

ENERGY CO OF MINAS GERAIS

Form 6-K

February 26, 2018

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

**FORM 6-K**

**REPORT OF FOREIGN ISSUER**  
**PURSUANT TO RULE 13A-16 OR 15D-16 OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**

**For the month of January, 2018**

**Commission File Number: 1-15224**

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

**Avenida Barbacena, 1200**  
**30190-131 Belo Horizonte, Minas Gerais, Brazil**

**(Address of Principal Executive Offices)**

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

If ☐ Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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**FORWARD-LOOKING STATEMENTS**

This report contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Actual results could differ materially from those predicted in such forward-looking statements. Factors which may cause actual results to differ materially from those discussed herein include those risk factors set forth in our most recent Annual Report on Form 20-F filed with the Securities and Exchange Commission. CEMIG undertakes no obligation to revise these forward-looking statements to reflect events or circumstances after the date hereof, and claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMPANHIA ENERGÉTICA DE MINAS

GERAIS CEMIG

By: /s/ JOSÉ MARIA RABELO

Name: José Maria Rabelo

Title: Acting Chief Finance and Investor Relations Officer

Date: February 23, 2018

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**SUMMARY OF THE MINUTES OF THE 698TH MEETING OF THE BOARD OF DIRECTORS HELD ON  
JUNE 27, 2017**

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**  
**LISTED COMPANY CNPJ 17.155.730/0001-64 NIRE 31300040127**  
**BOARD OF DIRECTORS**  
**SUMMARY OF MINUTES**  
**OF THE**  
**698<sup>TH</sup> MEETING**

**Date, time and place:** June 27, 2017 at 4 p.m. at the head office.

**Meeting Committee:** Chair: José Afonso Bicalho Beltrão da Silva;  
Secretary: Anamaria Pugedo Frade Barros

**Summary of proceedings:**

**I Conflict of interest:** The board members listed below declared no conflict of interest in relation to the matters on the agenda of this meeting,

**II The Board approved:**

a) The following proposal by the Chair:

that as from June 28, 2017, Mr. Luís Fernando Paroli Santos should no longer be Chief Distribution and Sales Officer and interim Chief Institutional Relations and Communication Officer;

Election as Interim Chief Distribution and Sales Officer, from June 28, 2017, to serve the rest of the present period of office, that is to say until the first meeting of the Board of Directors after the Annual General Meeting of 2018, of

**Mr. Ronaldo Gomes de Abreu** Brazilian, married, company manager, domiciled in Belo Horizonte, Minas Gerais, at Av. Assis Chateaubriand 46/1301, Floresta, CEP 30150-100, Bearer of Identity Card MG 2868468-PCMG and CPF 563307236-72;

and, as Chief Officer for Institutional Relations and Communication, on an interim basis while also serving as Chief Finance and Investor Relations Officer, of

**Mr. Adézio de Almeida Lima** Brazilian, married, economist, domiciled in Belo Horizonte, MG, at Av. Barbacena 1200, 18º andar, Ala B2, Santo Agostinho, CEP 30190-131, bearer of Identity Card 2514340-SSPDF and CPF 342530507-78.

b) The minutes of this meeting.

**III The Board nominated** the Chief Officer Luís Fernando Paroli Santos as Chief Executive Officer of Light S.A., and also as Chief Officer for Business Development and Investor Relations Officer of that company, to complete the present period of office or until his duly elected successor is sworn in.

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**IV The Chair informed** the meeting that as from June 28, 2017 the Executive Board comprises:

Chief Executive Officer:	Bernardo Afonso Salomão de Alvarenga;
Interim Deputy CEO:	Bernardo Afonso Salomão de Alvarenga;
Chief Trading Officer:	Dimas Costa;
Chief Business Development Officer:	César Vaz de Melo Fernandes;
Interim Chief Distribution and Sales Officer:	Ronaldo Gomes de Abreu;
Chief Finance and Investor Relations Officer, and Interim Chief Institutional Relations and Communication Officer:	Adézio de Almeida Lima;
Chief Generation and Transmission Officer:	Franklin Moreira Gonçalves;
Chief Corporate Management Officer:	José de Araújo Lins Neto;
Chief Officer for Human Relations and Resources:	Maura Galuppo Botelho Martins;
Chief Counsel:	Raul Lycurgo Leