stockholding structure of the companies STC and ERTE (Taesa);

Creation of the wholly-owned subsidiary Cemig Participações Minoritárias S.A.;

Acquisition of Retiro Baixo Energética S.A. by Cemig GT, with 49.9% equity interest. The object of Retiro Baixo is operation of hydroelectric potential in the State of Minas Gerais;

Creation of the SLT Project Consortium in Cemig GT, with 33.33% interest. Its objects are to manage and account the contracting of legal, environmental, technical and any other external consultants necessary for preparation of studies to ascertain the attractiveness of the São Luiz do Tapajós hydroelectric plant, in the State of

Pará;

Cemig GT entered the controlling stockholding block of Renova Energia S.A.;

Dilution of Light in Renova Energia S.A. (entry of Cemig GT into the controlling stockholding block);

Change in the equity interest in ERTE (Taesa);

Constitution of two sub-holding companies by Renova Energia S.A., named Diamantina Eólica Participações S.A. and Alto Sertão Participações S.A., with 99.99% equity interest. The objects are holding of equity interest in other companies in the area of electricity generation and trading, and sales of electricity;

Exclusion of the Cosama Consortium in Cemig GT;

Exclusion of the 40.00% interest held by Cemig Geração Transmissão in Chipley SP Participações and alteration of the percentage equity interest of Renova Energia, 99.99%;

Activities relating to subsidiaries and jointly-controlled subsidiaries in 2015:

Creation by Renova Energia S.A. of consortium Moinhos de Vento 2, with 99.99% equity interest;

Exclusion from EBL Companhia de Eficiência Energética S.A. of an equity interest in Light Esco Prestação de Serviço S.A.;

Transfer of assets to Aliança Geração de Energia S.A.;

Corporate reorganization of Cemig Capim Branco S.A;

Acquisition from Vale of Vale s 49% stockholding interest in Aliança Norte Energia Participações S.A., holder of a 9% interest in Norte Energia S.A., or Nesa (Belo Monte) corresponding to an indirect holding of 4.41% in Nesa.

Table of Contents

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

Table of Contents

In compliance with IFRS 11 Joint Arrangements, as of 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, 99.57% owned: acquires, transports, distributes and sells natural gas;

Transmissora Aliança de Energia Elétrica S.A. (Taesa) jointly-controlled subsidiary, with ownership of 45.74% 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;.

Renova Energia S.A: jointly-controlled subsidiary, with direct ownership of 27.37% of the total capital and 36.62% of the voting stock. Listed company operating in development, construction and operation of plants generating power from renewable sources - wind power, small hydro plants (SHPs), and solar energy; sales and trading of electricity, and related activities. Renova owns Latin America s largest wind complex, in the central region of the state of Bahia.

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.

In 2014 and in the last 4 years, its installed capacity was constantly growing. Cemig s action on climate change is in line with its business strategy through commitment entitled 10 initiatives for the climate. Published the Inventory of Greenhouse Gas Emissions Greenhouse verified by independent audit. Growing involving all its stakeholders is the social responsibility strategy of Cemig which is present in more than 774 cities and 23 states of Brazil, generating, transmitting and distributing electricity, with quality, for millions of Brazilians.

We have taken part in several transactions in the recent years, which includes among others, the following:

Acquisitions involving the Light and Parati

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.

Table of Contents

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.

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$ 171.98 million. 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 S.A. Participações em Ativos de Energia Elétrica (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.

Acquisition, by Light, of interest in Guanhães Energia

On February 10, 2012, Light approved the acquisition of 26,520,000 common shares (equivalent to an interest of 51%) in Guanhães Energia S.A. (Guanhães Energia) by Light Energia, for R$25.0 million (in currency of May 2011, adjusted by the IPCA index up to the date of closing of the transaction). The acquisition was conditional upon prior approval by ANEEL and was approved by CADE.

On August 28, 2012, Light Energia signed the Final Term of Closing with Investminas Participações S.A. for acquisition of 26,520,000 Class A common shares in Guanhães Energia S.A., equivalent to 51% of its share capital, for the amount of R$26.6 million.

In February 2014, inclusion in Guanhães Energia S.A. by the creation of four special purpose companies for hydroelectric power generation, with 100% equity interest: PCH Fortuna II S.A., PCH Jacaré S.A, PCH Dores de Guanhães S.A. and PCH Senhora do Porto S.A.

For more information about Guanhães Energia, see the section Expansion of Generation Capacity.

Acquisition, by Light, of interest in Renova

Renova Energia S.A. (Renova) produces electricity from renewable sources, focused on wind farms and small hydro plants. At present it is the only company listed on the BM&FBovespa that works exclusively in renewable power sources in Brazil. It has created Brazil s largest wind complex, in the semi-arid region of the state of Bahia.

On August 19, 2011 Light, through its subsidiary Light Energia, subscribed 50,561,797 common shares in Renova. This resulted in Light Energia holding 34.85% of the common shares and 25.8% of the total capital of Renova. The transaction included a private placement of shares in Renova in the approximate amount of R$360 million, in which the minority stockholders of Renova were able to participate, and resulted in a total cash injection of R$376 million.

Table of Contents

The common shares subscribed by Light Energia are part of the controlling stockholding block of Renova, comprising half of the shares in the controlling block, with the same rights and preferences attributed to the common shares issued by Renova. To make this transaction possible, RR Participações S.A. (RR) and certain shareholders of Renova waived their right to first refusal in the subscription, in favor of Light Energia. Light Energia and RR entered into a stockholders agreement regulating the exercise of the right to vote, purchase and sale of shares in Renova held by the parties, and their rights and obligations as stockholders of Renova. Light has experience in construction and commercial operation of generation projects and in the sale and placement of power supply. We understood that this combination would enable Renova to position itself as one of the largest players in wind power in America, with unique and extremely attractive characteristics. The agreement also contains a commitment by Light to buy 400MW of installed capacity supplied by Renova s wind projects. The companies also had long-term first refusal rights in purchase or sale, as applicable, of the wind power generated. The main objective of this acquisition was to accelerate the growth of Renova through a combination of Renova s technical capacity, and pioneer experience in development of new projects and business, and our own experience and contracts made in the Free Market.

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.

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 million, 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:

(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 to 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 Renova 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%.

In July of 2012, Renova Energia inaugurated its Alto Sertão I Wind Complex, in the region of Caetité, Igaporã and Guanambi, in the Southwestern region of the State of the Bahia. This is considered to be Latin America s largest wind power complex, with capacity to generate 294MW - enough to supply 540,000 homes. Total investment in the complex was R$1.2 billion. It comprises 14 separate wind farms, with a total of 184 aero generators.

In October 2012 the increase in the share capital of the Company was homologated, and the transaction of investment by BNDES Participações S.A. (BNDESPar) in Renova was completed. The capital increase was made at the price of R$9.3334 per common or preferred share, equivalent to R$28.0002 per unit. The amount of the increase in capital was R$314.7 million; BNDESPar subscribed 82.8% of the total, or R$260.7 million.

The capital provided by BNDESPar was subscribed through the right of first refusal assigned by RR Participações S.A., Light Energia S.A. and InfraBrasilFundo de Investimentos, and consequent unsubscribed shares.

Acquisition of equity interest in Brasil PCH and Investment Agreement with Renova Energia SA

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).

On August 8, 2013 Cemig GT approved signature of an Investment Agreement with Renova, RR Participações S.A. (RR), Light Energia S.A. (Light Energia), and Chipley, governing the entry of Cemig GT into the controlling stockholding block of Renova, through subscription by Cemig GT of new shares to be issued by Renova, structuring of Chipley as a growth vehicle, owned by Cemig GT and by Renova, and assignment to Chipley of the Agreement for Purchase of Shares in Brasil PCH S.A.

Table of Contents

The issue price for the shares in Renova was set at R$16.2266 per common share, resulting in a value of R$1.41 billion for the portion of the increase in the share capital of Renova to be subscribed by Cemig GT. These amounts are to be updated by the CDI Rate from December 31, 2012 until the date of the actual capital increase.

The transaction to acquire 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 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 transaction was completed on February 14, 2014, with payment by Chipley of R$739.94 million, funded by an Advance Against Future Capital Increase in Chipley made by Cemig GT.

On March 31, 2014 Cemig GT made the Advance Against Future Capital Increase in Renova, in the amount of R$810.12 million.

On September 29, 2014 Cemig GT entered the controlling stockholding block of Renova Energia S.A. Renova, acquiring 36.6% of Renova s voting stock and 27.4% of its total capital, by subscription of 87,186,035 common shares. For the capital increase to take place, RR and Light Energia assigned their rights of preference to Cemig GT. The issue price of the shares in Renova was R$17.7789 per common share. The transaction was realized by use of two Advances against Future Capital Increase (*Adiantamentos para Futuro Aumento de Capital,* referred to as AFACs), with total value of R$1.55 billion: the first, of R$739.94 million, was made on February 14, 2014, in Chipley; and the second, of R$810.12 million, on March 31, 2014.

Investment Agreement with Renova Energia S.A. (Renova), RR Participações S.A. (RR), Light Energia S.A. and Chipley, governing entry of Cemig GT into the controlling stockholding block of Renova, also providing for structuring of Chipley (owned 40% by Cemig GT and 59% by Renova) and assignment of the Brasil PCH Share Purchase Agreement to Chipley.

No impact in relation to this transaction was recorded in the Company s financial statements for the years ended December 31, 2013. For information regarding to this transaction recorded in 2014, see Financial Statement - Explanatory Note 14 .

Other corporate events relating to Renova Energia S.A. in 2014 and 2015

In January 2014, inclusion in Renova Energia S.A. of 9 special-purpose companies operating in wind generation, with 99% equity interest: Centrais Eólicas Bela Vista II Ltda.; Centrais Eólicas Bela Vista III Ltda.; Centrais Eólicas Bela Vista IV Ltda., Centrais Eólicas Bela Vista V Ltda.; Centrais Eólicas Bela Vista VI Ltda.; Centrais Eólicas Bela Vista VII Ltda.; Centrais Eólicas Bela Vista IX Ltda.; Centrais Eólicas Bela Vista X Ltda. and Centrais Eólicas Bela Vista XI Ltda.;

In April 2014, creation by Renova Energia, of 17 special-purpose companies operating in wind generation, with head office in Guanambi, Bahia state: Centrais Eólicas Umburanas 1 Ltda., Centrais Eólicas Umburanas 2 Ltda; Centrais Eólicas Umburanas 3 Ltda; Centrais Eólicas Umburanas 4 Ltda; Centrais Eólicas Umburanas 5 Ltda; Centrais Eólicas Umburanas 6 Ltda; Centrais Eólicas Umburanas 7 Ltda; Centrais Eólicas Umburanas 8 Ltda; Centrais Eólicas Umburanas 9 Ltda; Centrais Eólicas Umburanas 10 Ltda; Centrais Eólicas Umburanas 11 Ltda; Centrais Eólicas Umburanas 12 Ltda; Centrais Eólicas Umburanas 13 Ltda; Centrais Eólicas Umburanas 14 Ltda; Centrais Eólicas Umburanas 15 Ltda; Centrais Eólicas Umburanas 16 Ltda; and Centrais Eólicas Umburanas 18 Ltda.

In August 2014, inclusion in Renova Energia, of the Renova Moinhos de Vento Consortium, with 99.99% interest.

In September 2014, inclusion in Cemig GT of 49.9% equity interest in Retiro Baixo Energética S.A., the object of which is commercial operation of the hydroelectric potential located on the Paraopeba River, in the municipalities of Pompeu and Curvelo, in Minas Gerais, through construction, implementation, operation and maintenance of the Retiro Baixo Hydroelectric Plant, which has installed generation capacity of 8.37MW and assured offtake of 38.5MW average. At the end of the transaction the stockholding composition of RBE was: Cemig GT 49.9%, Furnas 49.0% and Orteng com 1.1%.

In October 2014, inclusion of Cemig GT in the control block of Renova Energia S.A., with 36.62% interest in the voting stock and 27.37% of the total share capital, and consequent alteration of the interest of Light Energia S.A. in the voting stock from 33.51% to 21.2%, and in the total capital from 21.86% to 15.87%. On October 27, 2014, the members of the Board of Directors of Renova Energia S.A., a subsidiary of Light Energia, approved the ratification of the Increase in Capital in the amount of R$1,55 billion, by issuance of 87,196,901 nominal common shares without par value, at the issue price of R$17.7789 per share. The interest of Light Energia in Renova was then 15.9% of the total capital and 21.2% of the common shares, its shares remaining bound as part of the control block.

Table of Contents

In November 2014, Constitution by Renova Energia S.A., of 2 sub-holding companies, called Diamantina Eólica Participações S.A. and Alto Sertão Participações S.A., with 99.99% equity interest, their objects being to hold interests in other companies in the areas of electrical power generation and trading electricity.

In January 2015, inclusion in Renova Energia S.A. of the Renova Moinhos de Vento 2 Consortium with participation of 99.99%, with the exclusive object of participation in auctions.

The following are the fair values allocated to the interest acquired in Renova:

	Fair values of the interests acquired (27.37%) R$ million
Assets	
Cash and cash equivalents	56
Accounts receivable	10
Other assets	94
Investments	205
Fixed assets	1,027
Intangible assets	1,295
Liabilities	
Current and non-current liabilities	(697)
Deferred taxes	(440)
Total net assets	**1,550**

After the homologation of the capital increase, Cemig GT s equity interest in Renova was 27.37% of the total stock and 36.62% of the voting stock as follows:

	ON shares		**PN shares**		**Total shares**	**% of total share capital**
RENOVA ENERGIA	**Quantity**	**%**	**Quantity**	**%**	**Quantity**	**%**
Controlling shareholder block	188,309,629	79.10			188,309,629	59.11
RR Participações	50,561,797	21.24			50,561,797	15.87
Light Energia	50,561,797	21.24			50,561,797	15.87
Cemig GT	87,186,035	36.62			87,186,035	27.37
Other shareholders	49,786,482	20.90	80,408,816	100.00	130,195,298	40.89
RR Participações	9,560,093	4.02			9,560,093	3.00
BNDESPar	9,311,425	3.91	18,622,850	23.16	27,934,275	8.77
InfraBrasil	11,651,467	4.89	23,302,933	28.98	34,954,400	10.97
FIP Caixa Ambiental	5,470,293	2.30	10,940,586	13.61	16,410,879	5.15

Others	13,793,204	5.78	27,542,447	34.25	41,335,651	13.00
Total	**238,096,111**	**100.00**	**80,408,816**	**100.00**	**318,504,927**	**100.00**

Investment agreement between Renova Energia and Cemig GT for creation of wind farms

On July 17, 2014 an investment agreement was signed between Cemig and Renova for a wind farm project in the region of Jacobina in the state of Bahia. The agreement provided for Cemig to have a 50% interest in the project. The monopolies authority, Cade (Conselho Administrativo de Defesa Econômica, or Administrative Council for Economic Defense) approved the signature of this investment agreement on October 22, 2014.

For more information, see the section 14, Investment , in the Financial Statements.

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

The Northern Region of Brazil is the principal frontier for expansion of Brazil s hydroelectric power generation, and more than 60% of the hydroelectric potential for expansion is still available. Thus, we believe that participation in the project has a strategic value. The Belo Monte Hydroelectric Plant is the second project in the region in which Cemig GT is participating, the first being its 10% interest in the consortium for the construction of the Santo Antônio Hydroelectric Plan 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 t voting stock and 25.5% of the total capital; and Cemig Generation and Transmission (Cemig GT), with 49% of the voting stock and 74.5% of the total capital. On October 25, 2011, Amazônia Energia signed share purchase contracts with six companies that held, in total, 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 was equal to the amount of injections of capital made by the vendors, adjusted by the IPCA inflation index up to October 26, 2011, in the amount of R$118.69 million.

The operation involving the interest of Amazônia Energia as a stockholder in Norte Energia was approved by the Extraordinary General Meeting of Norte Energia and Board of Directors of Cemig GT and of Light. The Brazilian electricity regulator, ANEEL, was informed of the operation, which was submitted to CADE, in accordance with Law 8884/94.

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

The advantages of this transaction include the following: (i) the principal contracts for the construction and works and equipment had already been signed; (ii) the main risks associated with the project were already considerably attenuated; (iii) future injections of capital would be diluted over nine years, and the cash flow generated by the project itself would be used in the last three years; (iv) the environmental costs had already been defined; and (v) all

the transactions for sale of electricity had already been established.

This acquisition had no effect on the policy for payment of dividends to the stockholders of Cemig GT.

Acquisition by Taesa of equity interests in the Abengoa Transmission Companies

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:

(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

Table of Contents

(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 União de Transmissoras de Energia Elétrica Holding S.A.(UNISA), the current denomination of Abengoa Participações Holding S.A., 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) 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:

49.98% of the total capital of EATE;

19.09% of the total capital of ECTE;

49.99% of the total capital of ENTE;

49.99% of the total capital of ERTE;

49.98% of the total capital of ETEP;

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%);

39.98% of the total capital of STC (indirect holding: 80% held by EATE, in which Taesa holds 49.98%);

Table of Contents

49.98% of the total capital of ESDE (indirect holding through ETEP, in which Taesa holds 49.98%);

39.98% of the total capital of Lumitrans (indirect holding: 80% held by EATE, in which Taesa holds 49.98%); and

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.

In August 2014, change in the stockholding structure of the companies of the TBE Group:

STC change in the equity interest of EATE from 80% to 61.55%, and inclusion of ENTE, with interest of 18.45%.

ERTE change in the percentage interest of Taesa in the total share capital, from 49.99% to 35.41%, and inclusion of EATE, with interest of 29.16% in the total share capital.

At a meeting held on October 30, 2014, the Board of Directors approved an injection of capital by ENTE into ERTE, of R$37,557, equivalent to 21,732,203 preferred shares (29.41% interest in the total capital), in such a way as to give ERTE the funds necessary for payment of dividends that had been retained in corporate reserves. This meeting also authorized signature by the company, and Alupa, EATE and ENTE, of the Term of Assignment of First Refusal Right in the subscription of new shares and other securities in ERTE, under which transfer was made, free of financial consideration, in proportion to their respective shares in the total capital of ERTE. After this injection the totally paid-up share capital of ERTE was R$109,471, represented by 36,940,800 common shares and 36,940,800 preferred shares, without par value. Thus, Taesa then held a direct interest in ERTE of 24.99% and an indirect interest of 25.00% (considering that Taesa holds an interest of 49.98% in EATE and 49.99% in ENTE), continuing a direct and indirect holding in ERTE of 49.99%. This alteration of equity interest did not give rise to any goodwill premium nor discount, nor any impact on the Company s profit.

Transfer of investment in Taesa from Cemig GT to Cemig

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

Because this was a transaction between entities under common control, the transfer was carried out at historic cost of the investments on that date, without any effect on the results of Cemig or of its subsidiary Cemig GT.

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. The company started its operations on February, 2014.

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 million, 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.

Table of Contents

The holders of units in Fundo de Investimento em Participações Coliseu (FIP Coliseu), the equity investment fund that is part of the controlling stockholding block of Taesa, approved, at its nineteenth General Meeting of Unit Holders, held on October 21, 2014, extension of the period of duration of FIP Coliseu, which would otherwise have been terminated on October 26, 2014, for up to 720 calendar days from October 21, 2014.

Clause 16.1.1 of the First Amendment to the Stockholders Agreement of Taesa (the Stockholders Agreement) provides that Santander Participações S.A. (Santander), a unit holder of FIP Coliseu and, therefore, an indirect stockholder of Taesa, will cease to be part of the Stockholders Agreement on October 30, 2014. To effect this separation from the Stockholders Agreement, and also because of the extension of the period of duration of FIP Coliseu referred to above, the twentieth General Meeting of Unit Holders of FIP Coliseu was held, and approved the partial split of FIP Coliseu, with reversion of the common shares of Taesa indirectly owned by Santander, then held by FIP Coliseu, to Fundo de Investimento em Participações Resling (the sole unit holder of which is Santander itself, hereinafter referred to as FIP Resling).

After this, FIP Resling held 76,258,597 common shares of Taesa. At the request of Santander, the Board of Directors of Taesa, on October 30, 2014, homologated the conversion of 50,839,064 common shares held by FIP Resling into preferred shares.

Immediately following this, the Board of Directors of the Company, also at the request of Santander, homologated the issuance of 25,419,532 Units in Taesa in favor of FIP Resling, through the grouping of 50,839,064 preferred shares converted into 25,419,532 common shares held by FIP Resling on October 30, 2014.

After the split of the shares held by Santander and issuance of the Units in its possession, the composition of the total capital of the Company changed to the following:

	ON shares	%	PN shares	%	Total capital	%
FIP Coliseu	228,775,790	35.7%		0.0%	228,775,490	22.1%
Cemig	293,072,229	45.7%	155,050,644	39.5%	448,122,873	43.4%
Market	93,446,517	14.6%	186,892,944	47.6%	280,339,461	27.1%
FIP Resling	25,419,533	4.0%	50,839,064	12.9%	76,258,597	7.4%
Total	640,714,069	100.0%	392,782,652	100.0%	1,033,496,721	100.0%

The other clauses of the Stockholders Agreement of the Company remain valid up to the end of the concessions, and thus the shared management of the Company by Cemig and FIP Coliseu, or its successors, is maintained.

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 million. The operation was accomplished on July 9, 2012, in that date the company had 59.57% of participation in Gasmig.

On July 29, 2014, acquisition of the 40% interest held by the subsidiary Gaspetro in Companhia de Gás de Minas Gerais (Gasmig). This had been approved by the Boards of Directors of both Cemig and Petrobrás. The transaction, for a purchase price of R$600 million, is subject to certain usual conditions precedent, including approval by the Brazilian monopolies authority (Conselho Administrativo de Defesa Econômica CADE), and consent from the State of Minas Gerais, the grantor of Gasmig s gas distribution concession. This acquisition by Cemig is part of the Company s strategy for the creation, in partnership with Gás Natural Fenosa (GNF), of Gas Natural do Brasil S.A. (GNB), which will be its platform for consolidation of investments in natural gas projects.

On October 2014, alteration in the equity interest of Companhia Energética de Minas Gerais in Gasmig: in the voting capital, from 58.71% to 98.71%; and in the total capital, from 59.57% to 99.57%. The amount paid was R$ 571 million, being the result of R$ 600 million specified in the share purchase agreement, updated by the IGP-M index, less the dividends paid between the base date and the closing of the agreement. The acquisition was completed after the approval by the Brazilian Monopolies Authority (Conselho Administrativo de Defesa Econômica, or CADE) and consent from the concession-granting power, the State of Minas Gerais.

The following are the fair values of the underlying assets and liabilities of the interest acquired in Gasmig:

	Fair values of the interests acquired R$million
Assets	
Cash and cash equivalents	106
Securities	105
Accounts receivable	72
Inventories	6
Other current assets	71
Other current assets Non-current	304
Financial assets of the concession	659
Intangible assets	1,182
Liabilities	
Current liabilities	(335)
Provisions	(48)
Deferred taxes	(311)
Other non-current liabilities	(382)
Minority interests	(4)
Total net assets acquired	**1,425**

Business combination carried out in stages additional effects

Up to the date of the acquisition of the controlling interest in Gasmig, Cemig had an equity interest of 59.57% in the share capital of Gasmig. However, Cermig did not consolidate Gasmig since there was a shareholders agreement which gave Petrobras significant participating rights.

With the acquisition of the 40% interest in Cemig, referred to above, Cemig obtained control over Gasmig, and began to consolidate Gasmig as from the date of this acquisition.

As specified in IFRS 3 (R) (*Business combinations*), the Company revalued its previous interest in Gasmig at fair value, recognizing the difference in the profit for the period.

Considering that the valuation opinion for the acquisition of the additional interest of 40% in Gasmig represents the fair value of the assets on the date of acquisition, Cemig made the measurement of its original interest in the investment, as follows:

	Fair value of the original interest (59.57%) R$million
Fair value of Gasmig on the date of acquisition of control	1,427
Cemig s original interest, of 59.57%, valued at fair value on the acquisition date	850
Book value	569
Gain recorded in 2014	**281**

In the business combination a complementary amount of R$ 766 million was recognized in intangible assets, and deferred tax liabilities were recognized in the amount of R$ 261million, related to the right to commercial operation of the concession, to be amortized by the straight-line method during the period of the concession, corresponding to the difference between the fair value of the transaction and the fair value of the other assets and liabilities existing in the balance sheet of Gasmig.

Thus the amounts taken into account by the Company for the measurement of the total value involved in the business combination were:

	R$million
Consideration transferred for acquisition of the 40% interest	571
Fair value of the interest previously held	850
Fair value involved in the business combination	**1,421**
Reconciliation of the amount paid with the statement of cash flows:	
Consideration transferred for acquisition of the 40% interest	571
Balance of Cash and cash equivalents acquired in the business combination	(106)
Amount disbursed, net of Cash and cash equivalents acquired	**465**

For more information, see the section 14, Investment , in the Financial Statements.

Table of Contents

Association with Gás Natural Fenosa (GNF)

On June 13, 2014, Cemig signed agreements with Gas Natural Fenosa (GNF) formalizing an association for the creation of the company Gás Natural do Brasil S.A. (GNB), which will be a platform for consolidation of assets, and investment, in natural gas projects.

Acquisition of interest in the Capim Branco Plant Consortium

On May 28, 2013, Cemig Capim Branco Energia S.A. (Cemig Capim Branco), a wholly-owned subsidiary of Cemig, completed acquisition of an equity interest of 30.3030% 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 (the Consortium). This acquisition thus corresponds to an additional interest of 5.42% in the Consortium.

The interest acquired has been valued at 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 cash expected to be generated during the period of the concession. This intangible asset will be amortized on a straight-line basis from June 2013 until August 2036, the date of termination of the concession.

This table gives the fair value of the interest acquired in Epícares Empreendimentos e Participações Ltda., classified in the Statement of financial position as Investment in affiliated companies:

	Fair values of the interests acquired (30.30%)
Assets	
Accounts receivable	2
Fixed assets	55
Intangible assets	57
Liabilities	
Current and non-current liabilities	(1)
Deferred taxes	(19)
Total net assets	**94**

On the date of the acquisition the net book value of the interest acquired was R$55 million.

On February 27, 2015 an Extraordinary General Meeting of Stockholders of Cemig decided to authorize merger by Cemig GT of Cemig Capim Branco Energia S.A., and subsequent termination of the latter company. The merger consists of the transfer from Cemig to Cemig GT of the direct and indirect equity interests held by Cemig Capim Branco, equivalent to 26.4752% of the Amador Aguiar I and II Hydroelectric Plants. Of this total, Capim Branco directly holds 21.0526% of the Amador Aguiar I and II Plants and Capim Branco holds 30.3030% of the share capital of Epícares Empreendimentos e Participações Ltda., which, in turn, holds 17.8947% of the Amador Aguiar I and II Plants. The Brazilian regulator, ANEEL, approved the transfer.

This is one of the precedent conditions for subscription of shares in Aliança Geração de Energia S.A., by transfer of the interests held by Vale S.A. and Cemig GT in the following generation assets: Porto Estrela, Igarapava, Funil, Capim Branco I, Capim Branco II, Aimorés and Candonga (the Association).

As a result, there was an increase of R$1.7 billion to R$1.84 billion in the share capital of Cemig GT, and alteration of the head paragraph of Clause 5 of the by-laws of Cemig GT.

Partnership for consolidation of interests in generation holdings

On December 19, 2013, Cemig GT signed commercial and stockholding documents with Vale S.A. Vale (together with Cemig GT, the Parties), formalizing an association for creation of the company Aliança Geração de Energia S.A., to be a platform for consolidation of assets in generation consortia held by the parties, and investments in future electricity generation projects.

Table of Contents

On August 5, 2014 Cemig GT and Vale signed the Definitive Association Agreement, regulating among other matters acquisition by Cemig GT of share capital in Aliança Geração de Energia S.A. by subscription of 98,029 (ninety eight thousand twenty nine) nominal common shares without par value, such that following this Cemig GT shall own a 45% interest in the total and voting stock of Aliança Geração, and Vale shall own 55% of the total and voting stock. The Definitive Agreement provides that after compliance with certain conditions precedent, the second increase in the capital of Aliança will take place on the Closing Date of the transaction: the shares to be issued will be subscribed by Cemig GT and by Vale, preserving the proportion of a 55% holding by Vale and a 45% holding by Cemig GT, by means of transfer of the interests held by them in the following electricity generation assets: Porto Estrela, Igarapava, Funil, Capim Branco I, Capim Branco II, Aimorés, and Candonga.

On February 27, 2015, after approval by the Extraordinary General Meeting of Stockholders of Cemig, Vale S.A. (Vale) and Cemig GT completed the transaction creating their subscription of shares in Aliança Geração de Energia S.A. (Aliança). The two companies subscribed the shares in Aliança by transfer to it of the equity interests they held in the following electricity generation assets: Porto Estrela, Igarapava, Funil, Capim Branco I, Capim Branco II, Aimorés and Candonga (the Association).

Aliança now has hydroelectric installed capacity in operation of 1,158 MW (assured offtake level 652 MW), as well as other generation projects. It is valued at R$4.5 billion. Vale owns 55% of the equity, and Cemig GT 45%.

The Consortia for the Aimorés and Funil plants, and Cemig Capim Branco Energia, are in the process of being cancelled with the Brazilian Federal Revenue Service.

Cemig GT will also acquire, for approximately R$305 million, 49% of Aliança Norte Energia Participações S.A., which holds the 9% interest owned by Vale in Norte Energia S.A. The acquisition price, corresponding to the capital injections made by Vale up to December 27, 2015, will be paid at sight on the closing date, adjusted by the IPCA inflation index. With the acquisition Cemig GT becomes the indirect holder of a further 4.41% of Norte Energia, representing an installed generation capacity of 495.39 MW (201 average MW).

Under the Association and Acquisition Contracts settled between Cemig GT and Vale S.A., the Parties established that control will be shared between them and that there will be full alignment in taking of all decisions on operation of the companies.

On March 31, 2015 acquisition (the Aliança Norte Acquisition) was completed from Vale S.A. of Vale s 49% stockholding interest in Aliança Norte Energia Participações S.A., which owns 9% of Norte Energia S.A. (NESA) this thus corresponds to an indirect holding in Nesa of 4.41%. The condition precedent referred to in the Material Announcement of February 27, 2015 is thus fulfilled.

The acquisition price was R$305.78 million, referring to the amount of funds placed by Vale into the share capital of Nesa up to the closing date, after monetary updating by the IPCA index from the date of each injection of funding up to February 28, 2015, in proportion to the indirect stockholding in NESA of 4.41%.

Investment in the Santo Antônio plant through Madeira Energia S.A. (Mesa) and FIP Melbourne

Madeira Energia S.A. (Mesa) and its subsidiary Santo Antônio Energia S.A. (Saesa) are incurring establishment costs related to the construction of the Santo Antônio Hydroelectric Plant. The property, plant and equipment asset constituted by these expenditures totaled R$21.00 billion (consolidated) on December 31, 2014, and this amount, in accordance with financial projections prepared by its management, is to be revenues generated as from the start of operations of all the generator rotors of that entity. On December 31, 2014, the amount of PP&E proportional to the

Company s interest in this jointly-controlled subsidiary was R$3.73 billion. During this development phase of the project, the jointly-controlled subsidiary Mesa, has suffered recurring losses in its operations and, on December 31, 2014 its current liabilities exceeded its current assets by R$481.71 million. The management of Mesa has plans to correct the situation of negative net working capital.

In this context, Mesa and its subsidiary Saesa have the benefit of direct and indirect cash investments by their stockholders, of which R$2.78 million was injected in 2014 (R$1.68 million in 2013), and also a pre-approved long-term supplementary credit line in the amount of R$1.19 million.

The physical average offtake guarantee level for the Santo Antônio Hydro Plant is 2,218 MW. This was reached in September 2014 with the start of commercial operation of the 32nd generating rotor.

The Company recognized negative contribution by the equity method in relation to its direct and indirect interests in Mesa, in the amount of R$387.65 million on December 31, 2014 (R$46.93 million in positive equity method gain on December 31, 2013), arising, principally, from the recognition in 2014 by Mesa of expenses relating to: (i) purchase of supply on the short-term market (Wholesale Trading Chamber, or CCEE); (ii) allocation of the GSF (Generation Scaling Factor); and (iii) the FID (Availability Factor).

Table of Contents

On October 21, 2014 Mesa held an Extraordinary General Meeting of Stockholders, which approved, by majority, an increase of R$1.59 billion in the share capital of Mesa.

On November 19, 2014 SAAG Investimentos S.A. (SAAG) and Cemig GT filed an action for provisional remedy against Mesa, requesting an interim order to suspend, until consideration on the merit by the Arbitration Tribunal, the period for exercise, by SAAG and by Cemig GT, of the right of first refusal to subscribe the additional portion of the capital of Mesa, in the amount of R$174.72 million, approved in the Extraordinary General Meeting of Stockholders of Mesa held on October 21, 2014.

The action also requested suspension of all the effects of the decisions as they relate to SAAG and Cemig GT and to their interests in Mesa, including in relation to the dilution and the penalties specified in the Stockholders Agreement of Mesa.

The application for provisional remedy was granted on November 21, 2014, by the 39th Civil Court of the Central Jurisdiction of São Paulo, and the arbitration referred to in the action for provisional remedy, if it takes place, will be in camera, under the Regulations of the Market Arbitration Chamber, and will have Mesa (and not Saesa) as a party.

Increase in equity stake through acquisition of an indirect position via Fundo de Investimento em Participações Melbourne (the Melbourne Equity Fund or FIP Melbourne)

To structure the vehicle for the acquisition of 83% of the total interest held by SAAG Investimentos S.A. (SAAG), which holds an interest of 12.4% in Mesa, the following entities were formed: the investment funds FIP Melbourne and Fundo de Investimento em Participações Malbec (FIP Malbec); and the company Parma Participações S.A. (Parma). Together, these comprise a stockholding structure in which the stockholders responsible for the investment were Cemig GT and various investors, in particular private pension plans (the Funds).

The stockholders agreements of FIP Melbourne and of FIP Malbec forbid any transfer of units within 84 months from the closing of the first distribution of units in the FIPs. This period coincides with the period of exercise of the put options granted by Cemig GT to each one of the Funds.

These put options give the Funds the right to sell to Cemig GT, or to any third party indicated by Cemig GT, all the units acquired, for their values updated, pro rata temporis, by the variation in the IPCA (Expanded National Consumer Price) Index (IPCA) plus 7% per year, after 84 months from the date of subscription of the units by the FIPs.

On June 6, 2014 Andrade Gutierrez Participações S.A. (AGP) transferred nominal preferred shares and nominal common shares corresponding to 83% of the total stock and 49% of the voting stock in SAAG to the Melbourne equity investment fund (FIP Melbourne), an investment fund administered by Banco Modal.

Cemig GT holds less than 50% of the NAV of the Funds and less than 50% of the voting shares in the SPC, preserving the private-sector nature of the Investment Structure.

With the conclusion of the transaction on August 25, 2014, and certain stockholding changes made in the rest of 2014, Cemig GT now has a direct equity interest of 8.05% in Mesa, further to its indirect interest of 10%, resulting in an overall interest of 18.05%.

The valuation for the acquisition was determined by the discounted cash flow method, and the difference between the book value and fair value of the assets was allocated to the concession of the project, having as basis the cash generation expected during the period of the concession. This intangible asset will be amortized on the straight-line

basis from the acquisition date until June 2043, the date of termination of the concession.

The fair values of the interest acquired in the Santo Antônio Plant, through FIP Melbourne, classified in the statement of financial position as investment with significant influence, are as follows:

	Fair values of the interests acquired (7.87%)
Assets	
Investments	527
Intangible assets	259
Liabilities	
Deferred taxes	(88)
Total of the equity interest acquired by the Company	**698**

Table of Contents

Other corporate event in 2014 and 2015

In March 2014, inclusion in the organization diagram of the Company of the wholly-owned subsidiary Cemig Overseas S.L, with head office in Spain, and inclusion in Light Energia S.A. of the wholly owned subsidiary Lajes Energia S.A.

In May 2014 there was included in Light S.A. its stockholding interest of 50.10% in the special-purpose company Energia Olímpica, whose objects are to build, operate and maintain the Vila Olímpica substation and two underground lines of 138kV, which will connect to the substation.

On August 4, 2014, at the meeting of the Board of Directors of the Company, authorization was given to constitute the wholly-owned subsidiary Cemig Participações Minoritárias S.A. CemigPar, the objects of which are exclusively the holding of minority interests in the share capital of other companies, whose activities are related to services in energy, oil and gas, in their various fields, and developments and exploration of telecommunication and information systems, with initial capital of 1,000 Reais, represented by one thousand nominal common shares without par value.

In October 2014, creation of Cemig Participações Minoritárias S.A. in the Company.

In October 2014, inclusion in Cemig GT, of 33.33% equity interest in the SLT Project Consortium, the object of which is to manage and account contracting of legal, environmental, technical, and any other external consultants necessary for preparation of studies to ascertain the attractiveness of the São Luiz do Tapajós Hydroelectric Plant, located in the State of Pará.

Capital expenditures

Capital expenditures for the years ended December 31, 2014, 2013 and 2012 in millions of *reais*, were as follows:

	Year ended December 31,		
	2014	**2013**	**2012**
Distribution network	792	884	1,228
Power generation	2,990	358	473
Transmission network	80	91	107
Others	554	185	66
Total capital expenditures	4,416	1,518	1,875

At present we plan to make capital investments in relation to our fixed assets in the amount of approximately R$1.117 billion in 2015 corresponding to our basic program. We expect to allocate these expenditures primarily to the expansion of our distribution system. We will also allocate R$844 million for injection of capital into subsidiaries in 2015, to meet specific capital needs.

The amounts planned for 2015 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 2015 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.

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 volume of electricity resourced in 2014 was 89,856 GWh or 4.6% more than the volume sourced in 2013. The amount of energy produced by the Group in 2014 was 22,983 GWh, 6% less than in 2013; and the amount of energy purchased by the Group totaled 64,959 GWh, 10% more than in 2013. These figures include electricity purchased from Itaipu (6,255 GWh), and through the Electricity Trading Chamber (*Câmara de Comercializacao de Energia Elétrica*, or CCEE) and from other companies (58,704 GWh).

Table of Contents

The energy traded in 2014 totaled 89,856 GWh, an amount 4.6% higher than traded in 2013, and 59% of that volume (52,505 GWh) was traded to final consumers, both captive and free.

Total losses of energy in the core network and distribution networks in 2014 totaled 6,282 GWh, which corresponds to 7% of total resources, and 0,1% less than the losses in 2013 (6,290 GWh).

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

CEMIG S ELECTRIC ENERGY BALANCE

(GWh)	2014	2013	2012
RESOURCES	89,856	85,884	83,912
Electricity generated by CEMIG (1)	22,983	24,525	35,382
Electricity generated by auto-producers	632	841	1,100
Electricity generated by Ipatinga	247	243	309
Electricity generated by Barreiro	80	69	82
Electricity generated by Sá Carvalho	252	338	405
Electricity generated by Horizontes	63	76	54
Electricity generated by Cemig PCH	49.3	87	70
Electricity generated by Rosal Energia	190	261	249
Electricity generated by Amador Aguiar	401	406	656
Electricity bought from Itaipu	6,255	8,374	8,422
Electricity bought from CCEE and other companies	58,704	50,664	37,057
REQUIREMENTS	89,856	85,844	83,747
Electricity delivered to final consumers	50,505	45,883	46,015
Electricity delivered to auto-producers	967	969	994
Electricity delivered by Ipatinga	247	243	309
Electricity delivered by Barreiro	93	81	97
Electricity delivered by Sá Carvalho	472	472	476
Electricity delivered by Horizontes	80	85	81
Electricity delivered by Cemig PCH	99	94	109
Electricity delivered by Rosal Energia	263	263	263
Electricity delivered to the CCEE and other companies	28,848	31,504	29,086
Losses	6,282	6,290	6,317

(1) Discounting the losses attributed to generation (465 GWh in 2014) and the internal consumption of the generating plants.

Generation

According to ANEEL, at December 31, 2014 we were the fifth largest electric power generation group in Brazil, by total installed capacity. On that date we were generating electricity at 78 hydroelectric plants, three thermoelectric

plants and 23 wind farms, with total installed capacity of 7,716 MW. Of this capacity, the hydroelectric plants had a total of 7,334 MW, the thermal plants 184 MW, and the wind farms 199 MW. Eight of our hydroelectric plants had 65% of our installed electricity generation capacity in 2014. In the year to December 31, 2014 we recorded expenses totaling R$261,88 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

The electric power transmission business consists of transporting power from the facilities where it is generated to points of consumption, distribution networks and Free Consumers. Its revenue depends directly on the availability of its assets. The electric power transmission business consists of transporting power from the facilities where it is generated to points of consumption, to distribution networks and to Free Consumers. The transmission network comprises power transmission lines and substations with voltage of 230kV or more, and is part of the Brazilian Grid regulated by ANEEL and operated by the ONS. See the section *The Brazilian Power Industry* . On December 31, 2014 the Cemig Generation and Transmission network consisted of approximately 1,355 miles of 500 kV lines, 1,228 miles of 345 kV lines, and 478 miles of 230 kV lines, located in Minas Gerais.

Table of Contents

On December 31, 2014, Cemig s Group transmission network, considering its proportional interest in each concession, corresponded to approximately 117 miles of lines >525 kV, 1,290 miles of 500 kV lines, 136 milles of 440 kV lines, 67 miles of 345 kV lines, 513 miles of 230 kV lines and 62 miles of 220 kV lines.

Distribution

Cemig Distribution has four public service electricity distribution concession contracts in the State of Minas Gerais, granting rights to commercial operation of services related to the supply of electricity to captive consumers in municipalities in its concession 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 of Minas Gerais. On December 31, 2014 Cemig Distribution s electricity system comprised 316,500 miles of distribution lines, through which it supplied 27,011 GWh to 8.0 million captive consumers and transported 17,448 GWh to 417 Free Consumers that use the Company s distribution networks. The total volume of electricity distributed was 44,459 GWh, of which 46.6% was distributed to captive and free industrial consumers, 22.5% to captive residential consumers, and 16.2% to other captive consumers.

Cemig owns a directly held equity interest of 26.06% and an indirectly held equity interest of 6.41% in Light, which owns 100% of Light Serviços de Eletricidade S.A. (Light Sesa). In 2014 Light Sesa handles a total of 6,694 GWh in the concession area (captive clients + transport of electricity for Free Consumers). This figure was 2.5% higher than in 2013. There was growth in each of the consumption categories from 2013 to 2014, led by the commercial user category, whose consumption was 32% of the total, and 6% higher than in 2013.

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.; (iii) exploitation of natural gas, through five consortia: (a) Exploration Consortium SF-T-104, (b) Exploration Consortium SF-T-114, (c) Exploration Consortium SF-T-120, (d) Exploration Consortium SF-T-127, and (e) Exploration Consortium REC-T-163; (iv) sale and trading of electricity, through structuring and intermediation of purchase and sale transactions, trading 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. and Cemig Comercializadora de Energia Incentivada S.A.; (v) acquisition, transport and distribution of gas and its subproducts and derivatives through Companhia de Gás de Minas Gerais (Gasmig); and (vi) technology systems and systems for operational management of public service concessions, including companies operating in electricity, gas, water and sewerage and other utility companies, through Axxiom Soluções Tecnológicas 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:

Year ended December 31,

	2014	2013	2012
Electricity sales to final consumers	14,922	12,597	13,691
Revenue from wholesale supply to other concession holders	2,310	2,144	1,689
Revenue from use of the basic electricity distribution system (TUSD)	855	1,008	1,809
CVA and Other financial components of tariffs increases	1,107		
Transmission concession revenue	557	404	662
Transmission indemnity revenue	420	21	192
Construction revenues	941	975	1,336
Transactions in electricity on the CCEE	2,348	1,193	387
Other operating revenues	1,706	1,047	506
Deductions from revenue	(5,626)	(4,762)	(6,135)
Total	19,540	14,627	14,137

Table of Contents

Power generation and trading

Overview

The table below gives operational information on our generation plants at December 31, 2014:

Generation power Plants	Cemig Group	Installed capacity (MW)	Assured power level (1) average MW	Started Operation	Installed capacity % of total	Expiry of concession or authorization	Type of plant	Cemig stake
Santo Antônio	CEMIG GT	403	392	2012	5.22%	June 12, 2046	HPP	18%
São Simão	CEMIG GT	1,710	1,281	1978	22.16%	January 11, 2015	HPP	100%
Emborcação	CEMIG GT	1,192	497	1982	15.45%	July 23, 2025	HPP	100%
Nova Ponte	CEMIG GT	510	276	1994	6.61%	July 23, 2025	HPP	100%
Jaguara	CEMIG GT	424	336	1971	5.49%	August 28, 2013	HPP	100%
Miranda	CEMIG GT	408	202	1998	5.29%	December 23, 2016	HPP	100%
Irapé	CEMIG GT	399	211	2006	5.17%	February 28, 2035	HPP	100%
Três Marias	CEMIG GT	396	239	1962	5.13%	July 8, 2015	HPP	100%
Nilo Peçanha	Lightger	123	109	N.A	1.60%	N.A	HPP	32%
Volta Grande	CEMIG GT	380	229	1974	4.92%	February 23, 2017	HPP	100%
Aimorés	CEMIG GT	162	84	2005	2.10%	December 20, 2035	HPP	49%
Amador Aguiar I (Capim Branco I)	Cemig Capim Branco Energia S.A.	64	41	2006	0.82%	August 29, 2036	HPP	26%
Amador Aguiar II (Capim Branco II)	Cemig Capim Branco Energia S.A.	56	35	2007	0.72%	August 29, 2036	HPP	26%
Igarapava	CEMIG GT	30	20	1999	0.39%	December 30, 2028	HPP	15%
Ilha dos Pombos	Lightger	61	37	N.A	0.79%	N.A	HPP	32%
Funil	CEMIG GT	88	44	2002	1.14%	December 20, 2035	HPP	49%
Baguari	CEMIG GT	48	27	2009	0.62%	August 15, 2041	HPP	34%
Fontes Nova	Lightger	43	34	N.A	0.56%	N.A	HPP	32%
Porto Estrela	CEMIG GT	37	19	2001	0.48%	July 10, 2032	HPP	33%
Queimado	CEMIG GT	87	48	2004	1.12%	January 2, 2033	HPP	83%
Salto Grande	CEMIG GT	102	75	1956	1.32%	July 8, 2015	HPP	100%
Pereira Passos	Lightger	32	17	N.A	0.42%	N.A	HPP	32%
Retiro Baixo	Retiro Baixo Energética S.A.	20	10	2010	0.27%	August 25, 2041	HPP	25%
Sá Carvalho	Sá Carvalho S.A	78	58	1951	1.01%	December 1, 2024	HPP	100%
Santa Branca	Lightger	18	10	N.A	0.24%	N.A	HPP	32%
Rosal	Rosal Energia S.A	55	30	1999	0.71%	May 8, 2032	HPP	100%
Itutinga	CEMIG GT	52	28	1955	0.67%	July 8, 2015	HPP	100%
Camargos	CEMIG GT	46	21	1960	0.60%	08/07/2015	HPP	100%
Jataí	Brasil PCH	9	6	N.A	0.12%	N.A	SHP	30%
Irara	Brasil PCH	9	6	N.A	0.12%	N.A	SHP	30%
Santa Fé I	Brasil PCH	9	8	N.A	0.12%	N.A	SHP	30%

São Pedro	Brasil PCH	9	6	N.A	0.12%	N.A	SHP	30%

Table of Contents

Generation power Plants	Cemig Group	Installed capacity (MW)	Assured power level (1) (Average MW)	Started operation	Installed capacity % of total	Expiry of concession or authorization	Type of plant	Cemig stake
Cachoeirão	Hidrelétrica Cachoeirão S.A.	13	8	2008	0.17%	July 25, 2030	SHP	49%
São Simão	Brasil PCH	8	5	N.A	0.11%	N.A	SHP	30%
Paracambi	CEMIG GT	12	10	2012	0.16%	February 16, 2031	SHP	49%
Paracambi	Lightger	4	3	N.A	0.05%	N.A	SHP	17%
Monte Serrat	Brasil PCH	8	6	N.A	0.10%	N.A	SHP	30%
Pai Joaquim	CEMIG PCH S.A	23	2	2004	0.30%	April 1, 2032	SHP	100%
Funil	Brasil PCH	7	4	N.A	0.09%	N.A	SHP	30%
São Joaquim	Brasil PCH	6	4	N.A	0.08%	N.A	SHP	30%
Pipoca	Hidrelétrica Pipoca S.A.	10	6	2010	0.13%	September 10, 2031	SHP	49%
Bonfante	Brasil PCH	6	4	2008	0.07%	N.A	SHP	30%
Calheiros	Brasil PCH	6	3	N.A	0.07%	N.A	SHP	30%
Piau	CEMIG GT	18	14	1955	0.23%	July 8, 2015	SHP	100%
Retiro Velho	Brasil PCH	5	4	N.A	0.07%	N.A	SHP	30%
Colino 2	Renova Energia	5	3	2008	0.07%	N.A	SHP	33%
Carangola	Brasil PCH	5	3	N.A	0.06%	N.A	SHP	30%
Cachoeira da Lixa	Renova Energia	5	2	2008	0.06%	N.A	SHP	33%
Gafanhoto	CEMIG GT	14	7	1946	0.18%	July 8, 2015	SHP	100%
Colino 1	Renova Energia	4	2	2008	0.05%	N.A	SHP	33%
Peti	CEMIG GT	9	6	1946	0.12%	July 8, 2015	SHP	100%
Rio de Pedras	CEMIG GT	9	2	1928	0.12%	September 19, 2024	SHP	100%
Poço Fundo	CEMIG GT	9	6	1949	0.12%	August 19, 2025	SHP	100%
Tronqueiras	CEMIG GT	9	4	1955	0.11%	July 8, 2015	SHP	100%
Joasal	CEMIG GT	8	5	1950	0.11%	July 8, 2015	SHP	100%
Salto Voltão	Horizontes Energia S.A	8	7	2001	0.11%	October 4, 2030	SHP	100%
Martins	CEMIG GT	8	3	1947	0.10%	July 8, 2015	SHP	100%
Cajuru	CEMIG GT	7	3	1959	0.09%	July 8, 2015	SHP	100%
São Bernardo	CEMIG GT	7	3	1948	0.09%	August 19, 2025	SHP	100%
Fumaça IV	Brasil PCH	1	1	N.A	0.02%	N.A	SHP	30%
Paraúna	CEMIG GT	4	2	1927	0.06%	N.A	SHP	100%
Pandeiros	CEMIG GT	4	0	1957	0.05%	September 22, 2021	SHP	100%
Paciência	CEMIG GT	4	2	1930	0.05%	July 8, 2015	SHP	100%
Marmelos	CEMIG GT	4	3	1915	0.05%	July 8, 2015	SHP	100%
Salto do Paraopeba	Horizontes Energia S.A	2		2001	0.03%	October 4, 2030	SHP	100%
Salto Morais	CEMIG GT	2	1	1957	0.03%	July 1, 2020	SHP	100%
Sumidouro	CEMIG GT	2	0	1956	0.03%	July 8, 2015	SHP	100%
Anil	CEMIG GT	2	1	1964	0.03%	July 8, 2015	SHP	100%
Xicão	CEMIG GT	2	1	1941	0.02%	August 19, 2025	SHP	100%
Salto do Passo Velho	Horizontes Energia S.A	2	1	2001	0.02%	October 4, 2030	SHP	100%

Machado Mineiro	Horizontes Energia S.A	2	1	1992	0.02%	July 8, 2025	SHP	100%

Table of Contents

Generation power Plants	Cemig Group	Installed capacity (MW)	Assured power level (1) (average MW)	Started operation	Installed capacity % of total	Expiry of concession or authorization	Type of plant	Cemig stake
Luiz Dias	CEMIG GT	2	1	1914	0.02%	August 19, 2025	SHP	100%
Poquim	CEMIG GT	1	1	2002	0.02%	July 8, 2015	SHP	100%
Santa Marta	CEMIG GT	1	1	1944	0.01%	July 8, 2015	SHP	100%
Pissarrão	CEMIG GT	1	1	2001	0.01%	November 19, 2004	SHP	100%
Jacutinga	CEMIG GT	1	0	1948	0.01%	Não Tem	SHP	100%
Santa Luzia	CEMIG GT	1	0	2001	0.01%	February 25, 2026	SHP	100%
Lages	CEMIG GT	1	1	2005	0.01%	June 24, 2010	SHP	100%
Bom Jesus do Galho	CEMIG GT	0	0	1931	0.00%	Não Tem	SHP	100%
Volta do Rio	CEMIG GT	21	9	2010	0.27%	December 26, 2031	WIN	49%
Dos Araçás	Renova Energia	10	5	2014	0.13%	April 7, 2046	WIN	33%
Igaporã	Renova Energia	10	5	2014	0.13%	August 5, 2045	WIN	33%
Rio Verde	Renova Energia	10	5	2014	0.13%	August 19, 2045	WIN	33%
Morrão	Renova Energia	10	5	2014	0.13%	April 20, 2046	WIN	33%
Seraíma	Renova Energia	10	6	2014	0.13%	March 25, 2046	WIN	33%
Tanque	Renova Energia	10	5	2014	0.13%	May 26, 2046	WIN	33%
Praias de Parajuru	CEMIG GT	14	4	2009	0.18%	September 24, 2032	WIN	49%
Praia do Morgado	CEMIG GT	14	6	2010	0.18%	September 24, 2032	WIN	49%
Nossa Senhora da Conceição	Renova Energia	9	4	2014	0.12%	August 5, 2045	WIN	33%
Guirapá	Renova Energia	9	4	2014	0.12%	August 19, 2045	WIN	33%
Planaltina	Renova Energia	9	4	2014	0.11%	August 5, 2045	WIN	33%
Pajeú do Vento	Renova Energia	8	4	2014	0.11%	August 5, 2045	WIN	33%
Licínio de Almeida	Renova Energia	8	4	2014	0.10%	August 5, 2045	WIN	33%
Pindaí	Renova Energia	8	4	2014	0.10%	August 5, 2045	WIN	33%
Ventos do Nordeste	Renova Energia	8	3	2014	0.10%	March 18, 2046	WIN	33%
Da Prata	Renova Energia	7	3	2014	0.09%	March 25, 2046	WIN	33%
Guanambi	Renova Energia	7	3	2014	0.09%	August 6, 2045	WIN	33%
Serra do Salto	Renova Energia	6	2	2014	0.08%	August 5, 2045	WIN	33%
Ilhéus	Renova Energia	4	2	2014	0.05%	August 5, 2045	WIN	33%
Candiba	Renova Energia	3	1	2014	0.04%	August 5, 2045	WIN	33%
Alvorada	Renova Energia	3	1	2014	0.03%	August 5, 2045	WIN	33%
Porto Seguro	Renova Energia	2	1	2014	0.03%	August 5, 2045	WIN	33%
Igarapé	CEMIG GT	131	71	1978	1.70%	August 13, 2024	TPP	100%
Barreiro	Usina Termelétrica Barreiro S.A	13	11	2004	0.17%	April 30, 2023	TPP	100%
Ipatinga	UTE Ipatinga S.A	40	40	1986	0.52%	December 13, 2014	TPP	100%
Total		7,717	4,794		100%			

(1) Assured power level is a quantity calculated by the Mining and Energy Ministry to represent the long-term average output of a plant in practice, in accordance with studies by the Energy Research Company (Empresa de Pesquisa Elétrica or EPE). Assured power level calculation takes into consideration factors such as reservoir

capacity and connection to other power plants. Contracts with final consumers and other concession holders do not provide for levels of production higher than the Assured Power level. Mining and Energy Ministry Resolution 303/2004 defined as general criteria guaranteeing the supply, the amount of physical guarantee of developments of electric power generation.

(2) Indicates date of start of commercial operation, or of our acquisition.

Cemig s market comprises sales of electricity to:

(i) Captive consumers in Cemig s concession area in the State of Minas Gerais;

Table of Contents

(ii) Free Consumers both in the State of Minas Gerais and other States of Brazil, through the Free Market (Ambiente de Contratação Livre, or ACL);

(iii) Other agents of the electricity sector traders, generators and independent power producers, also in the ACL;

(iv) Distributors in the Regulated Market (Ambiente de Contratação Regulada, or ACR); and

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

The total volume of transactions in electricity in 2014 was 89.856 MWh, an increase of 4,4 % from the total of 86.037 MWh in 2013.

Generation Assets

On February 27, 2015, the transaction of association between Vale S.A. and Cemig GT by subscription of shares in Aliança Geração de Energia S.A. was completed. The two companies subscribed their shares in Aliança by transfer to it of the following equity interests they held in the following electricity generation assets: *Porto Estrela, Igarapava, Funil, Capim Branco I, Capim Branco II, Aimorés* and *Candonga.* As a result of the Association Aliança now has installed hydroelectric generation capacity of 1,158 MW in operation (assured offtake level 652 MW), as well as other generation projects. Vale owns 55% of the equity, and Cemig GT 45%. Aliança is valued at R$ 4.5 billion. For Cemig GT the Association 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.

On March 31, 2015 acquisition from Vale S.A. of Vale s 49% stockholding interest in Aliança Norte Energia Participações S.A. was completed. Aliança Norte Energia Participações S.A. owns 9% of Norte Energia S.A. (Nesa) the acquisition thus corresponded to an indirect holding in Nesa of 4.41%, representing installed capacity of 495.39MW (201MW average).

On December 31, 2014 the subsidiaries and jointly-controlled subsidiaries of the Cemig Group holding company (Companhia Energética de Minas Gerais Cemig) operated generation capacity totaling 7,717 MW, in 79 hydroelectric plants, 3 thermal plants and 23 wind farms, corresponding respectively to 7,333 MW, 184 MW and 199 MW. These figures make the Cemig Group the third largest generating group in Brazil by generating capacity. Its effective average output in 2014 was 4,794 MW

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

Light has total installed generation capacity of 282 MW, and effective average output of 210 MW.

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

As of December 31, 2014 Cemig Geração e Transmissão S.A., directly or through its subsidiaries, has electricity generation capabilities in 47 hydroelectric plants, one thermoelectric plant and three wind farms, comprising total generation capacity of 6,820, in which hydroelectric plants accounted for 6,640MW, the thermoelectric plant accounted for 131 MW and the wind farms accounted for 49MW.

The Paracambi Small Hydro Plant (SHP) appears twice in the listing of plants, above, because Cemig GT has an interest in the consortium of that plant, and Cemig itself (the holding company) has a direct stockholding in Lightger.

In addition to our own plants, Cemig Generation and Transmission has the following interests in consortia, as of April 29, 2015:

Baguari Hydroelectric Power Plant Participation of 49% of Baguari Energia S.A. and 51% of Baguari I Electric Power Generation (Neoenergia). In Baguari Energia SA, we have 69.39% stake as a partner and Furnas Central Electric S.A. with 30.61%.

Aimorés Hydroelectric Power Plant We have an indirect interest of 45% through Aliança Geração de Energia S.A. (which has a 100% interest).

Funil Hydroelectric Power Plant We have an indirect interest of 45% through Aliança Geração de Energia S.A. (which has a 100% interest).

Table of Contents

Igarapava Hydroelectric Plant We have an indirect interest of 23.69% through Aliança Geração de Energia S.A. (which has a 52.7% interest). Votorantim Metais Zinco S.A. owns an equity interest of 23.9%, Companhia Siderúrgica Nacional S.A. owns 17.9%, and Anglogold Ashanti Córrego do Sítio Mineração S.A. owns 5.5%.

Queimado Hydroelectric Power Plant We have a 82.5% interest in this enterprise and our partner in this project is CEB Participações S.A. (CEBPar), a subsidiary of Companhia Energética de Brasília, or CEB, a state-controlled electricity company. As per the second Amendment to Concession Contract 006/1997, executed on July 17, 2009, CEB has a 17.5% interest.

Porto Estrela Hydroelectric Plant We have an indirect the equity interest of 30%, through Aliança Geração de Energia S.A. (which has a holding of 66.7%). Companhia de Tecidos Norte de Minas Coteminas owns 33.3%.

Candonga Hydroelectric Plant We have an indirect equity interest of 22.5% through Aliança Geração de Energia S.A. (which owns 50%). Vale S.A. owns the remaining 50%.

Amador Aguiar I and Amador Aguiar II Hydroelectric Plants We have an indirect equity interest of 39.3% through Aliança Geração de Energia S.A. CBE Consortium (87.37%).

Água Limpa Hydroelectric Plant - We have a 49% interest in this enterprise and our partner, Light Energy, has the remaining 51%.

São Luiz do Tapajós Hydroelectric Plant All have 11.11% interests in the Tapajós Consortium, created for feasibility study of the project. We have as partners: Eletrobras, Eletronorte, CCCC S.A., EDF, Copel GeT, Endesa, GDF Suez and Neoenergia. The SLT Project Consortium (holding: 33.33%) was also created, to take part in the ANEEL auction for construction and operation of the plant, expected to be held at the end of 2015.

UHE Itaocara We have a 49% interest in the Consortium Itaocara and our partner, Itaocara Energy Ltd. (100% Light) owns the remaining 51%. The ANEEL auction for construction and operation of the plant will be on April 30, 2015.

Moinhos de Vento Wind Farm We indirect interest of 27.4% by Renova Energia SA (99.99%).

Moinhos de Vento2 Wind Farm We indirect interest of 27.4% by Renova Energia SA (99.99%).

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

Baguari Energia S.A. (69.39%) We operate the Baguari Hydroelectric Plant, through the Baguari Hydro Plant Consortium, together with Furnas Centrais Elétricas S.A. (30.61%). Baguari Energia S.A. owns 49% of the plant,

in partnership with Neoenergia, which owns the remaining 51%, through Baguari I Geração de Energia Elétrica

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

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

Guanhães Energia S.A. (49%) This company owns 100% of PCH Dores de Guanhães S.A., PCH Senhora do Porto S.A., PCH Jacaré S.A. and PCH Fortuna II S.A. companies responsible for construction and commercial operation of four Small Hydorelectric Power Plants. Light owns the remaining 51% equity interest in Guanhães Energia.

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

FIP Malbec (49.92%): Holding of 45.85% in Parma.

Parma (54.15%): Holding of 58.83% in FIP Melbourne.

FIP Melbourne (32.92%): Holding of 83% in SAAG, which owns 12.4% of Madeira.

Table of Contents

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

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

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

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

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

Renova Energia S.A. (36.8% of voting stock, 27.4% of total capital) is the group s vehicle for growth in generation from alternative generation and the group s Small Hydro Plants. At the end of 2014 Renova had generation supply contracts totaling more than 2.5 GW of generation capacity, of which 652.3 MW were already in commercial operation. Cemig also has an indirect interest in Renova through Light Energy (21.3% of voting stock, 15.9% of total capital).

Retiro Baixo Energética S.A. - (49,9%) Holds the concession for the operation of the hydroelectric power plant Retiro Baixo, located in the lower course of the Paraopeba River in the State of Minas Gerais, which has installed capacity of 83,7MW and assured energy of 38.5 MW.

Aliança Geração de Energia S.A., (45%) Platform of growth and consolidation of generation assets held by Cemig GT (45%) and Vale (55%). The assets involved in the formation of the Aliança Geração de Energia S.A. refer to the following consortia generation: Porto Estrela, Igarapava, Funil, Capim BrancoI and II, Aimorés and Candonga. The company will have installed hydro capacity of 1,158 MW (652 MW) in operation, among other generation projects, and will be responsible for investments in future projects of electricity generation.

Aliança Norte Energia Participações S.A. (49%) Holds the participation of 9% of Norte Energia S / A, owned by Vale, corresponding to an indirect interest in Nesa of 4.41%, representing an installed capacity of 495,39MW (201 MW).

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

Ipatinga S.A. Thermal Power Plant An independent power producer providing thermally generated supply, at the Ipatinga thermal plant, located on the premises of Usiminas (Usinas Siderúrgicas de Minas Gerais S.A.), using blast furnace gas as fuel. The period of authorization for Cemig to operate this thermal plant expired in December 2014.

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

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

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

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

Cemig Capim Branco Energia S.A. Is down process in the Receita Federal; was incorporated by Cemig GT, whose interests in Epícares and the Consortium were contributed to the Aliança Geração de Energia SA..

Sá Carvalho S.A. (subsidiary) Production and sale of electricity, as a public electricity service concession holder, through the Sá Carvalho hydroelectric power plant.

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

Light S.A (26.06%) Owns 25.5% of Amazônia Energia Participações S.A, 51% of Lightger S.A, 100% of Itaocara Energia Ltda. Light Energia S.A. has investment in several jointly-controlled subsidiaries for example 51% of Guanhães Energia S.A.; 21,3% of the voting stock and 15,9% of the total stock, of Renova Energia S.A. (see chart in Part 4 for details); and 100% of Lajes Energia S.A., São Judas Tadeu and Fontainha.

Table of Contents

Wind Farms

Wind farms have become one of the most promising power generation sources in Brazil. In addition to their low environmental impact, this source of electricity is completely renewable and widely available in Brazil, according to numerous studies of potential wind power. And its rapid technical development over recent decades has successfully reduced costs per MWh when compared to other power generation sources. Cemig has monitored and observed the rapid evolution of wind energy and its inclusion in the range of Brazilian energy supply sources.

Our first wind farm, Morro do Camelinho, began operating in 1994. in Gouveia, a town in northern Minas Gerais. It was the first wind farm in Brazil to be connected to the national electricity transmission grid. With a total generation capacity of 1 MW, Morro do Camelinho was built through a technical and scientific cooperation agreement with the government of Germany. Taking into account the experimental nature of the facility, and the fact that the equipment used is now obsolescent, Cemig applied to ANEEL for permission to de-activate the plant, which was granted on September 2, 2010. On August 15, 2009, Cemig Generation and Transmission s purchased from Energimp S.A. a 49% interest in three wind farms located in the State of Ceará, for R$223 million. The three wind farms, named UEE Praia do Morgado, UEE Praias de Parajuru and UEE Volta do Rio, have a total installed capacity of 99.6 MW.

On September 29, 2014 Cemig took its greatest step in making wind power a major component of its generation sources, with the entry of its generation company, Cemig Generation (Cemig GT) into the controlling stockholding group of Renova (Renova Energia S.A.) acquiring 36.6% of Renova s voting stock and 27.4% of its total capital, by subscription of 87,186,035 common shares. At the end of 2014 Renova had more than 2.5 GW of generating capacity placed under contract the great majority being wind power, as follows:

20 wind farms, with total generation capacity of 462.1 MW, in commercial operation in the Regulated Market (Ambiente de Contratação Regulado, or ACR);

9 wind farms, with 218 MW, completed and ready to come into commercial operation in the Regulated Market, awaiting transmission lines (under construction by other parties);

46 wind farms with aggregate generation capacity of 738 MW under construction with completion scheduled for 2015, 2016 and 2017 of which 560.1 MW have been placed under supply contracts in the Free Market (Ambiente de Contratação Livre, or ACL);

17 wind farms with aggregate capacity of 355.5 MW at pre-construction design stage, to operate in the Regulated Market, planned for startup of commercial operation in 2018;

50% ownership of a group of 25 wind farms, at design stage for construction by Renova, with total capacity of 708 MW with supply fully placed in the Free Market for commercial startup in 2018 (the other 50% interest is owned by Cemig);

1 hybrid plant providing both solar (4.8 MWp) and wind power, under construction, with supply placed in the Free Market, to start operation in 2015;

4 solar plants, with total of 114.9 MWp, in partnership with SunEdson;

8 wind farms with total of 151.1 MW, placed in the Regulated Market in 2014 of which 3 for startup in 2017 and 5 in 2019;

3 Small Hydro Plants with aggregate capacity of 41.8 MW, with supply placed under the Proinfa Alternative Energy program, in the Regulated Market; and

13 Small Hydro Plants in commercial operation in the company Brasil PCH, 51% owned by Renova with 148.41 MW of installed capacity contracted in the Regulated market under the Proinfa program.

Table of Contents

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

Expansion of Generation Capacity

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

Guanhães Energia S.A.: Has four wholly-owned subsidiaries PCH Dores de Guanhães S.A., PCH Senhora do Porto S.A., PCH Jacaré S.A. and PCH Fortuna II S.A., engaged in construction and commercial operation of 4 Small Hydroelectric Plants (Referred to as PCHs, for Pequenas Centrais Hidrelétricas, or SHPs). Three of them Dores de Guanhães, Senhora do Porto and Jacaré are in the municipality of Dores de Guanhães; and one, Fortuna II, is in the municipalities of Virginópolis and Guanhães, all in Minas Gerais State. They will have aggregate installed capacity of 44 MW. Construction schedules have been delayed by unforeseeable government environmental requirements, but Senhora do Porto and Dores de Guanhães are now scheduled to produce their first power in the second half of 2015, and. Jacaré and Fortuna II are expected to start generation in the first half of 2016;. The concessions for these plants expire as follows: for Fortuna II, in December 2031; for Dores de Guanhães in November 2032; and for Senhora do Porto and Jacaré in October 2032. Up to December 31, 2014 Cemig GT had subscribed capital totaling R$ 67,43 million in the project, in proportion to its 49% interest in this enterprise. The company is jointly-controlled: Light Energia owns the remaining 51%.

On March 31, 2014 ANEEL transferred ownership of the rights to operate the small hydro plants of Guanhães Energia to the wholly-owned subsidiaries referred to above, in the terms of ANEEL Authorizing Resolutions Nºs 4,583, 4,584, 4,585 and 4,586, of March 18, 2014.

Madeira Energia S.A. Mesa is a special-purpose company, created to construir, operate, maintain and explorar the Santo Antônio hydroelectric plant, localizada of the Madeira River, município de Porto Velho, Rondônia. This facility will have generating capacity of 3,568 MW. The Santo Antônio hydroelectric plant began operating in March 2012. Cemig GT (Generation and Transmission) has a 10% interest in Mesa and 8,05% of participação indireta. On December 31, 2014 the value of the property, plant and equipment assets proportional to Cemig GT s equity ownership in this indirect subsidiary was R$ 3.729.248 billion.

Table of Contents

Norte Energia S.A. Nesa: Since October 2011 Cemig GT has owned 74.5% of the special-purpose company Amazônia Energia Participações S.A., in partnership with Light Energia, which owns the remaining 25.5%. Amazônia Energia in turn holds 9.77% of Norte Energia S.A., another special-purpose company, which holds the concession to build, operate and maintain the Belo Monte Hydroelectric Plant. At the end of December 2014 the plant was approximately 43% complete. It is located on the Xingu river, in the Amazon Region, in the North of Brazil. When it is completed scheduled for January 31, 2019 it will have full capacity of 11,233 MW, and will be one of the largest hydroelectric plants in the world. By the end of 2013 the Brazilian Development Bank (BNDES), together with the Federal Savings Bank (Caixa Econômica Federal, CEF , or Caixa) and the investment bank BTG Pactual, financiers of the enterprise through a loan planned to total R$22.5 billion, had released a total of R$9,82 b billion for its construction. Also by the end of 2013, Cemig had injected approximately R$313 million in this enterprise, equal to about 71.2% of the total planned to be subscribed for its equity interest by 2016. Belo Monte is expected to produce its first power output in February 2015.

The UHE Itaocara Consortium: Since 2008, Cemig GT has held a 49% interest, with Itaocara Energia Ltda., a special-purpose company owned by Light S.A. (holder of 51%), in this consortium the object of which is to build and operate the Itaocara power plant, a 151-MW small hydro plant, to be built on the Paraíba do Sul river, between the municipalities of Itaocara and Aperibé, in Rio De Janeiro State. However, the reduction in the effective period of the original concession, and the impossibility of taking part in auctions in the regulated market, led the Consortium to apply for rescission of Concession Contract Nº 012/2001 a procedure that was made permissible by Law 12,893/13 of July 9, 2013. The Itaocara hydro plant está inclusa no leilão ANEEL marcado para 30 de abril de 2015.

Transmission

Overview

The transmission business consists of the transfer of electricity from generation power plants to consumer agents directly connected in the basic transmission grid, free consumers and distribution companies. The transmission system comprises transmission lines and step-down substations with voltages ranging from 230 kV to > 525 kV.

All the basic transmission grid users, including generators, distributors, free consumers, and others, execute contracts for the use of the transmission system CUST with the National System Operator (*Operador Nacional do Sistema ONS*), and make payments to the transmission companies for making available their basic transmission grid equipment. See -The Brazilian Power Industry and Item 5. Operating and Financial Review and Prospects.

The following tables give operating information on our transmission capacity for the dates indicated:

Cemig Group	**Transmission Network Extension in miles**		
	As of December 31		
Voltage of Transmission Lines	**2014**	**2013**	**2012**
>525 kV	117	117	17
500 kV	2,645	2,645	2,270
440 kV	136	136	136
345 kV	1,295	1,295	1,284
230 kV	991	990	789
220 kV	62	62	62

Total	5,246	5,245	4,559

	Transformation capacity(2) of Transmission substations As of December 31		
Substations Cemig GT	**2014(1)**	**2013**	**2012**
Number of transmission substations (3)	36	36	35
MVA	17397	16964	16673

(1) Transformation capacity refers to the ability of a transformer to receive energy at a certain voltage and release it at a reduced voltage for further distribution.
(2) Shared substations are not included.

Table of Contents

Subsidiaries and affiliates transmission Cemig

Company	Number of transmission substations (2014)
TAESA	7 (6 private and shared 1)
ATE III	1 shared
EATE	5 (1 private and shared 4)
Lumitrans	2 shared
EBTE	7 (2 private and shared 5)
ERTE	3 (1 private and shared 2)
STC	3 (2 private and shared 1)
ENTE	3 shared
ECTE	2 shared
ETSE	2 own pre-operational
ETEP	2 shared
ESDE	1 own
São Gotardo	1 shared
Brasnorte	4 (2 private and shared 2)
ETAU	4 (2 private and shared 2)
Mariana	2 pre-operational shared
Transleste	2 (1 private and shared 1)
Transirapé	2 (1 private and shared 1)
Transudeste	2 shared
Centroeste	2 shared
Transchile (*)	

(*) The two existing substations are not the property of Transchile.

Transmission assets

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

LT 345 kV The Itutinga Juiz de Fora Transmission Line (*Companhia Transudeste de Transmissão*) In September 2004 a consortium formed by Alusa, Furnas, Orteng and Cemig respectively owning 41%, 25%, 10% and 24% won the bid for the concession from ANEEL for the *Itutinga Juiz de Fora* transmission line. As required by the tender rules, the partners formed a company, *Companhia Transudeste de Transmissão S.A.*, which is responsible for construction and operation of the line. This 345-kV transmission line, of approximately 90 miles, links the substation of the *Itutinga* hydroelectric plant to a substation at Juiz de Fora, a city in the Southwest of Minas Gerais. Commercial operation started in February 2007. The concession expires in March 2035. On October 9, 2013 ANEEL consented to transfer of the 10% interest owned by Orteng Equipamentos e Sistemas S.A. to *EATE.*

50

Table of Contents

LT 230 kV The Irapé Araçuaí Transmission Line (Companhia Transirapé de Transmissão) In November 2004 a consortium made up of Alusa, Furnas, Orteng and Cemig, holding respectively 41%, 24,5%, 10% and 24.5%, won the bid for the concession from ANEEL for the Irapé Araçuaí transmission line. As required by the tender rules, the partners constituted a company, *Companhia Transirapé de Transmissão S.A.*, which has the responsibility for building and operating the line. This 230-kV line, of approximately 39 miles, connects the substation of the Irapé Hydroelectric Plant to a substation in Araçuaí, a city in the Northwest of Minas Gerais. Commercial operation began in May 2007 and the concession expires in 2035. On February 19, 2013, ANEEL Resolution of Authorization 3094/2013 authorized Transirapé to reinforce the system with the installation of autotransformers with a power of 3 X 75MVA on Irapé electrical substation, and another, with the same characteristics, on Araçuaí 2 electrical substation. On October 9, 2013 ANEEL consented to the transfer of the 10% interest owned by Orteng Equipamentos e Sistemas S.A. to Empresa Amazonense de Transmissão de Energia S.A EATE.

LT2 345 kV The Furnas Pimenta Transmission Line (Companhia de Transmissão Centroeste de Minas) In September 2004 a consortium formed by Furnas and Cemig, respective holding 49% and 51%, won the bid for the concession of the *Furnas Pimenta* transmission line. As required by the tender rules, the partners formed a company, *Companhia de Transmissão Centroeste de Minas S.A.*, which is responsible for the construction and operation of the transmission line. This 345-kV transmission line, of approximately 39 miles, connects the substation of the Furnas hydroelectric plant to a substation at Pimenta, a city in the Center-West region of Minas Gerais. It began commercial operation in March 2010. The concession expires in March 2035.

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

TAESA: In 2013, Taesa absorbed several companies in the group, in which it had 100% holdings and where absorption would provide economic gains and simplify stockholding structure. This took place in January 2013 for the wholly-owned subsidiaries *Sul Transmissora de Energia S.A.* (STE), *ATE Transmissora de Energia S.A.* (ATE) and *Nordeste Transmissora de Energia S.A.* (NTE); and in June 2013 for *ATE II*. On May 31 the transfer to Taesa of the totality of the stockholding interests held by Cemig in the share capital of the transmission concession holders of the TBE Group was completed. On October 17, 2013 the purchase was completed, by the affiliated company EATE, of the 10% stockholding interests held by Orteng in each of: (i) *Companhia Transleste de Transmissão*, (ii) *Companhia Transirapé de Transmissão* and (iii) *Companhia Transudeste de Transmissão*. On December 13, 2013, Taesa won the bid for Lot A of ANEEL Auction 013/2013, and as a result constituted *Mariana Transmissora de Energia S.A.* (MTE) to operate a 30-year concession to operate this 85-km, 500-kV transmission line in Minas Gerais, which links the *Itabirito 2* and *Vespasiano 2* substations, which belong to Cemig. On December 31, 2014 Cemig owned 45.74% of the voting stock of Taesa and 43.36% of its total capital

Table of Contents

A seguir apresentamos mais informações sobre as empresas de transmissão do Grupo Cemig, controladas e coligadas em conjunto:

	Transmission Network Extension in miles (100%) (as of December 31, 2014)						% equity interest		Expir concess
aries and affiliates transmission Companies	>525 kV	500 kV	440 kV	345 kV	230 kV	220 kV	Taesa	Cemig	authori
	229.9	2,441.4	314		477.6			43.36	
					68.4		100.00	43.36	April/
		578.5					49.98	21.67	June/2
ans	24.9						80.00	17.34	Februar
					485.3		74.49	32.30	Octube
					96.9		49.98	21.67	Novemb
					114.3		39.99	17.34	April/
		285.8					49.99	21.68	Novemb
	157.2						19.09	8.28	April/
							19.09	8.28	May/2
		203.8					49.98	21.67	June/2
							49.98	21.67	Novemb
tardo							100.00	43.36	August
rte					249.8		38.66	16.76	March/
					117.1		52.58	22.80	Decembe
a							99.99	43.36	Februar
ste				86.4			5.00	27.17	Februar
apé					37.9		5.00	26.67	March/
deste				90.1			5.00	26.17	March/
este				38.8				51.00	March/
nile						127.4		49.00	Indeterm
	412	3,509.5	314	215.3	1,647.3	127.4			

Notas:

ETSE: Partially in operation in January/2015.

ESDE: This concession is comprised by a substation. The transmission network extension is less than 1km.

São Gotardo: This concession is comprised only by substation.

Mariana: Expected to start operation in May/2017

Table of Contents

This map illustrates the transmission assets of the Cemig Group:

Expansion of transmission capacity

Empresa de Transmissão Serrana S.A. This is a special-purpose company created in January 2012 by ECTE, a jointly-controlled company owned by Taesa (with a 19.09% interest), Alupar Investimento S.A. (42.51%), Centrais Elétricas de Santa Catarina S.A. (30.89%) and MDU Resources Luxembourg II LLC, S.à.r.l. (7.51%). It was formed to build and operate two substations: the 525/230 kV *Abdon Batista* substation, with transformation capacity of 1,568 MVA; and the 230/138kV *Gaspar 2* substation, with 300 MVA capacity, both in the state of Santa Catarina. ECTE won the concession at ANEEL Auction 006 of 2011. The purpose of the substation is to connect the *Garibaldi* and *São Roque* power plants to the Brazilian National Grid, and expand the supply of electricity in the Itajaí Valley region. In January 2015, works were 72% completed.

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

São Gotardo Transmissora de Energia S.A. Taesa was awarded the concession (Lot E) to build, operate and maintain the 345/138 kV *São Gotardo 2* substation (300 MVA), in Minas Gerais, in June 2012, at ANEEL Auction 005/2012, representing Annual Permitted Revenue (*Receita Anual Permitida*, or RAP) of R$3.8 million. The company started operating on March 19, 2014.

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

Table of Contents

Distribution and purchase of electric power

Overview

Our distribution operation consists of transfers of electricity from distribution substations to final consumers. Our distribution network comprises a widespread network of overhead and underground lines and substations with voltages lower than 230 kV. We supply electricity to small industrial consumers at the higher end of the voltage range and residential and commercial consumers at the lower end of the range.

In 2014 we invested approximately R$229 million in construction and acquisition of property, plant and equipment used to expand our distribution system.

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

	Circuit length of distribution lines in miles (from distribution substations to final consumers) At December 31,		High voltage
Voltage of distribution lines	**2014**	**2013**	**2012**
161 kV	34.20	34.20	34.20
138 kV	7,321.72	7,271.70	7,158.50
69 kV	3,088.90	3,088.90	3,059.90
34.5 kV + Others	609.40	609.40	593.40
Total	11,054.22	11,004.20	10,846.00

	Circuit length of distribution lines in miles - Medium and low voltage (from distribution substations to final consumers) At December 31,		
Voltage of distribution network	**2014**	**2013**	**2012**
Overhead urban distribution lines	62,020.26	60,682.25	58,109.26
Underground urban distribution lines	426.97	426.90	426.97
Overhead rural distribution lines	242,998.48	241,122.49	239,381.83
Total	305,445.63	302,231.64	297,864.46

	Step-down transformation capacity(1) of distribution substations At December 31,		
	2014	**2013**	**2012**
Number of substations	374	373	370
MVA	9,585.5	9,365.6	9,178.1

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

Expansion of Distribution Capacity

Our distribution expansion plan for the next five years is based on projections of market growth. For the next five years, we anticipate an increase of approximately 1.25 million new urban consumers and approximately 47,600 rural consumers. In order to accommodate this growth, we expect that we will need to add 196,340 medium-voltage poles, 578 miles of transmission lines and 15 step-down substations, adding 1,123 MVA to our distribution network.

Table of Contents

Purchase of Electric Power

During the year ended December 31, 2014 we purchased 6,255 GWh of electricity from Itaipu, which represented approximately 25% of the electricity we sold to final users, and 643 GWh (3%) of electricity from Proinfa. We also purchased 1,100 GWh under Nuclear Energy Quota Contracts (*Contratos de Cotas de Energia Nuclear,* or CCENs), 4%) and 7,290 GWh of electricity under Assured Energy Quota Contracts (*Contratos de Cota de Garantia Física,* or CCGFs, 29%). In addition to this compulsory purchase, we have other two types of supply arrangements: (i) purchases through public auctions, which accounted for approximately 43% of the electricity purchased for resale during the year ended December 31, 2014; and (ii) long-term agreements existing prior to the New Industry Model Law, which represented approximately 6% of the electricity purchased in 2014.

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

We are one of the power distribution companies operating in the south, southeast and west-central regions of Brazil that are jointly required to purchase all of Brazil s portion of the electricity generated by Itaipu, in accordance with the Law 5,899/1973. The Federal Government allocates Brazil s portion of Itaipu s power among these electric companies in amounts proportionate to their respective historical market share of total electricity sales. ANEEL enacted Resolution 1386/2012 which set 13.31% as the percentage the total power produced by Itaipu that Cemig Distribution would have to purchase in 2013, at rates that are fixed to defray Itaipu s operating expenses and payments of principal and interest on Itaipu s dollar-denominated borrowings and the cost in *reais* of transmitting such power to the Brazilian grid. These rates are above the national average for bulk supply of power and are calculated in U.S. dollars. Therefore, fluctuations in the U.S. dollar/real exchange rate affect the cost, in real terms, of electricity we are required to purchase from Itaipu. Historically, we have been able to recover the cost of such electricity by charging supply rates to consumers. According to our concession contract, increases in the supply rates may be transferred to the final consumer upon approval by ANEEL.

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

Nuclear Energy Quota Contracts (CCENs): These are contracts that formalize the purchase of energy and power as established in Law No. 12,111/2009 and REN N° 530/2012 between distributors and Electronuclear for the energy produced by the Angra I and Angra II plants.

Assured Energy Quota Contracts (CCGFs): Decree No. 7,805/2012 regulated Provisional Measure (PM) 579/2012 and created contractual arrangements governing contracting of energy and power from the plants whose concessions were extended under Law 12,783/2013.

Auction Contracts We have purchased electricity in public auctions on the CCEE. These contracts are formalized between Cemig and the various vendors in accordance with the terms and conditions in the invitation to bid. The following table gives the amounts of electricity contracted, average original tariff and prices related to the CCEAR contracts for electricity acquired by Cemig. See The Brazilian Power Industry for more information on CCEEs and CCEARs.

55

Table of Contents

Average Tariff (R$/MWh)	Electricity Contracted (MW average per year)	Term of the Contract
83.13	105.47	2005 to 2012
106.95	4.47	2006 to 2013
132.27	35.31	2008 to 2015
114.28	3.16	2012 to 2014
126.77	60.41	2008 to 2037
129.26	40.36	2008 to 2022
132.39	31.02	2009 to 2038
115.05	91.77	2009 to 2038
134.99	20.12	2009 to 2023
121.81	88.98	2009 to 2023
138.85	61.23	2010 to 2039
134.67	431.17	2010 to 2039
120.86	24.71	2010 to 2024
137.44	23.24	2010 to 2024
128.42	63.89	2010 to 2024
129.14	56.57	2011 to 2040
128.37	126.34	2011 to 2025
78.87	122.83	2011 to 2025
77.97	457.75	2012 to 2041
102.00	52.76	2012 to 2026
80.10	336.40	2012 to 2041
262.00	27.00	2015 to 2044
270.81	69.03	2014 to 2044
99.48	46.80	2014 to 2033
67.31	136.73	2015 to 2044
129.70	25.09	2015 to 2044
121	15.68	2016 to 2035
133.29	32.13	2018 to 2047
117.51	16.27	2018 to 2037
135.58	19.30	2018 to 2047
96.28	16.41	2018 to 2037
119.03		2018 to 2042

Bilateral Contracts Cemig Distribution entered into bilateral contracts with various suppliers prior to the enactment of the New Industry Model Law in 2004. Such agreements are valid under their original terms but cannot be renewed. During the year ending December 31, 2014 Cemig Distribution purchased 1,707 GWh under these contracts, which represented 6% of the total electricity purchased by Cemig Distribution in 2014.

Other businesses

Natural gas distribution

Gasmig was established in Minas Gerais, Brazil, in 1986 for the purpose of developing and implementing distribution of natural gas in Minas Gerais. Cemig holds approximately 99.57% of Gasmig. The remaining shares are owned by the Municipality of Belo Horizonte.

On August 25, 2004 Cemig, Gasmig, Gaspetro and Petrobras signed an Association Agreement, later amended on November 5, 2004, December 14, 2004 and August 15, 2007, for implementation of a plan to develop the natural gas market in Minas Gerais State. The plan provided for expansion of the existing gas pipeline network, under the responsibility of Petrobras, and the natural gas distribution network, under the responsibility of Gasmig; and the acquisition by Gaspetro of equity in Gasmig.

On October 10, 2014, a share purchase agreement was signed for acquisition by Cemig of Gaspetro s 40% interest in Gasmig (previously approved by the Boards of Directors of Cemig and Petrobras), for R$570.93 million. This amount was the result of monetary updating of R$600 million by the IGP M inflation index, after discounting of the dividends paid, over the period from the base-date of the agreement to the closing of the transaction. The acquisition was completed after approval by the Brazilian Monopolies Authority (*Conselho Administrativo de Defesa Econômica*, or CADE) and consent from the concession-granting power, the State of Minas Gerais.

Table of Contents

In July 1995, the State Government granted Gasmig an exclusive 30-year concession (from January 1993) for distribution of piped gas covering the entire State of Minas Gerais and consumers located within it. On December 26, 2014 the Second Amendment to the Concession Contract was signed. This document extended Gasmig s concession for commercial operation of piped gas services for industrial, commercial, institutional and residential use in the State of Minas Gerais for 30 years. As a result the expiry of this concession is now extended from January 10, 2023 to January 10, 2053.

Gasmig s marketing efforts focus on its ability to provide a more economically efficient and environmentally friendly alternative to oil products, like diesel and liquefied petroleum gas (LPG), wood, wood products and charcoal. In 2014, Gasmig supplied approximately 4.2 million cubic meters of natural gas per day to 1,824 consumers in thirty-four cities: 110 large and medium-sized industrial plants, 177 small industrial plants and commercial consumers, 84 retail distribution stations supplying vehicle natural gas (VNG) to vehicles, 2 thermoelectric electricity generation plants, 2 co-generation projects, 3 distributors of compressed natural gas (CNG), and 1,446 homes. In 2014 Gasmig distributed approximately 5% of all natural gas distributed in Brazil.

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

For distribution to the market other than thermoelectric electricity generation, Gasmig has an Additional Supply Contract (Contrato de Suprimento Adicional, or CSA) with Petrobras, signed on December 15, 2004, in effect until 2030 and with a sliding supply level rising to 5 million m³/day in 2018. In 2014 the Contractual Quantity was 3.62 million m³/day. There was previously another gas supply contract for the non-thermoelectric market, referred to as the *Contrato Convencional* (or Contract Agreement), signed on July 6, 1994, which was dissolved in 2013. The remaining balance of quantity of gas paid for under that contract was recovered during the year 2014.

For supply of gas to the thermoelectric plants, Gasmig has contracts for a total of 1.6 million m³/day, in effect until 2022.

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

Capital expenditure in 2012 e 2013, totaling R$ 99.72 million, was focused on expansion and densification of the existing networks, with a focus on serving the residential market. In 2014, capital expenditure totaled R$ 59.36 million and was focused on expansion and densification of the existing networks, with a focus on serving the residential market, and 64.8 kilometers was added to our natural gas network.

Many energy-intensive industries, such as cement, steel, ferro-alloys and metallurgical plants, operate at significant volume in Minas Gerais. We estimate that the total demand for natural gas in Minas Gerais in 2015 will be approximately 4.35 million m^3 of gas per day. Gasmig s principal strategy is expansion of its distribution network to cover the part of demand that has not yet been met. Gasmig dedicates efforts to development of new projects for expansion of its natural gas distribution system, to supply consumers in other areas of Minas Gerais, especially those that are densely industrialized. The first phase of the service to the *Vale do Aço* region was completed with the supply of gas by Gasmig to three industrial companies there, in 2006. In that first phase Gasmig was distributing an average volume of approximately 200,000 cubic meters of natural gas per day. The second phase, begun in 2009 and completed in 2010, added 155 miles to Gasmig s networks, and approximately one million cubic meters of gas per day to Gasmig s market by the end of 2012. In 2010 Petrobras expanded the capacity of the gas pipeline that transports

natural gas from the Campos basin oilfield (off the coast of Rio de Janeiro State). The funding to finance the expansion came mainly from its own cash flows and from loans from the Brazilian Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*, or BNDES).

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

Natural gas exploration

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

Table of Contents

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

Cemig has a stake in the following consortia:

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

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

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

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

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

Telecommunications, internet and cable television

Cemig Telecomunicações S.A. CEMIGTelecom (CEMIGTelecom) is a Corporation registered for listing, a wholly owned subsidiary of Companhia Energética de Minas Gerais S.A. CEMIG. It offers an optical network for transport of telecommunications services in the state of Minas Gerais using Cemig s electricity transmission and distribution infrastructure.

It is domiciled in Brazil, with address at Rua dos Inconfidentes 1051 - Térreo, Funcionários, Belo Horizonte, Minas Gerais. It has authorization from the Brazilian telecoms regulator, the National Telecommunications Agency (Agência Nacional de Telecomunicações, or Anatel), granted by Anatel Act No. E.002 of December 3, 2003, for commercial operation of multimedia communications services, for an indeterminate period.

It was constituted on January 13, 1999, in partnership with AES Força Empreendimentos Ltda., a member of the AES Corporation Group, and at that time was given the name Empresa de Infovias S.A. Its purpose is to provide services in the area of telecommunications, through an integrated system comprising fiber optic cables, coaxial cables and electronic and associated equipment, for transmission, broadcasting and reception of symbols, characters, written signals, images, sound and information of any type, and also to provide telecoms services in the wholesale market, creating specialized circuits, in particular to other telecommunications companies such as fixed-line and mobile telephone operators, and providers of services such as cable TV, business carrier signals, data centers, broadband, etc.

CemigTelecom s core business is provision of telecommunications services in the segment of operators, and provision of specialized services to the corporate market, providing network and Internet access connectivity solutions.

It provides the largest optical network for telecommunications transport services in Minas Gerais, with a presence in more than 70 cities of the State, which contribute to approximately 90% of the State s GDP. Also, within its project for expansion, it makes optical network services available in the metropolitan regions of Salvador, Recife, Goiânia and Fortaleza, and has points of presence in the cities of São Paulo e Rio de Janeiro.

CemigTelecom has a 49% interest in the joint venture Ativas Data Center S.A. (Ativas). Management and principal decisions are shared with an investor partner, governed by a stockholders agreement.

The corporate purpose of Ativas is the provision of ITC Information and Communication Technology infrastructure services. These comprise physical hosting (hosting and ecolocation) of IT environments, database and site backup, storage, professional information security and availability services, ITC consultancy, connectivity and sale of access and Internet bandwidth. The construction of the data center, classified in category Tier III (by the Uptime Institute), to serve large and medium-sized corporations, was concluded in January 2011.

Table of Contents

Consulting, and Other services

Created as a wholly-owned subsidiary of Cemig in 2002, Efficientia built a business model of its own, launching itself in a market in which implementation of contracts based on performance (performance contracts) was practically unknown.

In its almost 13 years of activity, Efficientia s principal source of revenue has been implementation of energy efficiency projects under performance contracts. It has put in place about 60 projects of this type.

In 2014 Efficientia signed contracts with clients in the industrial and services sectors for implementation of the following projects for modernization of systems of illumination and photovoltaic generation:

Natura: Modernization of the industrial illumination system, using LED technology (expected savings 310 MWh/year). Investment: R$ 0.43 million

Algar Tech: Development and implementation of a Solar Photovoltaic Plant (expected generation 460 MWh/year). Investment: R$ 1.20 million

Tecidos Miramontes: Development and implementation of a Solar Photovoltaic Plant (expected generation 90.00 MWh/year). Investment: R$ 0.45 million

The energy efficiency projects put in place by Efficientia, as well as saving energy, reduce power offtake at peak times for the electricity system, and are thus also demand-side management projects.

Additionally, the photovoltaic generation projects are investments in distributed generation. The investment planned for these projects in 2015 is R$ 1.65 million.

In 2014 works were completed on the connection of the Santa Vitória Thermoelectric Plant under the supervision of Efficientia. This is a co-generation sugarcane bagasse plant able to generate up to 20 MW.

Sale and trading of electricity

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

Energy losses

The total recorded by Cemig as electricity losses has two components: an allocated portion of the losses arising in the National Grid; and the total of technical and non-technical losses in the local distribution network of Cemig Distribution (Cemig D).

As shown in the table of Cemig s Electric Energy Balance, the total energy losses recorded by Cemig in 2014 were 6,282GWh, a reduction of only 0.1% from 2013 (6,290 GWh). The Electricity Trading Chamber (CCEE) apportioned losses in the national grid totaling 465 GWh to Cemig Distribution. The other energy losses, totaling 5,817 GWh, include technical and non-technical losses in the local distribution system.

Technical losses are approximately 80.2% of the total losses concerning Cemig Distribution. Losses in distribution are inevitable as a result of transport of electricity and its transformation between different levels of voltage. We seek to minimize technical losses by rigorous and regular assessments of the operational conditions of the distribution facilities, and investment to expand distribution capacity, for the purpose of maintaining quality and reliability levels, thus reducing technical losses; we also operate the system in obedience to certain specific voltage levels, to reduce the level of losses. Technical losses are not strictly comparable: longer distribution distances (for example, in country areas), naturally have higher technical loss levels.

Non-technical losses were approximately 19.8% of Cemig D s total electricity losses in 2014. They are caused by consumer fraud, illegal connections to the distribution network, errors in metering, and defects in meters. To minimize non-technical losses, preventive actions are taken regularly: consumers meters and connections are inspected; meter readers are trained; metering systems are modernized; procedures for installation and inspection of meters are standardized; meters with quality control guarantees are installed; and the database of consumers is updated.

The non-technical losses of different distribution companies can be partially comparable, taking into account the social complexities in the concession area and the effectiveness of efforts to combat losses.

Table of Contents

At the end of 2014, the indicators that measure the quality of supply by Cemig D (i) SAIDI (System Average Interruption Duration Index), expressed as a figure per consumer, in hours per year; and (ii) SAIFI (System Average Interruption Frequency Index), also expressed as a consumer-experienced average were 10.77 and 5.58 respectively, the best result in the last eleven years. In 2013 the figures for SAIDI and SAIFI were respectively 12.49 and 6.26. At the end of 2014, the SAIDI and SAIFI of Light were respectively 12.25 and 6.56, compared to 18.40 and 8.31 in 2013.

In the 12 months ending in December 2014, Light SESA s total losses totaled 8.847 GWh, or 23.3% of the total load, a reduction of 0 p.p. compared to the December 2013 index.

Light s commercial (non-technical) losses in 2014 totaled 5.927 GWh, representing 40.9% of the electricity invoiced in the low voltage market (by the ANEEL criterion) (equivalent to 15.6% of total load). This was a reduction of 0,1 percentage points from the percentage of 15,7 % experienced in 2013. This result reflects the Company s commitment to combating this phenomenon, which is a veritable open wound . Light has adopted a commitment to reduce its commercial losses to a level of 30% by 2018.

To strengthen its process of reduction of non-technical losses, it has been continually investing in a wide range of actions these include, as well as conventional fraud inspection procedures, modernization of the network, and of its measurement systems, and its Zero Loss Zone (Área de Perda Zero, or APZ) Project.

The Light Legal project was also finalized in 2013, as a major instrument for action to reduce commercial losses. In 2014, covering 37 localities and 624 thousands clients, it achieved significant results. The APZs already opened more than 12 months have shown an average reduction of non-technical losses on wire load 29.0 percentage points and average increase in revenue of 7.0 pp.

Consumers and billing

Consumer base

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

This market comprises sales of electricity to:

(i) captive consumers in Cemig s concession area in the State of Minas Gerais;

(ii) Free Consumers both in the State of Minas Gerais and other States of Brazil, through the Free Market (Ambiente de Contratação Livre, or ACL);

(iii) other agents of the electricity sector traders, generators and independent power producers, also in the ACL;

(iv) distributors, in the Regulated Market (Ambiente de Contratação Regulada, or ACR); and

(v) the Electricity Trading Chamber (*Câmara de Comercialização de Energia Elétrica*, or CCEE)
(eliminating transactions between companies of the Cemig Group).

The Cemig Group traded a total of 67,416 GWh in 2014 this was 4.2% more than in 2013.

The volume of electricity sold to final consumers totaled 49,324 GWh, or 8.7% more than in 2013, due to expansion of the market in the Residential, Industrial, Commercial and services, and Rural user categories.

Residential consumption, which accounts for 14.9% of the energy sold by Cemig, totaled 10,014 GWh in 2014, or 5.7% more than in 2013.

Consumption in this category reflects:

addition of 196,587 consumers, expanding the consumer category by 3.1%, in 2014;

higher temperatures in 2014 than 2013, causing a rise in ownership and use of air conditioners and fans in homes; and

a 2.2% increase in average monthly consumption per consumer, to 131.2 kWh/month the highest level since 2001.

Table of Contents

In the Industrial user category, volume of electricity billed to captive and free consumers in Minas Gerais and other States was 38.6% of the total volume sold by the Cemig Group, and in total 11.0% higher than in 2013.

Within this category the growth figures were:

a) 13.7% in the volume billed by Cemig GT to free clients in Minas Gerais and other States, as a result of:

addition of new clients to the Cemig GT portfolio, mainly outside the state of Minas Gerais, and

redirecting of available supply to the free market, with the termination of several regulated market contracts in December 2013;

b) volume of electricity billed to free clients by the wholly-owned subsidiaries 1.4% higher; and

c) an increase of 0.8% in the volume of electricity billed to captive clients of Cemig D.

Consumption by the Commercial and services sector was 6.0% higher in 2014, at 6,395 GWh.

Factors in the increase in consumption in this category:

connection of 10,446 new captive clients, increasing Cemig D s client base in this category by 1.5%;

addition of 9 new free clients, in Minas Gerais and other states, increasing Cemig GT s number of clients in this category by 13.2%;

weather conditions in 2014 temperatures above historic monthly averages leading to installation of new air conditioning equipment at small businesses and services, and greater use of climate control equipment in general in the various sectors in this category; and

the dynamics of the services sector, related to the rendering of services to people and other economic sectors.

Sales to other agents in the electricity sector, in the free and regulated markets, totaled 14,146 GWh, a reduction of 12.3%.

Sales in the regulated market were 54.4% lower in the year, due to termination of contracts made under the ACR auction held in 2005, which were for supply from 2006 through 2013.

Sales in the free market were 8,799 GWh, or 99.5% higher, in 2014, due to the exploitation of commercial opportunities that resulted in the signing of new contracts for spot market sales.

Sales on the CCEE were 3,946 GWh, up 23.9% from 2013, on a higher volume of settlements of availability contract supply than in 2013.

The tables below show the Cemig Group s market in more detail, itemizing transactions in 2014 compared with 2013.

Type of sale	**GWh**		**Change, %**	
	2014	**2013**	**2013**	**14**
Sales to final consumers	49,324	45,394	8.7	
Residential	10.014	9,473	5.7	
Industrial	26.026	23,452	11	
Commercial and services	6,395	6,035	6	
Rural	3,390	3,028	11.9	
Public authorities	891	861	3.6	
Public lighting	1,298	1,267	2.4	
Public services	1,272	1,242	2.5	
Own consumption	38	35	6.9	
Wholesale sales (1)	14,146	16,127	-12.3	
Regulated Market	5,347	11,716	-54.4	
Free Market	8,799	4,411	99.5	
Sales on the CCEE (2)	3,946	3,186	23.9	
Total	67,416	64,707	4.2	

Sales in the regulated market to distributors and in the Free Market to traders and generators.

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

Table of Contents

The number of clients billed by Cemig in December 2014 was 8,008,205 or 2.9% more than in December 2013. Of this total, 8,008,153 are end-consumers, and 52 are other agents in Brazil s electricity sector.

Cemig GT Generation and Transmission added 97 new industrial and commercial Free Consumer clients, in Minas Gerais and other states of Brazil; and Cemig D Distribution added 226,606 new captive consumers in the year.

Cemig Group

Numbers of consumers

	Total number of consumers		Change, %
Consumer category	**Dec. 2014**	**Dec. 2013**	**2013 14**
Final consumers	8,008,153	7,781,454	2.9
Residential	6,445,960	6,249,373	3.1
Industrial	77,132	77,184	-0.1
Commercial and services	719,955	709,500	1.5
Rural	687,778	670,529	2.6
Public authorities	62,164	60,463	2.8
Public lighting	4,027	3,861	4.3
Public services	10,389	9,788	6.1
Own consumption	748	756	-1.1
Wholesale	52	54	-3.7
Regulated Market	35	36	-2.8
Free Market	17	18	-5.6
Total	8,008,205	7,781,508	2.9

Sales in the regulated market to distributors and in the Free Market to traders and generators.

This table shows the Cemig Group s sales to the Industrial user category as a whole in 2014, by sector of activity:

Sector of activity	**Volume invoiced, GWh**	**%**
Metallurgy	9,463	36.4
Mining	3,403	13.1
Non-metallic minerals	2,460	9.5
Foods	2,130	8.2
Chemicals	1.904	7.3
Automotive	1,148	4.4
Machinery and equipment	1,088	4.2
Other sectors	4429	17,0
Total, industrial consumers	26.026	100

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

Client	Activity
Samarco	Mining
Usiminas	Metallurgy
Liasa	Metallurgy
ArcelorMittal	Metallurgy
Rima	Metallurgy
Fiat	Automotive
Saint Gobain	Chemicals, non-metallic mining
V&M	Metallurgy
Minasligas	Metallurgy
CBCC	Metallurgy

Table of Contents

Billing

Our monthly billing and payment procedures for the distribution of electricity vary by voltage of supply. Our large-scale customers, which have direct connections to our transmission network, are generally billed within five days after the reading of their meters and receive their invoices by e-mail. Payment is required within five days of delivery of the bill.

Other customers who receive medium voltage electricity (approximately 13,500 consumers receive electricity at 2.3 kV or above) are billed within two business days of the reading of their meters, with payment to be made at least five business days from after delivery of the bill. This group of consumers receive their invoices both printed and by email.

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

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

We are in the process of implementing the modality of immediate billing for low voltage consumers, with simultaneous reading and printing of invoices. We utilized this billing system on approximately 3,500,000 customers in 2014 and we expect this number to be increased to5,000,000 customers by the end of 2015.

In June 2013, we implemented the option for low-voltage residential clients to receive invoices by email. As of December 31, 2014 approximately 43,600 low-voltage residential customers were registered to receive their invoices by e-mail.

Seasonality

Cemig s sales of electricity are affected by seasonality. Historically, consumption by industrial and commercial consumers increases in the fourth quarter due to their increase in activity. The seasonality of rural consumption is usually associated with rainfall periods. During the dry season between the months of May and November, more electricity is used to irrigate crops. The table below shows quarterly figures for electricity billed by the Cemig Group to final users, captive consumers and Free Consumers from 2012 to 2014:

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2014	11,963	12.242	12.435	12.683
2013	10,805	11,125	11,545	11,918
2012	11,003	11,476	11,812	11,876

Competition

Contracts with Free Consumers

On December 31, 2014 Cemig GT had a portfolio of contracts with 494 industrial and commercial Free Consumers, an increase of 19% from December 2013. Of this total, 206 clients were located outside the state of Minas Gerais, amounting to 29% of the total volume of electricity sold by Cemig in 2014.

The strategy adopted by Cemig in the Free Market is to negotiate and enter into long-duration contracts, thus establishing and maintaining a long-term relationship with clients. We seek to differentiate ourselves in the free market competition by the type of relationship we have with our customers and the quality of our services, which have added value for Cemig Generation and Transmission. This strategy, together with a sales strategy that seeks to minimize exposure to short-term prices and contracts with a minimum demand on a take-or-pay basis, translates into lower risk and greater predictability of the Company s results.

At the end of 2014 we were the largest seller of electricity to Free Consumers in the Free Market, with approximately 22.5% of the sales in this segment of the CCEE.

Table of Contents

Concessions

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

However, with the enactment of Provisional Measure 579 (PM579), converted into Law No. 12,783 of January 11, 2013, the concessions granted after Law No. 9074 of July 7, 1995, could be extended only once for a period of up to 30 years, at the discretion of the concession-granting authority, as from September 12, 2012.

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

In 2014, after a decision by ANEEL to amend the concession and permission contracts of the Brazilian electricity distributors, the Company signed a Fourth Amendment to each one of its distribution concession contracts, which established a guarantee that amounts recorded in the Offsetting Account for Variation in Portion A Items (Conta de Compensação de Variação de Valores de Itens da Parcela A), or CVA Account, and other financial components, would be incorporated into the basis for indemnity specified in the event of a distribution concession being terminated for any reason.

On December 4, 2012 the Company signed the Second Amendment to Transmission Concession Contract 006/1997, which extended the concession for 30 years under the terms of PM 579 from January 1, 2013, which resulted in a reduction of the Permitted Annual Revenue (Receita Anual Permitida, or RAP), of approximately 60%. The existing transmission assets that had not been depreciated as from May 31, 2000, were re-valued and indemnified by the Concession-granting power, in accordance with Mining and Energy Ministry/Finance Ministry Interministerial Order 580, of November 1, 2012, minimizing the impact of the reduction of the RAP. At the same time, for those assets not yet depreciated and existing before May 31, 2000, the Company submitted to ANEEL a valuation opinion prepared by a company registered with ANEEL, as specified in ANEEL Normative Resolution 589/2013. At the present moment the information is in the process of validation by ANEEL and subsequent indemnity.

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

Based on this understanding, Cemig GT has applied to the Courts for an order of mandamus against an act of the Mining and Energy Ministry with the objective of safeguarding, for that company, its rights in relation to the extension of the period of the concession of the Jaguara Hydroelectric Plant, under Clause 4 of Concession Contract Number 007/1997, obeying the original bases of that Contract, which are prior to Law Nº 12,783/2013. The Court granted interim relief, which is still in effect, in favor of the Company, namely enabling it to continue its commercial operation of the Jaguara Hydroelectric Plant until final judgment is given on this action for mandamus. Within the

classification adopted by the Company of legal actions in which it is involved namely that the chances of loss are assessed as probable , possible , or remote the Company has classified the chance of loss in this action as possible , reflecting its nature and the complexity involved in this specific case. The case has several particular elements characterizing the contingency: (i) the singular nature of Concession Contract Number 007/1997; (ii) the unprecedented nature of the matter of the case; and (iii) the fact that the action which has been filed will be a leading case in the consideration by the Brazilian Courts of the extension of concessions.

On the same grounds, and with the initial period of the concession of the São Simão Hydroelectric Plant about to expire imminently, 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, under Clause 4 of Concession Contract 007/1997, obeying the original bases of this contract, which were prior to Law Nº 12783/2013. The Company obtained initial interim relief from the court, which is still in force, to enable it to continue in control of the commercial operation of the São Simão Plant until judgment is given in the application for mandamus in relation to the Jaguara Plant (referred to above). The Reporting Justice of the Court stated in his interim decision that in the event that the judgment on the mandamus in the Jaguara case is not given within 45 days after the start of the activities of the First Section of the Higher Appeal Court (Tribunal Superior de Justiça, or STJ) in 2015, he may re-examine the case.

Table of Contents

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

The Dona Rita plant has been returned to the Concession-Granting Power, in August 2013, and is provisionally under the responsibility of Furnas Centrais Elétricas, until a tender is held for its concession, as per Mining and Energy Ministerial Order No. 189/2013.

ANEEL Normative Resolution 596/2013 established the criteria and procedures for calculation of the portion of the investments linked to assets that are revertible, not yet amortized or not yet depreciated, in hydroelectric undertakings referred to by Article 2 of Decree 7850/2012, whether their concessions were extended or not, under the terms of Law 12783/2013. The company has sent ANEEL its statement of interest in receiving the amount relating to the portion of the investment referred to in that Normative Resolution. It will subsequently submit proof of the investments having been made in the plants involved. The amounts will be paid, at the option of the concession-granting power, through indemnity or through recognition in the basic tariff.

Raw materials

Fluvial water is the main raw material used by Cemig for hydroelectric generation of electricity. Currently, 78 of the group s 104 plants use this source and provide 95.53% of our generation.

The cost of the water may be considered null, since water is a natural resource that comes from rivers and rain.

In a smaller proportion, the company also produces energy from wind (also with a null cost) and in thermoelectric plants, burning fuel oil (the cost varies with the price of oil on the international market).

Environmental Matters

Overview

Our generation, transmission and distribution of electricity and our distribution of natural gas are subject to federal and state legislation relating to preservation of the environment. The Brazilian Constitution gives the federal government, states and municipalities powers to enact laws designed to protect the environment and issue enabling regulations under these laws. While the federal government has the power to promulgate general environmental regulation, state governments have the power to enact specific and even more stringent environmental regulation and municipalities also have the power to enact laws in their local interest. A violator of Law 9605/1998 the Law on Environmental Crime (*Lei de Crimes Ambientais*) may be subject to administrative and criminal sanctions, and will have an obligation to repair and/or provide compensation for environmental damages, Federal Decree 6514/2008 specifies the penalties applicable to each type of environmental infraction, setting fines that vary between a minimum of R$5000 and a maximum of R$50 million, as well as suspension of activities. Criminal sanctions applicable to legal entities may include fines and restriction of rights, whereas, for individuals, they may include imprisonment, which can be imposed against executive officers and employees of companies that commit environmental crimes.

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

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

Management of vegetation in the electricity system

The Environmental Management unit of Cemig Distribution, among other activities, develops methods and procedures for dealing with urban trees in relation to distribution networks. Vegetation management arises from the obligation to ensure the operational security of the system, and from the high number of interruptions in supply of electricity caused by trees. In 2014, trees were the cause of 29,163 electricity supply outages, in both urban and rural areas, and were the second largest cause of accidental outages in the Company s distribution system.

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

Table of Contents

Environmental Licensing

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

Failure to obtain an environmental license to construct, implement, operate, expand or enlarge an enterprise that causes significant environmental impact, such as the energy plants operated and in implementation by CEMIG, is subject to administrative sanctions, such as the suspension of activities and the payment of a fine, varying according to the competent authority, as well as criminal sanctions, which include the payment of a fine, imprisonment for individuals and restriction of rights for legal entities.

The State of Minas Gerais Environmental Policy Council (*Conselho de Política Ambiental*) (Copam) Regulatory Ordinances No. 17, of December 17, 1996, and 23, of October 21, 1997, provide that operational licenses shall be renewed from time to time for periods of four to eight years, depending on the size and pollution potential of the facility.

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

Corrective Environmental Operation Licensing

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

Federal Law No. 9,605, of February 12, 1998, sets penalties for facilities that operate without environmental licenses. In 1998, the federal government issued Provisional Measure 1,710 (currently Provisional Measure 2,163-41/2001), which allows project operators to enter into agreements with the relevant environmental regulators for the purpose of coming into compliance with Federal Law No. 9,605/98. Accordingly, we have been negotiating with the Brazilian Environmental and Renewable Natural Resources Institute (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*, or Ibama) and the Regional Environmental Management Units (*Supram* s) of the State of Minas Gerais to obtain the corrective environmental operation licensing for all our plants and transmission lines that began operating prior to February 1986. We have agreed with the *Supram*s to bring our generation facilities located in Minas Gerais into compliance on a gradual basis. We do not currently anticipate any costs and commitments in connection with any recommendations that may be made by Ibama and by the *Supram*s.

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

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

Table of Contents

In 2014, 58 licenses and authorizations for regularization of projects of Cemig Distribution (Cemig D) were obtained, as follows: 12 Environmental Authorizations for Functioning (*Autorizações Ambientais de Funcionamento*, or AAFs); 24 Certificates Not Subject to Licensing (*Certidões Não Passiveis de Licenciamento*); 18 Authorizing Documents for Environmental Interventions (*Documentos Autorizativos para Intervenção Ambiental*, or DAIAs), of which six were related to the support parties accessing power facilities; and 4 Licenses to Use Water Resources. All the above projects have been regularized in the *Supram* s spread out over the state of Minas Gerais. There are currently 46 cases that have been formalized and are under analysis in the regional Suprams, of which 24 are AAFs, 9 are DAIAs and 5 are Certificates of Exemption/Declaration. There are also 8 cases in progress, for obtaining Licenses to Use Water Resources.

On August 29, 2014 the 2nd renewal of Operational License 302/2003, for the Queimado Hydroelectric Plant, was approved.

With respect to the Corrective Operating Licenses (*Licenças de Operações Corretivas*, or LOCs) Cemig Distribution (Cemig D) has reached agreement with *Supram* for regularization of the transmission lines built before Normative Resolution 74/2004, dividing its projects into seven regional grids: North South, Mantiqueira, East, Triângulo, West and Center. At present, we have obtained five LOCs, with conditions, which we have been complying with and filing the evidence of compliance with the environmental body. The Center and East grids have submitted full formalizations to the *Suprams*, and are currently awaiting environmental approval to receive the licenses.

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

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

Environmental Legal Reserves

Under Article No. 12 of Federal Law No. 2,651, of May 25, 2013 (the new Brazilian Forest Code), a Legal Reserve (the term in the legislation is *Reserva Legal*) is an area located inside a rural property or holding that is necessary for the sustainable use of natural resources, conservation or rehabilitation of ecological processes, conservation of biodiversity or for shelter or protection of native fauna and flora. As a general rule, all owners of rural properties have to preserve an area as a Legal Reserve. However, the Article 12, §7 of the new Brazilian Forest Code establishes that a Legal Reserve will not be required for areas acquired or expropriated by the holder of a concession, permission or authorization to exploit hydroelectric power potential, in which projects for electric power generation, or electricity substations or transmission or distribution lines are functioning.

In Minas Gerais, State Law 20,922, enacted on October 17, 2013, made provisions on the Forest Policy and the Biodiversity Protection Policy in the state, adapting the environmental legislation to the terms of the Forest Code. This had the effect of revoking the requirement for a Legal Reserve in the case of hydroelectric generation projects, enabling the processes of Corrective Environmental Licensing that had been held up in the previous year for this reason to be resumed. In the federal sphere, Ibama s technical licensing team, in the corrective licensing of Cemig s plants, expressed an opinion, in correspondence sent to the Company on July 29, 2008, taking a position against the need for the constitution of Legal Reserves.

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

Permanent preservation areas

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

Table of Contents

Compensation Measures

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

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

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

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

Due to the impact of the 2013 Electricity Concessions Law (Law Nº 12,783, of January 11, 2013) on the enterprises of Cemig GT, the Company filed a consultation with the Minas Gerais State Forests Institute (*Instituto Estadual de Florestas*, or IEF), to be informed about the environmental compensation payable in relation to the Transmission System. The IEF passed the inquiry on to the Federal General Attorneys Office (*Advocacia Geral da União*, or AGU). Up to time of writing Cemig GT has not received a reply to this consultation.

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

Fish Management The Peixe Vivo *Program*

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

In spite of these efforts, an incident occurred in 2007, at the *Três Marias* Hydroelectric Power Plant, resulting in the death of approximately 17 tons of fish, as estimated by the Environmental Police (8.2 tons, by our estimate). The volume of dead fish was not measured. As a result of the event, the Minas Gerais State Forests Institute imposed two fines, totaling approximately R$5.5 million, and on April 8, 2010 Cemig and the Public Attorneys Office of Minas

Gerais State signed a Conduct Adjustment Commitment (*Termo de Ajuste de Conduta*, or TAC), for R$6.8 million in compensatory measures for environmental improvements in the area affected by the Três Marias power plant, in Três Marias, Minas Gerais. Both these financial commitments have now been settled, and the environmental improvements in the affected area, such as automation of the fish protection grids, are being implemented.

In this context, in June 2007 we created the *Peixe Vivo* (*Fish Alive*) Program, arising from the perception by members of senior management that it was necessary to take more effective measures to preserve fish populations of the rivers where the company has operations. The Program s main actions are summed up in its mission, which is: To minimize the impact on fish species, seeking handling solutions and technologies that will integrate electricity generation by Cemig with conservation of native fish species, promoting involvement of the community . Since its creation, the program has been operating on two fronts one seeking preservation of fish populations in the state of Minas Gerais, and the other focusing on forming protection strategies to avoid and prevent fish deaths at Cemig s hydroelectric plants. The adoption of scientific criteria for decision-making, establishment of partnerships with other institutions and modification of practices adopted as a result of the information generated, are the principles that guide the work of the *Peixe Vivo* team. Also, publication of the resulting information to society is important ensuring transparency of the program, and creating opportunities for the community to express its concerns and suggestions.

Table of Contents

On average, over the period 2007 to 2014 Cemig spent R$6.9 million per year in actions and research projects in relation to the *Peixe Vivo* program. It invested a further R$6 million in physical barriers to prevent fish from entering the draft tube, and modernization of the main hatchery station at the *Volta Grande* Environmental Station.

In spite of all the advances in fish management achieved by the *Peixe Vivo* Program, there are still major challenges to be studied and understood. In 2012, an estimated 1.8 tons of fish died in an occurrence at the Três Marias hydroelectric plant. The cause of death is still unknown, and the event was not expected there was no precedent for the particular circumstances of this accident. However, with the adoption of measures to control this environmental incident, and as a result of our prompt reporting to the environmental authorities, the fine that we were charged for the accident, a total of fifty thousand Reais, was reduced by 45%, as specified by law due to immediate communication of the damage or danger to the environmental authority, and collaboration with the environmental bodies in solving the problems arising from our conduct. The fine imposed in 2012 (per kilogram of fish killed) was one-fortieth of the fine applied by the Minas Gerais State Forests Institute (*Instituto Estadual de Florestas*, or IEF) in the 2007 accident. The *Peixe Vivo* Program studied the circumstances of the accident to decide optimum forms of control and avoid similar occurrences.

In 2014, the *Peixe Vivo* Program presented its research activities in important meetings, such as the meetings with the State Environment and Sustainable Development Secretary, AES Tietê, Gerdau, Tractebel and Smith-Root. Also, the First Symposium of Results from the *Peixe Vivo* Program was organized, at which the results of the research study *Evaluation of the risk of fish deaths at Cemig plants*, were presented, pointing to one of the best practices for mitigation of direct impact on fish caused by the plants. The Program has 14 current scientific projects in partnership with research institutions, involving more than 200 students and researchers.

These partnerships have resulted in more than 240 technical publications up to today s date, and have also been referenced nationally and internationally for the practices of fish conservation and dialog with the community, presenting Cemig s work in several countries, and various states of Brazil. These academic results, jointly with the involvement of the community, have been used to create more efficient and practical conservation programs that make it possible for fish to coexist with generation plants in Brazilian rivers.

Since it was created the *Peixe Vivo* Program has also received external recognition in awards. In 2009 10, it was awarded the Brazil Environment Prize (*Prêmio Brasil de Meio Ambiente*) in the category *Best fauna and flora preservation work*. In 2010, it was first placed in the Aberje Award in the category *Communication about programs centered on corporate sustainability*, a first for Cemig. In 2011 a work presented by the *Peixe Vivo* Program, entitled *Development of a methodology for evaluating risks of fish deaths in Cemig s plants,* presented at the 21st Brazilian National Seminar on Production and Transmission of Electricity (*Seminário Nacional de Produção e Transmissão de Energia Elétrica*, or SNPTEE), was selected as the best work presented in the *Environmental Impact* group. In 2013 it was the finalist in the *Brasil 2013 Green Project Awards*, in the category *Products or Services*. In 2014, it was among the ten first-placed competitors for the 12th Brazil Benchmarking Award and, in recognition of having developed best practices for fish protection, was the winner in the *Best, Fauna* category of the fifth annual award of the Hugo Werneck Prize.

Urban Occupation of Rights of Way and Reservoir Banks

Gas Pipelines Our piped natural gas distribution networks are underground, crossing through inhabited areas and using public rights of way in common with underground piping utilities operated by other public concession holders and public agencies. This increases the risk of unauthorized work without prior communication and consultation of our natural gas distribution network registers, and there is a possibility that accidents may occur, causing significant personal, property and environmental damage in case of ignition or a leak. However, all our gas networks are

explicitly, and intensively, marked and signaled. Gasmig has several inspectors monitoring its network daily, to prevent illegal or non-notified excavations in urban roads, invasions or constructions erosions, as applicable, or any other problem that might cause risk to the pipeline. Gasmig, through its Dig Safely (*Escave com Segurança*) program, has been building partnerships with the community, mainly with public authorities and holders of concessions, to disclose their registrations to companies that perform excavation on urban roads, to ensure that before digging close to the natural gas network, they call Gasmig s 24-hour helpline, and request guidance and support for safe execution of their work.

In 2014 Gasmig had no natural gas emissions caused by unauthorized excavation without prior analyses of our maps of the gas network.

Table of Contents

Transmission Lines We have easements for our transmission and subtransmission networks over land with approximately 16,072 miles in length. A significant portion of such land is occupied by unauthorized constructions, including residential constructions. This type of occupation causes risks of electric shock and accidents involving local residents, and constitutes an obstacle to the maintenance and operation of our electricity system. We are currently seeking solutions for this problem, which will involve either removal of these occupants or improvements that would make it possible to maintain our electricity system safely and efficiently. The Security Monitoring Committee on Invasion Risk in the Transmission and Subtransmission Lines was created to mitigate these risks by monitoring and recording invasions and by taking action to prevent invasions on the paths of the transmission and subtransmission lines. A number of measures have been adopted to preserve the security of these lines, including: contracting of a company for systematic inspection, and implementation of security measures and works to minimize the risks of accidents; education of communities about the risks of accidents involving electric shocks arising from invasion of sites and building of homes; creation of community vegetable gardens; and removal of occupation of the transmission line pathways through agreements with local residents and other authorities, and/or through court actions.

Reservoir Areas We have implemented safety measures to protect our electricity generation facilities against invasions, using observation posts and mobile patrols to control the banks of reservoirs. Electronic security systems to monitor the generation power plant installations are also planned. Any invaders found inside the facilities are detained and taken to police stations, where police complaints are filed. There are signs on the banks of the reservoirs of our hydroelectric generation facilities, indicating ownership. Periodic inspections by the mobile patrol units operating on the reservoir areas report any invaders of reservoir banks. We frequently have to take legal action to recover possession of invaded areas. Due to the vast area and number of reservoirs, we are continually subjected to new trespasses and occupation of the banks of the reservoirs by unauthorized constructions. However, we are making our best efforts to prevent these invasions, and prevent any environmental damage to the Permanent Preservation Areas (*Áreas de Preservação Permanente*, or APPs), around the reservoirs. To patrol the reservoir areas, we have driven approximately 146,500 km in vehicles, spent 900 hours navigating on reservoirs and waterways , and made over 11,100 surveys. We have recently added one more inspection post for monitoring reservoir banks.

The Carbon Market

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

The Cemig group takes part in CDM projects at various stages of development, including seven Small Hydroelectric Plants with aggregate capacity of 116 MW, two hydroelectric plants with aggregate generation capacity of 3,708 MW, several wind plants with capacity totaling 671MW, and a solar plant with a capacity of 3 MW. So far, no carbon credits have been traded.

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

At Cemig, the large-scale equipment that contained PCBs and was manufactured before 1981 was withdrawn from the electricity system and sent for incineration in 2001.

Brazilian law has prohibited sale of PCBs since 1981, but allows its use in equipment that is still in operation.

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

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

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

Table of Contents

The draft Normative Resolution (RN) is currently under consideration by the Technical Legal Subjects Panel (*Câmara Técnica de Assuntos Jurídicos*, or CTAJ) of Conama, after having been debated in the Conama Working Group and in the Technical Environment and Waste Management Subjects Panel (*Câmara Técnica de Qualidade ambiental e Gestão de Resíduos*, or CTQAGR). There have been six meetings of the Conama Working Group, and a consensus was not reached between the members on some points. There have been eight meetings of the CTQAGR: the text considered in September 2014 has been approved, although there were certain points that had an extremely strong impact on the electricity sector. There was a meeting of the CTAJ in November 2014, in which one member exercised the right to request review of all the papers in the case. The next meeting , if the matter is approved, it will go to the full session of Conama for approval.

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

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

Operational technologies

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

Load Dispatch Center

CEMIG s System Operation Center (*Centro de Operação do Sistema*, or COS), located at our head office in Belo Horizonte, is the nerve center of our operations. It coordinates the operations of our entire electricity and energy system, in real time, providing operational integration of the generation and transmission of our energy. It also provides the link with other generation, transmission and distribution companies. The supervision and control executed by the COS now extends to more than 50 extra high and high voltage substations, approximately 29 major generating power plants and 9 Small Hydroelectric Plants.

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

Distribution Operation Center

Our distribution network is managed by a Distribution Operation Center (*Centro de Operações de Distribuição*), or COD, located in Belo Horizonte. The COD monitors and coordinates our distribution network operations in real time. The COD is responsible for the supervision and control of 379 distribution substations, 485,710km or 303,021 miles of medium voltage distribution lines, and 17,217km or 10,636 miles of sub-transmission lines,, operating in 774 municipalities of Minas Gerais.

We provided an average of 11,667 services a day in 2014. The COD is certified according to ISO Quality Standard 9001: 2000. There are various systems in use to automate and support the COD s processes including: trouble call, field crew management, distribution substation supervision and control, restoration of power, emergency switching,

network disconnection, and inspection. Technologies including a geographic information system and satellite data communication help to reduce consumer service restoration time and provide better consumer service. These are devices, installed along our distribution network, that sense and interrupt fault currents, and automatically restore service after momentary outages, improving operational performance and reducing restoration time and costs.

Geospatial information & technology

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

Table of Contents

Internal telecommunications network

We believe we have one of the largest telecommunication networks of all the Brazilian utilities companies. Comprising high performance microwave links provided by more than 344 communication stations, and an optical system of approximately 1,747 miles of optical fiber, it provides for a mix of telecom solutions from telephony to corporate networks and also monitoring, protection and control of substations, generation plants, transmission lines and dispatching of field teams to carry out mission-critical technical services and commercial contacts.

Our robust data network also contains the communications facilities that share the site with more than 300 substations, 39 generation plants and 172 transmission and distribution lines. For support for supervision and control of the medium-voltage distribution system, a radio communication system is in place, installed in approximately 300 key terminals and more than 1,610 vehicle mobile terminals connected by satellite with GPRS and 4G. The corporate data network serves more than 240 offices and units within the State of Minas Gerais.

The Telecoms Network Management Center (*Centro de Gerência de Rede de Telecomunicações,* or CGR), in Belo Horizonte, monitors and operates the telecoms infrastructure of Cemig Generation and Transmission and Cemig Distribution, operating 24 x 7 x 365 to guarantee continuity for perfect functioning of the telecoms services, aiming to meet the requirements for operational performance and service quality specified in operational agreements and concession contracts, regulations of ANEEL (the electricity regulator) and Anatel (the Brazilian telecoms regulator) and procedures of the National System Operator.

Corporate data network

Our corporate data network has 295 sites in 145 towns in Minas Gerais. The physical and logical architecture of the network employs security resources such as firewalls, Intrusion Prevention Systems (IPSs), Data Loss Prevention Systems (DLP) and anti-virus and anti-spam systems, which are continually updated to protect information against unauthorized access, in compliance with ISO 27002. A system of event logs makes it possible to investigate occurrences and also guarantee a historical record base to meet legal requirements.

IT Governance Program

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

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

Considering the central role of Information Technology Governance in our business, a dedicated management unit was created in 2009 to concentrate, plan and implement all the actions that are specific to information technology governance, including results arising from corporate strategy, strategic IT planning, legal and regulatory compliance, quality management, budget and financial management, services management and project management.

Customer relationship channels

We have five major channels of service to our customers of Minas Gerais. Customer service contact, whether of an emergency nature or to deal with normal service requests, can be made via: (i) our call center, which can handle up to

250,000 calls in an atypical day, and also operates with an efficient electronic service through Interactive Voice Response (IVR, or *Unidade de Resposta Audível* URA); (ii) in person at branches in the 774 municipalities of our concession; (iii) through our Virtual Branch, on the site www.cemig.com.br, which offers all of our 20 types of service; (iv) via SMS; , (v) via the social networks Facebook (CEMIG. ATENDE) and Twitter (@ CEMIG_ATENDE; and more recently, (vi) smartphone application Cemig Atende which offers 14 types of service.

Commercial Management system

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

Table of Contents

Maintenance and repair systems

The 10,636 miles of high voltage distribution lines in Cemig Distribution s network, operating at from 34.5kV to 161kV, are supported by approximately 54,829 structures, mainly made of metal.

The network of Cemig Generation and Transmission has 3,051 miles of high voltage transmission lines, supported by approximately 11,507 structures.

The majority of the service interruptions to our distribution and transmission lines are the result of lightning, farmers surface fires, vandalism, wind, and corrosion.

The entire high voltage transmission line system of Cemig Distribution is inspected once a year by helicopter, using a Gimbal gyro-stabilized system with conventional and infra-red cameras, allowing for simultaneous visual and thermographic (infra-red) inspections. Land-based inspections are also made at intervals of between one and three years, depending on the characteristics of the line, such as time in operation, number of outages, type of structure, and the line s importance to the electricity system as a whole.

All the extra high voltage transmission lines of Cemig Generation and Transmission are inspected twice a year by helicopter. Land-based inspections are made every two years to inspect the supporting structures. Line pathways are inspected annually, aiming to keep the areas free of vegetation that could lead to surface fires.

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

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

The Plant Overhaul and Modernization Program that was scheduled for execution over the next 15 years, with investment of R$1.7 billion, was canceled after promulgation of Provisional Measure 579 (*Medida Provisória 59*, or MP 579), later converted into Law 12783. The main reasons for the cancellation were (i) Cemig not accepting the conditions proposed by the federal government for renewal of the concessions of the plants that were included in the program, and (ii) lack of definition on the form of remuneration for these investments in the future.

Information security management

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

Management tools

In 2014 we continued to improve the operation of the SAP Integrated Management System (ERP), which includes the processes related to finances, procurement, sales, materials, services and human resources, and adapt it to the changes

and requirements of the legislation, regulations and rules governing the market. We have made significant progress in relation to: capitalization of assets; works and materials; logistics planning; maintenance; and processes related to regulations on electronic tax invoices as well as other aspects related to electronic payment of taxes. These have provided the Company with significant gains.

Also, in 2014 and early 2015 adaptations were made to Version 3.10 of the system for electronic tax invoices, to adapt their issuance to the new regulations; and we began the analysis to adapt our systems to the requirements of the government s E-Social Project which will enable employers to execute and comply with all the various employment-related obligations through a single channel. These advances and solutions implanted in ERP help us to raise the necessary information for planning, monitoring and taking of decisions, and to make this information available to our Board of Directors and Executive Board.

Table of Contents

Property, plant, and equipment; intangible assets

Our principal assets are the power generation plants and transmission and distribution facilities described in this Item 4. Our net book value of total property, plant and equipment and intangible assets, including our investment in certain consortia that operate electricity generation projects, including projects under construction, was R$8.92 billion on December 31, 2014. Generation facilities represented 59% of this net book value, intangible assets represented 38%, of this net book value, (distribution facilities in intangible assets represented 17%, and other intangible, including gas distribution system represented 21%) and other miscellaneous property and equipment, including transmission and telecommunication facilities, represented 3%. The average annual depreciation rates applied to these facilities were: 2.86% for hydroelectric generation facilities, 8.88% for administration facilities, 5.96% for telecommunication facilities and 4.45% for thermoelectric facilities. Apart from our distribution network, no single one of our assets produced more than 10% of our total revenues in 2014. Our facilities are in general adequate for our present needs and suitable for their intended purposes. We have rights of way for our distribution lines, which are our assets and do not revert to the landowner upon expiration of our concessions.

The Brazilian Power Industry

General

In the Brazilian electricity sector, generation, transmission and distribution activities were traditionally conducted by a small number of companies that had always been owned by either the federal government or the governments of individual states. Since the 1990s, several state-controlled companies were privatized, in an effort to increase efficiency and competition. The Fernando Henrique Cardoso administration (1995 2002) aimed to privatize the state-controlled part of the electricity sector, but the Luis Inácio Lula da Silva administration (2003 2010) ended this process and implemented a New Industry Model for the Brazilian electricity sector, expressed in Law 10848, of March 15, 2004, referred to as the New Industry Model Law .

Subsequently, in Dilma Rousseff s administration (i.e. since 2011), significant changes were implemented, by Provisional Measure 579/2012, which became Law 12783/2013, establishing new rules for renewal of concessions, with rebidding for hydroelectric power generation.

The New Industry Model

The primary objective of the New Industry Model was to guarantee security of supply and reasonableness of rates. With the objective of guaranteeing supply, the New Industry Model Law (a) requires distributors to contract their entire loads, and to be responsible for making realistic projections of demand requirements; and (b) aims to arrange for construction of new hydroelectric and thermal plants to be decided in ways that best balance security of supply and reasonableness of rates. To achieve reasonable rates, the New Industry Model Law requires (a) all purchases of electricity by distributors to be by auction, based on lowest price; (b) contracting to be through the Regulated Market (Ambiente de Contratação Regulada, or ACR), or the Pool system; and (c) contracting of load to be separated into two types of transactions, both always to be by auction: (i) contracts for supply from new plants to be built according to the contract (new source contracts) for expansion of the system; and (ii) contracting of the power generated by existing plants (existing source contracts) aiming to meet existing demand.

The New Industry Model created two environments for the purchase and sale of electricity: (i) the ACR, or the Pool, in which distribution companies purchase through public auctions of all the power they need to supply their consumers; and (ii) the Free Market (Ambiente de Contratação Livre, or ACL), to include all purchase of electricity by non-regulated entities (such as Free Consumers and electricity traders). Distributors are allowed to operate only in

the regulated environment, whereas generators may operate in both, maintaining their competitive characteristics.

Requirements for expansion of the sector are evaluated by the federal government through the Mining and Energy Ministry, or MME. Two entities were created to provide structure for the sector: (i) the Energy Research Company, or EPE (Empresa de Pesquisa Energética), a state-controlled company responsible for planning expansion of generation and transmission; and (ii) the Electricity Trading Chamber (Câmara de Comercialização de Energia Eléctrica), or CCEE, a private company responsible for the accounting and settlement of short-term (spot) electricity sales. The CCEE is also responsible, through delegation by ANEEL, for organizing and conducting the Pool public power auctions, in which all distributors purchase energy.

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

Table of Contents

Several categories of power supply are not subject to the requirement for public auction via the Pool: (1) low capacity generation projects located near consumption points (such as certain co-generation plants and the Small Hydroelectric Power Plants); (2) plants qualified under the Proinfa (alternative generation sources) Program; (3) power from Itaipu, (4) purchase and sale agreements entered into before the New Industry Model Law; and (5) the concessions extended by Law 12783, are not subject to the public auctions for the supply of electricity at the Pool, Power generated by Itaipu (on the border of Brazil with Paraguay), is traded by Eletrobras. The rates at which the Itaipu generated electricity is traded are denominated in U.S. dollars and established by ANEEL pursuant to a treaty between Brazil and Paraguay, and there are also compulsory procurement volumes. As a consequence, the price of energy from Itaipu rises or falls in the U.S. Dollar/real exchange rate. Changes in the price of Itaipu-generated electricity are, however, neutralized by the federal government, which buys all the energy credits from Eletrobras.

Challenges to the constitutionality of the New Industry Model Law

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

Coexistence of two Electricity Trading Environments

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

The Regulated Market (the ACR or the Pool)

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

Energy purchases take place through two types of bilateral contract: (i) Energy Agreements (Contrato de Quantidade de Energia) and (ii) Capacity Agreements (Contratos de Disponibilidade de Energia). Under an Energy Agreement, a generator commits to supply a certain amount of electricity and assumes the risk that electricity supply could be adversely affected by hydrological conditions and low reservoir levels, among other conditions, that could interrupt the supply of electricity, in which case the generator will be required to purchase the electricity elsewhere to meet its supply commitments. Under a Capacity Agreement, a generator commits to make a certain amount of capacity available to the ACR. In this case, the revenue of the generator is guaranteed and the distributor must assume the hydrological risk. However if there are additional costs to the distributors, these are passed on to consumers. Together, these agreements comprise the energy purchase agreements in the ACR (Contratos de Comercialização de Energia no Ambiente Regulado), or CCEARs.

The regulation under the New Industry Model Law stipulates that distribution companies that contract less than 100% of their total load consumption, accounted in the CCEE, will be subject to fines. There are mechanisms to reduce this possibility, such as participation in the MCSD mechanism, which compensates surpluses and deficits between

distribution companies, or purchase of supply in auctions during the year. Any remaining shortfall from 100% of total load consumption can be bought at the spot market price. If a company contracts more than 105% of its load consumption, it would be subject to price risk if it sells that supply in the spot market in the future. To reduce this price risk, a company may reduce its purchase contracts made at existing source auctions by up to 4% each year, and reduce those contracts due to loss of consumers that have opted to become Free Consumers (and are thus supplied by generators directly).

With the renewal of the hydroelectric power plant s concessions, the CCGF Contracts for the Physical Accounts Security were created. These contracts take into account 95% of the energy generated by the plants whose concessions were renewed in order to mitigate the hydrological risk. The execution of CCGF is mandatory and each distributor received an amount according to the assessment made by ANEEL.

Table of Contents

The Free Market (the ACL)

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

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

Once a consumer has opted for the free market, it may only return to the regulated system after giving the distributor of its region five years notice. The distributor may reduce this term at its discretion. The aim of the extended notice period is to ensure that, if necessary, the distributor can purchase additional energy to supply the re-entry of Free Consumers into the Regulated Market. Also, distributors may also reduce the amount of energy purchased according to the volume of energy that they will no longer distribute to Free Consumers. State-owned generators may sell electricity to Free Consumers, but unlike private-sector generators, they are obliged to do so through an auction process.

Restricted Activities for distributors

Distributors in the Brazilian Grid (Sistema Interligado Nacional, or SIN) are not permitted to: (1) operate in the business of the generation or transmission of electricity; (2) sell electricity to Free Consumers, except for those in their concession area and under the same conditions and rates as captive consumers in the ACR; (3) directly or indirectly hold any interest in any other company, except entities incorporated for raising, investment and management of funds necessary for the distributor (or its parent company or related companies or partnerships); or (4) engage in activities that are unrelated to their respective concessions, except for those permitted by law or in the concession agreement.

Contracts executed prior to the New Industry Model Law

Under the New Industry Model Law, contracts executed by distribution companies and approved by ANEEL before the enactment of that law will not be amended to reflect any extension of their terms or change in prices or volumes of electricity already contracted.

Reduction of the Level of Contracted Electricity

Decree 5163/04, which regulates trading in electricity under the New Industry Model Law, allows distribution companies to reduce their CCEARs: (1) to compensate for the exit of Potentially Free Consumers from the regulated market, pursuant to a specific declaration delivered to the Mining and Energy Ministry, (2) by up to 4.0% per year of the initial contracted amount due to market deviations from their estimated market projections, at each distribution company s discretion, starting two years after the initial electricity demand was declared; and (3) in the event of increases in the amounts of electricity acquired under contracts entered into before March 17, 2004. This reduction can be made only with CCEARs of existing power plants.

The circumstances in which the level of contracted electricity may be reduced must be stated in CCEARs, and distribution companies may make such reductions at their own sole discretion, in compliance with the provisions described above, and ANEEL regulations.

ANEEL regulations require any reduction of the level of contracted energy under the CCEARs of existing energy to be preceded by the Mechanism of Compensation of Surplus and Deficits, or MCSD, by means of which distribution companies that have contracted energy in excess of their demand may assign a portion of their CCEARs to distribution companies that have contracted less energy than needed to meet their consumers demand.

Limitations on pass-through

The New Industry Model also limits the pass-through of costs of electricity to final consumers. The decree establishes the following limitations on the ability of distribution companies to pass through costs to consumers:

No pass-through of costs for electricity purchases that exceed 105% of regulatory demand.

Table of Contents

Limited pass-through of costs for electricity purchases made in an A 3 auction, if the volume of the acquired electricity exceeds 2.0% of the demand found in A 5 auctions.

Limited pass-through of electricity acquisition costs from new electricity generation projects if the volume re-contracted through CCEARs of existing generation facilities is below a Contracting Limit defined by Decree 5163.

Electricity purchases from existing facilities in the A-1 auction are limited to 0.5% of distribution companies demand, frustrated purchases in previous A 1 auctions, involuntary exposure to captive consumer demand, plus the replacement , defined as the amount of energy needed to replace the power from power purchase contracts that expire in the current year (A 1), according to ANEEL Resolution 450/2011. If the acquired electricity in the A 1 auction exceeds the limit, pass-through to final consumers of costs of the excess portion is limited to 70.0% of the average value of such acquisition costs of electricity generated by existing generation facilities. The Mining and Energy Ministry will establish the maximum acquisition price for electricity generated by existing projects.

Electricity purchases in market adjustment auctions are limited to 5.0% of a distribution concession holder s total demand (the previous limit, modified by Decree 8,379/2014, was 1.0%, except for 2008 and 2009) and pass-through of costs is limited to Annual Reference Value.

If distributors fail to comply with the obligation to fully contract their demand, the pass-through of the costs from energy acquired in the short-term market will be the equivalent to the lower of the PLD or the Annual Reference Value.

Rationing under the New Industry Model Law

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

Rates

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

Holders of electricity distribution concessions are also entitled to periodic revisions. Our concession agreements establish a five-year period between periodic revisions. These revisions aim: (i) to ensure necessary revenues to cover efficient operational costs, determined by the regulator, and adequate compensation for investments deemed essential

for the services within the scope of each company s concession; and (ii) to determine the X factor , which is calculated based on the average productivity gains from increases in scale, and on labor costs. The X factor is a result of three components: a productivity factor representing those productivity gains (Xpd); the quality factor XQ, which punishes or rewards the distribution company depending on the quality of the service provided, and the factor Xt, which has the objective of reducing or increasing the regulatory operational costs during the five-year period between the rates revisions, to reach the level defined for the last year of the revision cycle.

In 2011, ANEEL completed Public Hearing 040/2010, in which it dealt with the methodology for the third periodic revision. To calculate the rate of return, ANEEL uses the methodology of weighted average cost of capital (WACC), which resulted in a rate of 7.50% after tax, compared to the rate of 11.25% applied in the previous cycle.

ANEEL also changed the methodology used to calculate the X Factor: from a method based on discounted cash flow to the Total Factor Productivity (TFP) method, which consists of defining potential productivity gains for each company based on average productivity gains. It also included the other two components, as mentioned above: XQ and Xt. The components of the X factor, determined in the 2013 revision, for the period 2013/2018, were: Xt = 0.68%, and Xpd=1.15%. On each revision is calculated an XQ that will be added the previous values.

Table of Contents

ANEEL has also issued regulations governing access to the distribution and transmission facilities, and establishing the rate for use of the local distribution system Distribution Usage Rates, or TUSD; and the rate for the use of the transmission grid, or Transmission Usage Rates, or TUST. The rates to be paid by distribution companies, generators and Free Consumers for use of the interconnected power system are reviewed annually. The review of the TUST takes into account the permitted annual revenues (RAP) of transmission concession holders under their concession contracts. For more detailed information on the rate-setting structure, see The Brazilian Power Industry Rates for the Use of the Distribution and Transmission Systems.

Land acquisition

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

The Brazilian electric power system operational overview

Brazil s power production and transmission is a large-scale hydroelectric and thermal system made up predominantly of hydroelectric power stations, with many separate owners. The Brazilian Grid links companies in the Southern, Southeastern, Center-West, and Northeastern Regions and part of the Northern Region of Brazil. Approximately 2% of the country s electricity production capacity is not connected to the Brazilian Grid, in small isolated systems located mainly in the Amazon region. Brazil s abundant hydrological resources are managed through storage reservoirs. It is estimated that Brazil has hydroelectric power generation potential of close to 246,560 MW, of which only 43% has been developed or is under construction, according to Eletrobras studies consolidated in July 2014.

As of December 2014, Brazil had installed capacity in the interconnected power system of 123.94 GW, approximately 71.96% of which is hydroelectric, according to the Monthly Operation Plan for 2014 of the National Electricity System Operator (Operador Nacional do Sistema Elétrico, or ONS). This installed capacity includes half of the installed capacity of Itaipu a total of 14,000MW owned equally by Brazil and Paraguay. There are approximately 70,412 miles of transmission lines operating at 230 kV or above in Brazil.

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

Historical background

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

In particular, the federal government has taken the following measures:

The Brazilian Constitution was amended in 1995 to authorize foreign investment in power generation. Prior to this amendment, all generation concessions were held either by a Brazilian individual, or by an entity controlled by Brazilian individuals, or by the federal government or a state government.

The Federal Government enacted Law No. 8,987 on February 13, 1995, or the Concessions Law, and Law No. 9,074 on July 7, 1995, or the Power Concessions Law, that together:

required that all concessions for the provision of energy-related services be granted through public bidding processes;

gradually allowed certain electricity consumers with significant demand (generally greater than 3 MW), referred to as Free Consumers, to purchase electricity directly from suppliers holding a concession, permission or authorization;

Table of Contents

provided for the creation of generation entities, or Independent Power Producers, which, by means of a concession, permission or authorization, may generate and sell all or part of their electricity to Free Consumers, distribution concessionaires and trading agents, among others;

granted Free Consumers and electricity suppliers open access to all distribution and transmission grids; and

eliminated the need for a concession to construct and operate power projects with capacity from 1 MW to 30 MW, or Small Hydroelectric Power Plants , which was amended on May 28, 2009 by Law No, 11,943, raising the limit from 30 MW to 50 MW, independently of being a Small Hydroelectric Power Plant or not.

The present regulator, ANEEL, and the CNPE (Conselho Nacional de Política Energética National Energy Policy Council), were created in 1997.

In 1998 the federal government enacted Law No. 9,648, or the Power Industry Law, to overhaul the basic structure of the electricity industry, providing as follows:

Establishment of a self-regulated body responsible for operation of the short-term electricity market, or Wholesale Energy Market, replacing the prior system of regulated generation prices and supply contracts.

Creation of the ONS, the National Electricity System Operator, a non-profit, private entity responsible for the operational management of the generation and transmission activities of the interconnected power system.

Establishment of public bidding processes for concessions for construction and operation of power plants and transmission facilities, in addition to the bidding process requirements under the Concessions Law and the Power Concessions Law.

On March 15, 2004, the federal government enacted Law 10848, or the New Industry Model Law, in an effort to further restructure the power industry, with the ultimate goal of providing consumers with secure electricity supplies combined with low rates. On July 30, 2004 the federal government published Decree 5163, governing purchase and sale of electricity under the New Industry Model Law, as well as the granting of authorizations and concessions for electricity generation projects. These include rules relating to auction procedures, the form of power purchase agreements and the method of passing costs through to final consumers.

On September 11, 2012 the federal government enacted PM 579, which was converted into the Law No. 12,783, aiming to decrease tariffs on generation, transmission and distribution of electricity, and enact regulatory charges on the Brazilian energy market. This legislation alters the revision and extension of certain concessions, and implements new bidding process rules for certain utilities, adjustments to tariffs, and changes to regulation governing an industry participant s mobility between the ACR and ACL, and allocation of energy offered to both markets.

Rationing and Extraordinary Rate Increases

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

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

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

Of this amount, a total of 5.085MW were hired in auctions reserve meaning, the power capacity is not committed to sales contracts with consumers or distributors. Generators must meet the reserve energy contract, keeping the generating units in availability for operation by the ONS, as well as being responsible for the amount of actual generation portion quantified as inflexible. The remuneration of standby power generators is through charges paid by all consumer agents (distributors and free consumers).

Table of Contents

In the rainy season of late 2012 and early 2013, there was much less rainfall than expected in Brazil s Southeastern region (November to March), and in this situation the thermoelectric plants were activated to generate complementary supply to meet the system s electricity consumption needs. In this period the principal strategy of the national system operator (ONS) Operador Nacional do Sistema Elétrico) was to preserve storage capacity at the reservoirs of hydroelectric plants, to ensure supply of the system s energy needs over the whole of the year 2013. This resulted in a high level of expenses on thermoelectric generation, and a sustained increase in the spot market price which averaged R$413,95/MWh in January 2013.

Once again, in the rainy season of 2013 14, rainfall in the Southeast was lower than the expected averages, at an all-time low. This placed the system in a state of alert during the whole of 2014, concentrating the efforts of the operation on how to maintaining the capacity of the system to supply consumption needs. The National System Operator continued to dispatch all the thermal plants, and introduced some flexibility to hydroelectric restrictions so as to maintain the levels of storage and meet demand. Over the year the price of electricity reached the regulatory limit, with the spot price rising to R$822/MWh for several month. Its average in the year was R$688/MWh.

In late 2014, the storage levels of SIN reservoirs reached a level of just over 22%, one of the lowest on record. The flow rates for the months of January and February 2015 were well below expected levels for these months, which contributed to the failure to recover the storage levels of SIN reservoirs that period. The month of March / 2015 showed an improvement of Energy _, and combined with a power consumption lower than expected, storage levels in SIN reservoirs reached 30% at the end of this month. With an adverse macroeconomic scenario, energy consumption during the year 2015 should remain at the same level in 2014, and thus the conditions of service to the SIN of the market should remain appropriate if the hydrological conditions is a significant worsening.

Concessions

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

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

We believe that the renewal of our distribution concessions, under the terms of Law 12783, will not have any impact on the tariffs charged by those concessions.

On December 4, 2012 the Company signed the Second Amendment to Transmission Concession Contract 006/1997, which extended the concession for 30 years, under Provisional Measure 579/2012, as from January, 2013, resulting in a reduction of the Permitted Annual Revenue (Receita Anual Permitida, or RAP), by approximately 60%. Transmission assets, existing and not depreciated as from May 31, 2000, were re-valued and indemnified by the Concession-granting Power, in accordance with MME/MF Interministerial Order 580, of November 1, 2012, which

minimized the impact of the reduction of the RAP. At the same time, for those assets not yet depreciated and existing before May 31, 2000, the Company awaits their re-valuation and indemnity, in accordance with ANEEL Normative Resolution 589/2013.

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

Table of Contents

Based on this understanding, Cemig GT applied to the Judiciary for an order of mandamus against an act of the Mining and Energy Ministry with the objective of safeguarding, for that company, its rights in relation to the extension of the period of the concession of the Jaguara Hydroelectric Plant, under Clause 4 of Concession Contract 007/1997, obeying the original bases of that Contract, which are prior to Law 12783/2013. The Court granted interim relief in favor of the Company, which is still in effect, namely enabling it to continue its commercial operation of the Jaguara Hydroelectric Plant until final judgment is given in the action for mandamus. Within the classification adopted by the Company of legal actions in which it is involved namely that the chances of loss are assessed as probable , possible , or remote the Company has classified the chance of loss in this action as possible , reflecting i nature and the complexity involved in this specific case. The case has several particular elements characterizing the contingency: (i) the singular nature of Concession Contract 007/1997; (ii) the unprecedented nature of the matter of the case; and (iii) the fact that the action which has been filed will be a leading case in the consideration by the Brazilian Courts of the extension of concessions.

On the same grounds, and with the imminent expiration of the period originally specified for the concession of the São Simão Hydroelectric Plant, Cemig GT filed for an injunction against an act of the Mining and Energy Minister, with the objective of ensuring its right to extend the period of the concession, under Clause 4 of Concession Contract 007/1997, in accordance with the original terms of this contract, which were prior to Law 12783/2013. Cemig GT obtained initial interim relief from the court, which is still in force, to enable it to continue in control of the commercial operation of the São Simão Plant until a final decision is reached. The Reporting Justice of the Court stated in his interim decision that if a final decision is not reached within 45 days after the start of the activities of the First Section of the Brazilian Superior Court of Justice (Tribunal Superior de Justiça, or STJ) in 2015, he may re-examine the case.

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

The Dona Rita plant, which was returned to the Nation in August 2013, is provisionally under the responsibility of Furnas Centrais Elétricas, until a tender is held for its concession, as per Ministerial Order Nº 189/2013 of the Mining and Energy Ministry.

In 2014, after a decision by ANEEL to amend the concession and permission contracts of the Brazilian electricity distributors, we signed a Fourth Amendment to each one of our distribution concession contracts, which established a guarantee that amounts recorded in the Offsetting Account for Variation in Parcel A Items (Conta de Compensação de Variação de Valores de Itens da Parcela A), or CVA Account, and other financial components, would be incorporated into the basis for indemnity specified in the event of a distribution concession being terminated for any reason.

Principal Regulatory Authorities

National Energy Policy Council CNPE

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

Mining and Energy Ministry MME

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

National Electric Energy Agency ANEEL

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

Table of Contents

National System Operator ONS

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

Electricity Trading Chamber CCEE

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

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

The members of the CCEE are generators, distributors, trading agents and Free Consumers, and its board of directors comprises four members appointed by these agents and one appointed by the MME, who is the chairman of the board of directors.

Energy Research Company EPE

The federal government created the Electricity Research Company, or EPE, by a decree of August 16, 2004. It is a state-owned company, responsible for carrying out strategic research on the energy industry including electricity, oil, gas, coal and renewable energy sources. EPE is responsible for: (i) studying projections for the Brazilian energy matrix; (ii) preparing and publishing the national energy balance; (iii) identifying and quantifying energy resources; and (iv) obtaining the required environmental licenses for new generation concession holders. EPE s research is used to support the MME in its policymaking role in the domestic energy industry. EPE is also responsible for approving the technical qualification of new electricity projects to be included in the related auctions.

The Electricity Sector Monitoring Committee CMSE

Decree No. 5,175 of August 9, 2004 established the Electricity Sector Monitoring Committee, or CMSE, which acts under the direction of the MME. The CMSE is responsible for monitoring and permanently evaluating the continuity and security of electricity supply conditions and for indicating necessary steps to correct identified problems.

Ownership limitations

On November 10, 2009, ANEEL issued Resolution No. 378, requiring it to notify the SDE (the Economic Law Secretariat Secretaria de Direito Econômico of the Ministry of Justice) if it identifies any act that may cause unfair competition or may result in significant market control under Article 54 of Law 8884 of June 11, 1994. After the

notification, SDE must inform CADE. On November 30, 2011 Law 8884 was revoked and replaced by Law 12529 which extinguished the SDE and replaced it with the Competition General Management Unit (Superintendência Geral) which if necessary will require ANEEL to analyze any such events, upon which CADE will decide if there should be any sanctions applied. Under Articles 37 and 45 of Law 12529 these may vary from pecuniary penalties to a split of the company.

Incentives for Alternative Sources of Power

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

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

Table of Contents

Law 9427/96, as amended by Law 10762/03, further established that hydroelectric plants with an installed capacity of 1MW or less, generation plants classified as Small Hydroelectric Plants, and those with qualifying solar, wind, biomass or cogeneration sources, with capacity to supply 30MW or less, used for independent production or self-production, will have the right to a discount of at least 50% on the rates for use of the transmission and distribution system, charged on production and consumption of the energy sold. This legal provision was regulated by ANEEL through its Resolutions 077/2004, 247/2006 and 271/2007.

Also the government held two alternative energy generation auctions and four backup regulated auctions, for power from wind energy projects, SHP projects, or biomass projects.

Regulatory charges

Global Reversion Fund and Public Use Fund RGR and UBP

In certain circumstances, power companies are compensated for assets used in connection with a concession if this concession is eventually revoked or is not renewed. In 1971, the Brazilian Congress created a Global Reversion Fund (Reserva Global de Reversão), or RGR, designed to provide funds for such compensation. In February 1999, ANEEL revised the assessment of a fee requiring all distributors, transmission companies and certain generators operating under public service regimes to make monthly contributions to the RGR at an annual rate equal to 2.5% of the company s fixed assets in service, but not to exceed 3.0% of total operating revenues in any year. In recent years, the RGR has been used principally to finance generation and distribution projects.

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

Since January 2013, the Global Reversion Fund has not been charged to: (i) any distribution companies; (ii) any transmission or generation utilities whose concessions have been extended under Law 12783; or (iii) any transmission utilities that started their bidding procedure on or after September 12, 2012.

Fuel Consumption Account CCC

The Fuel Consumption Account (Conta de Consumo de Combustível), or CCC, was created in 1973 to generate financial reserves to cover the high costs associated with the use of thermoelectric energy plants, especially in the Northern Region of Brazil, due to the higher operating costs of thermoelectric plants compared to hydroelectric plants. All electricity companies were required to contribute annually to the CCC. Annual contributions were calculated on the basis of estimates of the cost of fuel needed by the thermoelectric energy plants in the following year. The CCC was then used to reimburse generators operating thermoelectric plants for a substantial portion of their fuel costs. The CCC was administered by Eletrobras.

Since January 2013, by Law 12783/2013, the Fuel Consumption Account is not charged to any kind of utility and or market participant.

Charge for the Use of Water Resources

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

Energy Development Account CDE

In 2002, the federal government instituted the Energy Development Account (Conta de Desenvolvimento Energético), or CDE, to be in effect for 25 years, funded by: (i) annual payments made by concession holders for the use of public assets; (ii) penalties and fines imposed by ANEEL; and, (iii) since 2003, the annual fees to be paid by agents offering electricity to final consumers, by means of a charge to be added to the rates for the use of the transmission and distribution system. The amounts are adjusted annually. The CDE was created to support: (1) development of electricity production throughout the country; (2) production of electricity from alternative sources; (3) universalization of energy services throughout Brazil. With the enactment of Law 12783/2013 these fees was used to contribute to reduction of electricity tariffs. The CDE is managed by Eletrobras.

Table of Contents

Under the New Industry Model Law, failure to pay the contribution to the RGR, the Proinfa Program, the CDE or any payments for purchases of electricity in the regulated market prevents the non-paying party from receiving a rate readjustment (except for an extraordinary revision), or receiving resources arising from the RGR or CDE.

ANEEL Inspection Charge TFSEE

The Energy Services Inspection Charge, or TFSEE, is an annual tax charged by ANEEL for its administrative and operational costs. It is calculated according to the Tariff Regulation Procedure (Procedimento de Regulação Tarifária, or Proret) (Subsection 5.5: Energy Services Inspection Charge TFSEE) based on the type of service provided (including independent production), and is proportional to the size of the concession, permission or authorization. It is limited to 0.4% of the annual economic benefit, considering the installed capacity, earned by the concessionaire, permit holder or authorized party and must be paid directly to ANEEL in 12 monthly installments.

The ACR Account

Contracts held by distribution companies for a total supply of approximately 8,600 MW expired in December 2012. These contracts had been executed in the first auctions of energy from existing supply sources in 2005, and the energy should have been re-contracted in a further auction, but the government did not hold the auction in 2012 because it expected that with the renewal of the concession contracts this supply would come from Assured Energy Quota Contracts. However, the energy supply that was renewed was lower than expected and the distribution companies were under-contracted by 2,000 MW in 2013, and by 2,500 MW in 2014.

This situation was further exacerbated by the fact that certain power plants did enter into operation when expected, and by the low level of contracting in the auctions held in 2013 and 2014. The result was that the total level of under contracting in 2014 was 3,500 MW. In this scenario the only option for the distribution companies, in a situation of under contracting, is to purchase the required supply in the spot market.

The hydrological situation of the system in 2013 and 2014, as explained above, raised the energy cost in the spot market to its highest level, causing the financial exposure of the distribution companies to reach billions of Reais. Since the cost of the distribution companies exposure is passed through to consumers only in the following year, this gap caused a problem in the companies cash flow.

To deal with this, the government created the ACR Account, by Decree 8,221/2014 (of January 1, 2014), regulated by ANEEL Resolution 612/2004, which created an account to be managed by the CCEE, aiming to cover part or all of the costs resulting from the involuntary exposure to the spot market and of the dispatching of the thermal plants linked to the availability contracts in the regulated market. To cover these costs the CCEE obtained a financing from a group of private and public institutions. These funds were then passed to the distribution companies, as determined by Decree 8221/2014 and ANEEL Resolution 612/2014. In 2014, R$21 billion were raised by this account and passed through to the distribution companies.

Starting in 2015, the total amount of these loans contracted will be paid in 24 months, by means of the payment of charges through CDE, by all the distribution companies proportionally to their captive markets. This charge will be added to the electricity rates charged by the distribution companies to their consumers.

Energy Reallocation Mechanism

The Energy Reallocation Mechanism (Mecanismo de Realocação de Energia, or MRE), attempts to mitigate the risks involved in the generation of hydroelectric power by mandating that all hydro generators share the hydrological risks

within the Brazilian Grid. Under Brazilian law, the revenue from sales by generators does not depend on the amount of energy they in fact generate, but on the Guaranteed Energy or Assured Energy of each plant, indicated in each concession agreement.

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

Table of Contents

The MRE is efficient in mitigating the risks of individual plants that have adverse hydrological conditions in a river basin, but it does not succeed in mitigating this risk when low hydro levels affect the whole Grid, or large regions of it. In extreme situations, even with the MRE, the aggregate generation of the whole System will not attain the levels of the total Assured Energy, and hydro generators may be exposed to the spot market. In these situations, the shortage in hydro resources will be compensated by greater use of thermal generation, and spot prices will be higher.

In 2014 we had very adverse hydrological conditions, which resulted in a lower level of hydroelectric generation, and on the dispatchment of the thermoelectric plants of the system, as noted above. This led the plants of the MRE to generate at levels below their physical guarantee levels, causing an exposure of the generation companies to the short-term market. The proportion of the exposure is calculated by the ratio between the electricity generated by all the plants of the MRE and the total of all the physical guarantees. This ratio is called the Generation Scaling Factor or GSF (Fator de ajuste da energia). In 2014 it was 0.91, that is to say the generation companies had their physical guarantee reduced by 9% in the year.

Charges for Use of the Distribution and Transmission Systems

ANEEL oversees rate regulations that govern access to the distribution and transmission systems and establish rates: (i) for the use of the local distribution system Distribution Usage Rates, or TUSD; and (ii) for the use of the interconnected transmission grid Transmission Usage Rates, or TUST. Additionally, distribution companies of the South, South-East and Midwest parts of the grid pay specific charges for transmission of electricity generated at Itaipu. All these rates and charges are set by ANEEL. The following is a summary of each rate or charge:

TUSD

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

TUST

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

Distribution rates

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

85

Table of Contents

Parcel A costs include, among others, the following:

- Regulatory Charges (RGR, CCC, CDE, TFSEE and Proinfa);
- Costs of electricity purchased for resale (CCEARs, power from Itaipu, and bilateral agreements); and
- Transmission charges (National Grid, the Transmission Frontier grid, transport of electricity from Itaipu, use of network for connection to other transmission companies, use of networks of other distribution companies, and the ONS).

Parcel B costs are those that are within the utility s control, and include:

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

In general, Parcel A costs are fully passed through to consumers. Parcel B costs, however, are restated for inflation in accordance with the IGP M inflation index (General Market Price Index *Indice Geral de Preços do Mercado*), adjusted by the X Factor. Electricity distribution companies, according to their concession contracts, are also entitled to periodic revisions. These revisions aim: (i) to ensure necessary revenues to cover efficient Portion B operational costs and adequate compensation for investments deemed essential for the services within the scope of each company s concession; and (2) to determine the X factor.

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

In addition, holders of electricity distribution concessions are entitled to an extraordinary review of rates, on a case-by-case basis, in the event of unusual circumstances, to ensure their financial equilibrium and compensate them for unpredictable costs, including taxes, that significantly change their cost structure.

Item 4A. Unresolved Staff Comments

Not Applicable.

86

Table of Contents

Item 5. Operating and Financial Review and Prospects

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

Statement of compliance

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

Basis of measurement

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

Non-derivative financial assets measured at fair value through profit or loss

Financial assets held for trading measured at fair value,

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

The consolidated financial statements are presented in reais, which is the functional currency of the Company.

Critical Accounting Estimates

The following discussion describes those areas that require the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates we make in these contexts require us to make assumptions about matters that are highly uncertain.

The discussion addresses only those estimates that we consider most important based on the degree of uncertainty and the likelihood of a material impact if we used a different estimate. There are many other areas in which we use estimates about uncertain matters, but the reasonably likely effect of changed or different estimates is not material to our financial presentation. For more detailed information about our Critical Accounting Policies and Estimates, please refer to Note 2 to our audited consolidated financial statements as of December 31, 2014.

Allowance for doubtful accounts

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

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

Deferred income tax and Social Contribution tax

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

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

Table of Contents

Property, plant and equipment

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

Intangible assets

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

Financial Assets of the Concession

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

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

New assets are recorded initially in Intangible assets, valued at acquisition cost, including capitalized borrowing costs. When the assets start operation they are split into financial assets and intangible assets, according to the criterion mentioned in the previous paragraph: the portion of the assets that is recorded in financial assets is valued based on the new replacement cost, having as a reference the amounts homologated by the grantor as the Remuneration Base of Assets (Base Regulatória de Remuneração, or BRR) in the processes of tariff review.

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

Depreciation and amortization

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

Our accounting treatment for amortization of intangible assets depends on the nature of the intangible asset. Intangible assets linked to a service concession agreement, net of residual value, are amortized in accordance with IFRIC 12 on a straight-line basis over the concession period stipulated in the concession contract. Other intangible assets are amortized on a straight-line basis over the estimated useful economic lives of the assets in conformity with the amortization rates established by the concession-granting power.

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

Employee post-retirement benefits

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

Table of Contents

The determination of the amount of our obligations for pension and other post-retirement benefits depends on certain actuarial assumptions. These assumptions are described in Note 21 to our consolidated financial statements and include, among others, the expected long-term rate of return on plan assets and increases in salaries and healthcare costs. While we believe that our assumptions are appropriate, significant differences in actual results or significant changes in our assumptions may materially affect our pension and other post-retirement obligations.

Provision for contingencies

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

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

Unbilled electric power supplied

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

Derivative instruments

Accounting for derivative transactions requires us to employ judgment to compute fair market values, which are used as the basis for recognition of the derivative instruments in our consolidated financial statements. Such measurement may depend on the use of estimates such as long term interest rates, foreign currencies and inflation indices, and becomes increasingly complex when the instrument being valued does not have counterparts with similar characteristics traded in an active market. For more detailed information about Derivative Instruments please refer to Note 28 to our audited consolidated financial statements as of December 31, 2014.

The subsidiary Cemig GT has granted to the Equity Fund that is a shareholder in Taesa an option to sell its shares in Taesa, exercisable in October 2014. The option is calculated based on the sum of the value of the amounts injected by the fund into Taesa; plus running expenses of the Fund; less Interest on Equity, and dividends, paid by Taesa. The net amount is to be updated by the IPCA Index (published by the IBGE), plus financial remuneration. The Coliseu Fund did not exercise the option as the exercise price of the option on Taesa s shares was lower than the market price of those shares. For more details please see explanatory note 14 to the financial statements.

Cemig granted to Fundo de Participações Redentor, which is a stockholder in Parati, a put option to sell the totality of its shares in Parati, exercisable in May 2016. The exercise price of the option is calculated from the sum of the value of the amounts injected by the Fund into Parati, plus the running expenses of the fund, less Interest on Equity, and dividends, distributed by Parati. The exercise price is subject to monetary updating by the CDI (Interbank CD) Rate plus financial remuneration at 0.9% per year. For more details please see explanatory note 14 to the financial statements.

Cemig GT and the private pension plan entities participating in the investment structure of SAAG signed put options which the funds could exercise in the eighty fourth month after June 2014. The exercise price of the put options will correspond to the amount invested by each private pension plan in the Investment Structure, updated pro rata temporis, by the IPCA index published by the IBGE, plus interest at 7% per year, less such dividends and Interest on Equity as shall have been paid by SAAG to the pension plan entities. For more details please see explanatory note 14 to the financial statements.

New Accounting Pronouncements

In 2014, the company has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatory effective for accounting periods beginning on or after January 1, 2014. Below we highlight the main changes that have an effect on the financial statements.

Table of Contents

IFRIC 21 Taxes: This gives orientation on when to recognize a liability for a levy imposed by the government, for charges that are accounted in accordance with IAS 37 Provisions, contingent liabilities and contingent assets, and for those in which the amounts and the period of the levy or charge are clear.

IAS 36 Impairment of assets: This adds orientation on reporting of recoverable values of non-financial assets. The changes to IAS 36 withdraw the requirements to disclose the recoverable amount of a cash-generating unit to which the goodwill premium (on expectation of future profitability), or other intangible asset that does not have a defined useful life, has been allocated, when there has been no impairment of an asset or reversal of impairment related to this cash generating unit. Additionally, these adjustments introduce additional disclosures applicable for when the recoverable value of an asset or of a cash generating unit is measured at fair value less costs of disposal. These new disclosure requirements include the fair value hierarchy, the key assumptions, and the valuation techniques used, which is in line with the disclosures required by IFRS 13 Measurement at fair value.

Alterations to IAS 32 Net presentation of asset and liability financial instruments: The adjustments to IAS 32 explain the requirements related to offsetting of financial assets with financial liabilities. Specifically, the amendment clarifies the meaning of legally enforceable right to settle for the net amount and simultaneously realize the asset and liquidate the liability .

IAS 36 Impairment of assets: This adds orientation on disclosure of recoverable amounts of non-financial assets.

Changes to IFRS 10, IFRS 12 and IAS 27: These define an investment entity, and require that a reporting entity which fits the definition should not consolidate its subsidiaries but, instead, value them at fair value through profit or loss in its consolidated and separate financial statements. Changes have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

New Standards not yet adopted

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

IFRS 9 Financial Instruments, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and derecognition. Another revised version of IFRS 9 was issued in July 2014 mainly to include (a) impairment requirements for financial assets; and (b) limited amendments to the classification and measurement requirements bt introducing a fair value through other comprehensive income measurement category for certain simple debt instruments.

The most significant effect of IFRS 9 in terms of the classification and measurements of financial liabilities is in accounting of changes in fair value of a financial liability (designated at fair value through profit or loss) that are attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, in relation to the financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that it attributable to changes in the credit risk of that liability is presented in Other comprehensive income, unless the recognition of the effects of changes in the credit risk of the liability in Other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to the credit risk of a financial liability are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires that the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized. It is not possible to disclose a reasonable estimate of this effect until the Company carries out a detailed review of these impacts.

Amendments to IFRS 11 Joint arrangements: The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business , as defined i IFRS 3 Business combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations under IFRS 3 and other standards (such as IAS 36 Impairment of assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The alterations to IFRS 11 apply prospectively for annual periods beginning on or after January 1, 2016.

The Company is analyzing the impacts of these ammendments.

Table of Contents

Principal factors affecting our financial condition and results of operations

Analysis of electricity sales and cost of electricity purchased

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

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

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

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

	Year ended December 31,		
	2014	2013	2012
Electricity sales:			
Average rate to final consumers (R$/MWh)			
Industrial rate	184.16	171.54	172.26
Residential rate	517.58	476.93	551.23
Commercial rate	435.65	390.06	442.60
Rural rate	267.85	244.72	273.71
Public services rate and others	320.05	284.49	325.66
Total sales to final consumers (GWh)			
Industrial consumers	26,026	23,452	25,473
Residential consumers	10,014	9,473	8,871
Commercial consumers	6,395	6,035	5,723
Rural consumers	3,390	3,028	2,857
Public services and other consumers	3,642	3,371	3,258
Average rate (R$/MWh)	302.53	277.50	296.24
Total revenues (R$ million)	14,922	12,597	13,691
Sales to distributors:			
Volume (GWh)	14,146	16,127	13,368
Average rate (R$/MWh)	163.30	132.94	126.35
Total revenues (R$ million)	2,310	2,144	1,689

Distribution rates

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

Every year, in April, ANEEL issues a Resolution that establishes the average annual rate adjustment for Cemig D (Distribution). This rate (usually a positive figure, indicating increase) was 3.06% in 2013, 16.33 in 2014, 28.76% on the Extraordinary Tariff Revision of 2015, and 11.52% (7.07% real impact) on the tariff adjustment of 2015.

Table of Contents

In January 2013 the Brazilian federal government enacted Law 12,783, which removed some charges imposed on providers of electricity, reducing (i) the prices of electricity sold by those generators that had their concession agreements renewed, and also (ii) the prices for transmission of electricity, due to reduction of the Permitted Revenue of those transmission companies that had their concessions renewed. On January 24 of that year, ANEEL set new tariffs for the distributors, to pass through the effects of that law to consumers. This adjustment was made by an Extraordinary Tariff Review, for all the distributors. For Cemig this tariff adjustment represented a reduction of invoiced revenue by 22%.

However, this adjustment did not affect our operational revenue, because it was applied only in the costs of Portion A, which are the non-manageable costs.

On April 7, 2014 ANEEL defined the annual tariff adjustment for Cemig D (Distribution): an increase of 16.33%. This had the following components: (i) an increase of 11.91%, due to the Tariff Adjustment Index; (ii) an increase of 3.08% due to the variation in Portion A costs (CVA non-manageable costs); and (iii) an increase of 1.33% related to other financial adjustments. Starting in 2013, subsidies given to certain consumers have been treated externally to the tariff figures, and no longer appear as a component of the tariff adjustment index.

The average annual tariff adjustments of Cemig D in 2015, 2014, and 2013, and the revisions of their respective components, are given in this table:

	2015 (IRT)	2015 (RTE)	2014	2013
Average annual/periodic rate adjustment	11.52%(1)	28.76%	16.33%	2.99%
Components				
Tariff adjustment index	4.77%	28.76%	11.91%	0.47%
Inter-year variation in fixed costs (CVA)	8.38%	0.00%	3.08%	1.03%
Subsidies	0.00%	0.00%	0.00%	1.45%
Other financial adjustments	-1.63%	0.00%	1.33%	0.11%

(1) 11.52% reduced 4.45%, related the financial component of the previous year, resulting in an impact of 7.07% in the rate.

On February 27, 2015, ANEEL defined new rates for the distributors. This adjustment was made by an Extraordinary Tariff, all distributors. This adjustment was applied a specific and simplified calculation procedure to treat material change costs of CDE (Energy Development Account) and power purchase. For Cemig this tariff adjustment represented an increase of 28.76% in their tariffs, effective from 02 March to 7 April of that year.

Transmission rates

The revenue adjustment of the electricity transmission grids owned by Cemig, as specified by the concession contract, is made annually in June. The concession contract previously established a four-year period between periodic revisions. The Law 12783 of 2013 (Extension of Concessions) defined the frequency at every five years, from 2013 onward.

In 2010, ANEEL approved the results for the second periodic revision, again with a reassessment of the entire asset base of Cemig Generation and Transmission. The results were released through Resolution 988 of June 18, 2010,

setting a decrease in annual revenue of 15.88%. This was backdated to 2009, since the regulator had been working on the definition of the rules to be applied for this revision.

The concession contract provides that revenues must be restated for inflation annually. Until January 2013, the index used to restate for annual inflation was the General Market Price inflation Index, or IGP M. The IGP-M posted inflation of 4.26% from June 2011 to May 2012, increasing the revenue for the 2012 2013 cycle. In June 2011, ANEEL approved an increase in the transmission revenue of 5.0%. After the implementation of Law 12783/2013 (Extension of Concessions), from 2013 onward concession contracts are amended to set IPCA inflation as the index used for the annual adjustment of transmission companies Permitted Annual Revenue (Receita Annual Permitida, or RAP).

At the end of 2012, the federal government renewed Cemig s transmission concession and reduced its revenue, from January 2013, to R$148 million per year. It also removed from the amount of revenue two taxes previously included: the Government Employees Pension Fund Contribution (Programa de Formação do Patrimônio do Servidor Público, or Pasep) and the Contribution to Finance Social Security (Contribuição para o Financiamento da Seguridade Social, or Cofins).

Table of Contents

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

In July 2014, the annual tariff adjustment increased the RAP of Cemig GT to R$224 million a further increase of 12.30%.

Rationing of electricity and government measures to compensate electricity concession holders

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

However, the New Industry Model (one of the principal purposes of which is to guarantee supply of electricity) created auctions for the Regulated Market (Ambiente de Contratação Regulado ACR), in which it is possible to buy electricity from new plants to be built to guarantee supply. Since the New Industry Model was introduced, contracts for supply of approximately 47,000MW from new generation capacity to be provided by new-build plants have been placed in these auctions, supply to start over the period from 2008 through 2017.

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

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

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

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

Brazil s capacity for hydroelectric generation has been strongly affected by the current hydrological situation, especially the generating plants in the Southeast, Center-West and Northeast.

This limitation on hydro generation has led to dispatching of the country s thermoelectric power plants since the hydroelectric plants are generating at levels lower than their contractual commitments. This causes the generators to acquire supply for the shortfall in the CCEE (the Electricity Trading Chamber) at spot prices, which in this context are very high.

Exchange rates

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

Year ended December 31, 2014 compared to year ended December 31, 2013.

Table of Contents

Net operating revenues

Net operating revenues increased 33.6% from R$14,627 million in 2013 to R$19,570 million in 2014.

	2014 (in millions of R$)	% of net operating revenues	2013 (in millions of R$)	% of net operating revenues	2014 versus 2013 %
Electricity sales to final consumers	14,922	76.4	12,597	86.1	18.5
Revenue from wholesale supply to other concession holders	2,310	11.8	2,144	14.7	7.7
CVA and Other financial components of tariffs increases	1,107	5.7			
Revenue from use of the electricity distribution systems (TUSD)	855	4.4	1,008	6.9	(15.2)
Transmission concession revenue	557	2.9	404	2.8	37.9
Transmission indemnity revenue	420	2.1	21	0.1	1,900.9
Construction revenues	941	4.8	975	6.7	(3.4)
Transactions in electricity on the CCEE	2,348	12.0	1,193	8.2	96.8
Other operating revenues	1,706	8.7	1,047	7.2	62.8
Deductions from revenue	(5,626)	(28.8)	(4,762)	(32.6)	18.1
Total net operating revenues	19,540	100.0	14,627	100.0	33.6

Electricity sales to final consumers

Revenue from electricity sales to final consumers (excluding Cemig s own consumption) increased R$2,325 million or 18.5% from R$12,597 million in 2013 to R$14,922 million in 2014.

The variation mainly reflects the following factors:

Annual tariff adjustment, with average effects on consumer tariffs of 2.99%, effective from April 8, 2013 (full effect in 2014).

Tariff increase for Cemig D, with average effect on tariffs for captive consumers of 14.76%, in effect from April 8, 2014.

The quantity of electricity supplied to final consumers was 8.66% higher in 2014.

Market Evolution

The total of Cemig s consolidated electricity market comprises sales to (i) captive consumers in Cemig s concession area in the State of Minas Gerais; (ii) Free Consumers in both the State of Minas Gerais and other States of Brazil, in the Free Market (Ambiente de Contratação Livre, or ACL); (iii) other agents of the electricity sector traders, generators and independent power producers, also in the ACL; (iv) distributors, in the Regulated Market (Ambiente de

Contratação Regulada, or ACR); and (v) the wholesale trading chamber (*Câmara de Comercialização de Energia Elétrica*, or (CCEE) eliminating transactions between companies of the Cemig Group).

The total volume of electricity sold by Cemig in 2014 was 3.2% more than in 2013.

	GWh		
	2014	**2013**	**Var %**
Residential	10,014	9,473	5.7
Industrial	26,026	23,452	11.0
Commercial, Services and Others	6,395	6,036	5.9
Rural	3,390	3,028	12.0
Public Power	891	861	3.5
Public Illumination	1,298	1,267	2.4
Public Service	1,273	1,242	2.5
Subtotal	49,287	45,359	8.7
Own Consumption	37	35	5.7
	49,324	45,394	8.7
Supply to Other Concessionaires (*)	14,146	16,127	(12.3)
Total	63,470	61,521	3.2

(*) Includes Energy Trading on Regulated Market Agreements (Contrato de Comercialização de Energia no Ambiente Regulado or CCEAR) and bilateral agreements with other agents;

Table of Contents

Comments on the various consumer categories:

Residential: Consumption by the residential category grew by 5.70% in 2014, from 2013. The increase is associated mainly with connection of new consumers, higher temperatures in the year, and more use of air conditioners or ventilators in homes. The average monthly consumption per consumer rose by 2.2% from 2013, to 131.2 kWh/month, the highest level since 2001.

Industrial: Consumption by free and captive industrial clients was 10.98% higher than in 2013, mainly reflecting volume of electricity invoiced to Free Clients 13.7% higher in the year, as new clients were added, and as available supply was redirected following the termination, in December 2013, of supply contracts in the Regulated Market, to the Free Market.

Commercial: Consumption by Free and Captive commercial clients in Cemig s concession area in Minas Gerais, and outside the State, was 5.9% higher in 2014, basically reflecting connection of new consumer units, and also increase of consumption, principally through air conditioners as a result of the high temperature in 2014.

Rural: Consumption by rural consumers grew by 11.94% in the year, reflecting increase demand for electricity for irrigation, due to the a-typical climate conditions over the year of 2014, with less rain and higher temperatures.

Other consumer categories: Consumption by the other consumer categories (public authorities, public lighting, public services and Cemig s own consumption) was 2.8% higher in 2014.

Revenue from wholesale supply to other concession holders

Revenue from wholesale supply to other concession holders increased by R$166 million or 7.7% from R$2,144 million in 2013 to R$2,310 million in 2014.

Although the volume of electricity sold to other concession holders was 12.3% lower in the year, at 14,146,109 MWh, vs. 16,127,376 MWh in 2013, the increase in revenue resulted from the average sale price being 20.7% higher, at R$159.16 per MWh in 2014, compared to R$132.94/MWh in 2013.

The increase in average price was mainly due to the reduction of supply of electricity in 2014, which in turn was the result of the lower level of reservoirs.

Revenue from use of the electricity distribution grid (TUSD)

This is revenue from charging of the Tariff for Use of the Distribution System (Tarifa de Uso do Sistema de Distribuição, or TUSD), to Free Consumers, for transport of electricity sold. Revenue from the use of the electricity distribution system (TUSD) decreased 15.18%, from R$1,008 million in 2013 to R$855 million in 2014. The difference is mainly cause by the impacts of in Cemig Distribution, such as (a) lower industrial activity in the sector reflected in 10.3% lower volume of energy transported; and (b) the tariff impact for Free Consumers as from April 8, 2013, with reduction of the TUSD by 33.2%, which began to be offset by the increase of 8.8% as from April 8, 2014.

The CVA Account and Other financial components, in tariff increases

Due to the alteration in the concession contracts of the electricity distributors, the Company began to recognize the balances of non-manageable costs to be passed through to the next tariff adjustment of Cemig D, representing a revenue of R$1,107 million in 2014. This is explained in detail in Explanatory Note 13 to the financial statements.

Revenue from transactions in electricity on the CCEE

Revenue from transactions on the wholesale electricity market (Câmara de Comercialização de Energia Electricity Trading Chamber, or CCEE) totaled R$2,348 million in 2014, compared to R$1,193 million in 2013 an increase of 96.8% from the previous year. This basically reflects the increase of 161.88% in the average price in the wholesale market, resulting from the low level of reservoirs of the hydroelectric plants in 2014 (R$688.89/MWh in 2014, compared to R$263.06/MWh in 2013).

Sales on the Spot Market

Cemig GT had positive exposure of 3,170 GWh to the spot market in 2014, Of this total, 0% was sale of secondary electricity supply, made available by the system through the Electricity Reallocation Mechanism (Mecanismo de Realocação de Energia, or MRE), and 90.0% was from settlement of the energy from the Jaguara hydro plant, which is under the effect of a court injunction. The positive exposure in 2013 generated revenue of R$ 2,348 million. From this result, it can be seen that a majority of resources available for sale came from firm bilateral contracts, both from Cemig s own plants and also from purchase of energy from third parties. The commercial opportunities that occurred provided the possibility of liquidation of part of our support supply, as well as secondary energy, at high spot rates, thus adding value and profit to the company.

Cemig GT

GWh	**2012**	**2013**	**2014**
Electricity sold on the CCEE	938	4,411	3,170
MRE adjustment (Secondary supply)	2,949	707	0
MRE adjustment (GSF <1)	(1,048)	(2,701)	(3,282)
Jaguara Plant (Injunction)	0	1,048	2,844
Total	**2,840**	**3,465**	**2,669**

Cemig D had negative exposure of 3,333GWh in the short-term market in 2014. This was due to the A 1 auction at the end of 2013 not taking place, and the lack of success of the auctions over the course of 2013. Cemig D also had involuntary exposure, due to delays in commercial start-up of plants that had sold electricity to distributors at the auctions held by the Mining and Energy Ministry (MME), and also because of the loss of the contracts of plants that were not built, in spite of having sold supply at MME auctions. Possible financial losses or gains from Cemig D s spot market exposure are accounted by ANEEL for passing on to the final tariffs paid by the company s consumers.

Cemig D

GWh	**2012**	**2013**	**2014**
Electricity sold on the CCEE	(52)	(1,376)	(3,.333)

Construction revenues

Construction revenues were R$34 million lower, compared to R$975 million in 2013 and R$941 million in 2014, due to a smaller investment in concession assets. These revenues represent the investments in concession assets. See Note 25 to our consolidated financial statements.

Table of Contents

Other operating revenues

Other operating revenue increased by R$659 million, or 62.9%, from R$1,047 million in 2013 to R$1,706 million in 2014. Our other operating revenues are:

	2014	2013
	(in millions of reais)	
Supply of Gas	422	
Charged service	11	10
Telecommunications services	135	127
Services rendered	118	122
Grants (*)	790	673
Rentals and leasing	81	57
Other	149	58
Total	1,706	1,047

(*) Revenue recognized for the tariff subsidies applicable to users of distribution services, reimbursed by Eletrobras. The higher figure in 2014 was mainly due to inclusion of the revenue from supply of gas, R$422 million, because of the acquisition and consolidation of Gasmig, as from October 2014.

Taxes and charges applicable to revenues

Taxes and charges on revenues were R$5,626 million in 2014 compared to R$4,763 million in 2013, representing a growth rate of 18.1%. This mainly reflects the increases in Revenue, to which they are applied.

Operating costs and expenses

Operating costs and expenses, excluding Financial Revenue (expenses) in 2014 were R$14,451 million, 28.6% more than in 2013 (R$11,232 million). For more information please refer to Note 25 to our consolidated financial statements.

	2014 (in millions of R$)	% of net operating revenues	2013 (in millions of R$)	% of net operating revenues	2013 versus 2012 %
Electricity purchased for resale	(7,428)	(38.0)	(5,207)	(35.6)	42.7
Gás purchased for resale	(254)	(1.3)			
Charges for the use of transmission facilities of the basic grid	(744)	(3.8)	(575)	(3.9)	29.4
Depreciation and amortization	(801)	(4.1)	(824)	(5.6)	(2.8)
Personnel	(1,252)	(6.4)	(1,284)	(8.8)	(2.5)

Employees and managers profit shares	(249)	(1.3)	(221)	(1.5)	12.7
Outsourced services	(953)	(4.9)	(917)	(6.3)	3.9
Post-employment obligations	(212)	(1.1)	(176)	(1.2)	20.5
Materials	(381)	(1.9)	(123)	(0.8)	209.8
Royalties for use of water resources	(127)	(0.6)	(131)	(0.9)	3.1
Operating provisions (reversals)	(581)	(3.0)	(305)	(2.1)	90.5
Construction costs	(942)	(4.8)	(975)	(6.7)	3.4
Other operating expenses, net	(527)	(2.7)	(493)	(3.4)	6.5
Total operating costs and expenses	(14,451)	(74.0)	(11,231)	(76.8)	28.7

Table of Contents

The following are the main variations in expenses:

The expense on electricity purchased for resale was R$7,428 million in 2014, compared to R$5,207 million in 2013, representing a growth of 42.7%. The main factors in this difference are:

Expense on purchase of electricity in the free market in 2014 was R$477 million higher, due to higher trading activity, and also the higher price of electricity in 2014 due to low reservoir levels at the hydroelectric plants.

Involuntary exposure of Cemig D (Distribution) to the spot market in 2014, together with the higher price of electricity, due to the low levels of the hydroelectric plants reservoirs. This resulted in the company having an expense in this market of R$1,263 million in 2014, compared to R$304 million in 2013.

The expense on electricity from Itaipu Binacional was 18.3% lower in 2014, at R$830 million in 2014, than in 2013 (R$1,016 million), reflecting a volume of electricity purchased 28.7% lower, at 6,254,980 MWh in 2014, compared to 8,777,227 MWh in 2013. This electricity is priced in dollars, and the effect of this reduction in quantity was partially offset by the appreciation of the dollar against the Real in 2014. The average exchange rate for the dollar in invoices in 2014 was R$2.35, compared to R$2.16 in 2013 an increase of 8.8%.

Charges for use of the transmission network, which are set by ANEEL, were 29.4% higher in 2014, at R$744 million, compared with R$575 million in 2013. These rates, which are set by an ANEEL resolution, are paid by the distribution and generation agents, for use of the facilities that comprise the National Grid. This is a non-manageable cost: the difference between the amounts used as a reference for calculation of tariffs and the cost actually incurred is compensated for in the next tariff adjustment.

Provisions for operating losses were 90.5 higher in 2014, at R$581 million, compared to R$305 million in 2013. The main factors in the reduction were:

A provision of R$195 million made in 2014, comprising: R$166 million on the valuation of the put option for shares in Parati, and R$29 million from the same effect in the put options for shares in SAAG (investment in Madeira Energia), signed between Cemig GT and private pension plan entities. For more details please see Explanatory Note 14 to our consolidated financial statements.

Provisions for employment-law legal actions R$71 million higher in 2014 (at R$242 million, compared to R$171 million in 2013). This mainly reflects a provision of R$127 million in 2014 resulting from the salary increase of 3% in real terms for the employees, resulting from the judicial arbitration, sought by representatives of the employees, on an annual collective employment agreement. More details are in Explanatory note 22 to our consolidated financial statements.

Personnel expenses were 2.5% lower in 2014 at R$1,252 million, compared with R$1,284 million in 2013. This mainly reflects an extraordinary expense of R$78 million in 2013 on the PID Voluntary Retirement Program.

Expenses on raw materials and inputs for production of electricity in 2014 totaled R$282 million, compared with R$56 million in 2013 an increase of 403.6%. This mainly reflects the need for acquisition of a higher quantity of fuel oil in 2014, for the Igarapé thermoelectric plant, which was dispatched more in this year due to the low level of water in the hydroelectric reservoirs.

Infrastructure Construction Costs in 2014 were R$942 million, 3.38% less than in 2013 (R$975 million).This line records the Company s investment in assets of the concession in the period, and is fully offset by the line Construction

Revenue, in the same amount.

Net Financial Expenses

Net financial expenses were R$1,101 million in 2014 compared to net financial revenues of R$309 million in 2013. The main factors that impacted our net financial results in 2014 were:

In 2013 Cemig recorded a gain of R$313 million, recognized in Financial Revenue (expenses), comprising R$81 million as reversal of Pasep and Cofins taxes, and R$232 million as revenue from monetary updating.This resulted from final judgment (i.e. subject to no further appeal) on Cemig s court challenge claiming illegality of expansion of the calculation basis for the Pasep and Cofins taxes to include Financial revenue and other Non-operational revenue, for the period 1999 to January 2004.

Charges for loans and finances were 33.38% higher, at R$931 million, in 2014, compared to R$698 million in 2013, due to the higher volume of funds indexed to the CDI rate in 2014, and also the CDI itself being higher (10.81% in 2014, and. 8.05% in 2013).

Table of Contents

A financial expense of R$239 million was recognized in 2014 for complimentary monetary updating representing the difference between the Cemig rate and the IGP-M rate applied to the amount of the Advance against Future Capital Increase made by the Minas Gerais State government in previous years. For more details please see Explanatory Note 22 to our consolidated financial statements.

Please see the Net Financial Expenses and Incomes composition at Note 26 to our consolidated financial statements.

Income tax and the Social Contribution tax

In 2014, Cemig s expense on income tax and the Social Contribution tax was an expense of R$1,343 million, on pretax profit of R$4,479 million, representing a effective rate of 30.0%. In 2013 this expense was R$950 million, on pretax profit of R$4,054 million, a rate of 23.4%. There is a reconciliation of these effective rates with the nominal tax rates in Explanatory Note 10 to the financial statements.

Year ended December 31, 2013 compared to year ended December 31, 2012

Net operating revenues

Net operating revenues increased 3.5% from R$14,137 million in 2012 to R$14,627 million in 2013.

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

Electricity sales to final consumers

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

The variation mainly reflects the following factors:

The average tariff charged to captive consumers of Cemig D the Distribution company was reduced by 18.14% by the

Extraordinary Tariff Review created by Provisional Measure 579/2012. These tariffs were in effect from January 24, 2013

to April 7, 2013, the date on which the Periodic Tariff Review of Cemig D was completed.

Table of Contents

The total volume of electricity supplied to final consumers was 1.78% lower in 2013 than in 2012.

Cemig D s Annual Tariff Adjustment of 2012 increased the average rate paid by captive consumers by 3.85% from April 8, 2012 (full effect in 2013).

The Tariff Review effective April 8, 2013 increased Cemig D s tariff charged to captive consumers by a further 2.99%, from April 8, 2013.

Readjustment on the energy sales contracts to free consumers in 2013, most contracts being indexed to the variation of the IGP-M.

Revenue from wholesale supply to other concession holders

Revenue from wholesale supply to other concession holders increased by R$455 million or 26.9% from R$1.689 billion in 2012 to R$2.144 billion in 2013. This variation comes from the increase of 5.2% on the average price for these sales, which increased from R$126.35/MWh in 2012 to R$132.948/MWh in 2013; and from the increase of 20.6%, in the volume of electricity sold to other concession holders, from 13,368,096 MWh in 2012 to 16,127,376 MWh in 2013.

Revenue from use of the electricity distribution grid (TUSD)

Revenue from the use of the electricity distribution system (TUSD) decreased R$801 million, or 44,3%, from R$1,809 million in 2012 to R$1,008million in 2013. This revenue comes from charges for energy sold to Free Consumers located in CEMIG s concession area, and the variation in 2013 is due to the reduction on the rate arising from the tariff revision of Cemig D, with average effect perceived by free consumers of 33.22%, as of April 8, 2013, and reduced consumption of large industrial customers in 2013.

Revenue from use of the concession transmission system

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

Transmission indemnity revenue

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

Revenue from transactions in electricity on the CCEE

Chamber or CCEE) totaled R$1,193 million in 2013, compared to R$387 million in 2012 an increase of 208.27% from the previous year. This mainly reflects a higher availability of electricity for settlement on the CCEE in the

period, which in turn particularly reflects migrated energy of Free Consumers, and excess amounts of electricity under availability contracts associated with the average spot price (*Preço de Liquidação de Diferenças*, or PLD) being 57.81% higher in 2013, at R$263.06/MWh, compared to R$166.69/MWh in 2012.

Sales on the Spot Market

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

Table of Contents

Cemig GT

GWh	2011	2012	2013
Electricity sold on the CCEE	343	938	4,411
MRE adjustment (Secondary supply)	4,150	2,949	707
MRE adjustment (GSF <1)	(647)	(1,048)	(2,701)
Jaguara Plant (Injunction)			1,048
Total	3,846	2,840	3,465

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

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

Cemig D

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

Construction revenues

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

Other operating revenues

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

	2013	2012
	(in millions of reais)	
Charged services	10	17
Telecommunications services	127	145
Services rendered	122	96

Grants (*)	673	176
Rentals and leasing	57	71
Other	58	1
Total	1,047	506

This variation was mainly cause by the transfer of resources from the Energy Development Account (EDA) to compensate the subsidies on the Tarif of Use of the System Distribution (TUSD) which were not incorporated in the tariff, amounting to R$488 million in 2013. The increase in other operating revenues was also due to the Revenue recognized for the tariff subsidies applicable to users of distribution services, reimbursed by Eletrobras in amount of R$673 in 2013 compared to R$176 in 2012.

Table of Contents

Tax on revenues and regulatory charges

Taxes on revenues decreased R$1,373 million, or 22,38% , from R$6,135 million in 2012 to R$4,762 million in 2013. Taxes on revenues consist of: (i) VAT, assessed at an average rate of 21% on electricity sales to final consumers; (ii) COFINS, assessed at a rate of 7,6%; and (iii) PASEP, assessed at a rate of 1,7%. The decrease is primarily the result of Provision Measure 579/12, which reduced sector charges. See Note 25 to our consolidated financial statements.

Operating costs and expenses

Operating costs and expenses decreased by R$296 million, or 2.6%, from R$11,527 million in 2012 to R$11,231 million in 2013. For more information refer to Note 25 to our consolidated financial statements.

	2013 (in millions of R$)	% of net operating revenues	2012 (in millions of R$)	% of net operating revenues	2013 versus 2012 %
Electricity purchased for resale	(5,207)	(35.6)	(4,683)	(33.1)	11.2
Charges for the use of the national grid	(575)	(3.9)	(883)	(6.2)	(34.9)
Depreciation and amortization	(824)	(5.6)	(763)	(5.4)	8.0
Personnel	(1,284)	(8.8)	(1,173)	(8.3)	9,5
Employees and managers profit shares	(221)	(1.5)	(239)	(1.7)	(7.5)
Outsourced services	(917)	(6.3)	(906)	(6.4)	(1.2)
Post-retirement liabilities	(176)	(1.2)	(134)	(0.9)	31.3
Materials	(123)	(0.8)	(73)	(0.5)	68.5
Royalties for usage of water resources	(131)	(0.9)	(185)	(1.3)	(29.2)
Operating provisions (reversals)	(305)	(2.1)	(671)	(4.7)	(54.5)
Construction costs	(975)	(6.7)	(1,336)	(9.5)	(27.0)
Other operating expenses, net	(493)	(3.4)	(481)	(3.4)	2.5
Total operating costs and expenses	(11,231)	(76.8)	(11,527)	(81.5)	2.6

The following are the main variations in expenses:

Electricity purchased for resale: This consists mainly of purchases from Itaipu, through Eletrobrás, and tender auctions sponsored by the federal government. Under the present rules, we are required to buy part of the capacity of Itaipu, with payment denominated in US dollars. We also buy electricity on the CCEE, through bilateral contracts . The expense on electricity bought for resale was 33.1%, or R$524 million, higher in 2013, at R$5,207 million, compared to R$4,683 million in 2012. The main factors in this difference are:

Purchases of electricity in the Free Market were R$578 million higher in 2013, due to a higher volume of trading activity by Cemig GT, partly reflecting higher prices of electricity in the Brazilian market.

The expense on electricity from Itaipu Binacional was 14.80% higher, reflecting its indexation to the dollar: this expense was R$1.016 billion in 2013, compared to R$885 million in 2012. Among other factors, this reflects the depreciation of the Real against the dollar in 2013, compared to its appreciation against the dollar in 2012. The average dollar exchange rate for invoices in 2013 was R$2.0313/US$, compared to R$1.5897/US$ in 2012 a difference of 27.78%.

The effect of this increase was partially offset by lower net expenses on spot market purchases arising from exposure in the CCEE, following the government s reimbursement of a portion of this extra cost, totaling R$1,008 million, as follows:

Table of Contents

R$489 million for reduction of the impact of the tariff adjustment, limited to 3.0% by the federal government Cemig D received non-deferred payment of part of the expenses on purchase of electricity that exceeded revenue in the period April 2012 to April 2013; and

R$519 million to relieve the effect of the Company s financial exposure to the spot market, to cover the resulting deficit in tariff revenue caused by: hydrological risk arising from reservoir levels; involuntary exposure arising from not adhering to the extension of certain concessions; and the System Service Charge for Supply Security (Encargo de Serviço de Sistema, or ESS).

Charges for use of the transmission network: These are primarily the costs of transport of electricity in the Brazilian national grid which under the Brazilian regulatory legislation are prorated between the distribution companies. Charges for use of the transmission network, which are set by ANEEL, were 34.9%, or R$308 million, lower in 2013, at R$575 million, compared with R$883 million in 2012.

This is a result of Law 12783/2013, which reduced the sector charges and also renewed older transmission concessions, at the same time reducing the remuneration of the concession holders, which was thus reflected in lower transmission charges.

These rates, which are set by an ANEEL resolution, are paid by the distribution and generation agents, for use of the facilities that comprise the national grid.

This is a non-manageable cost: the difference between the amounts used as a reference for calculation of tariffs and the cost actually incurred is compensated for in the next tariff adjustment.

Personnel expenses were 9.5%, or R$107 million, higher in 2013 at R$1,284 million, compared to R$1,173 million in 2012. This increase is due to: the average increase in salaries of 6.0% given to employees in 2012 under the 2012 3 Collective Agreement (thus having full effect in 2013), and the average increase of 6.85% from November 2013 under the 2013 14 Collective Work Agreement; acceptances by employees of the Company s PDV and PID Voluntary Retirement Programs, with a provision of R$78 million in the 2013 statements of income (compared to R$34 million in 2012); and also a result of the cost of personnel transferred to works in progress being R$50 million lower, due to a smaller investment program in 2013.

Provisions for operating losses were 54.5%, or R$366 million, lower in 2013, at R$305 million, compared to R$671 million in 2012. The main factors in the reduction were:

A provision of R$403 million in 2012, for the Settlement Agreement between Cemig and the federal government on the now-extinct CRC Account this was an agreed prior condition for the early settlement by Minas Gerais State of its outstanding debt to Cemig under the CRC Account.

Allowance for doubtful accounts in the amount of R$121 million in 2013, compared to R$227 million in 2012, reflecting the provision of R$159 million in 2012 for the loss related to the imposition of ICMS (value-added tax) on the charges for use of the distribution system (TUSD).

The provision for employment-law related legal actions was R$168 million higher in 2013, due to a review of the estimates for contingent losses in legal actions.

As a result of the above factors, Cemig reported operational profit before financial expenses of R$4,362 million in 2013, compared to operational profit before financial expenses of R$3,475 million in 2012.

Net Financial Revenues (expenses)

Financial revenues (expenses), net Financial revenues expenses, net, includes (i) financial income, which is mainly comprised of interest and a monetary restatement of our account receivable from the State Government, investment income earned, late charges on overdue electricity bills and foreign exchange gains and (ii) financial expenses, which are mainly comprised of interest expense on loans and financing, foreign exchange losses, monetary restatement losses, charges and adjustments for inflation on post-employment obligations paid to pension funds and other expenses.

Table of Contents

Net financial expenses were R$309 million in 2013 compared to net financial revenues of R$1,629 million in 2012, the main factors that impacted our net financial results in 2013 were:

Cemig court discussed the illegality of § 1 of article 3 of Law no. 9,718, of November 27, 1998, on extending the basis for calculating the contribution to PASEP and COFINS on Interest Income and Other Non-Operating Revenue, concerning the period 1999 to January 2004, and succeeded by a final decision. As a result, the transfer of credit to their subsidiaries was authorized, and to Cemig D, was in a percentage of 51.93% and 48.07% of Cemig GT claimed overall, allowing offset against other taxes of the Union the total gain for the Company was U.S. $313 million being recognized in the financial result of R$81 million and reversal of PASEP and COFINS and R$232 million as revenue from inflation adjustments;

revenue restatement of contract CRC in 2012, R$2,383 million as a result of its early settlement. More details in Note 12;

reduction in spending on costs of loans and financing: U.S. $698 million in 2013 compared to R$811 million in 2012 this reduction is due primarily to lower debt level linked to the CDI in 2013 compared to 2012 should be emphasiz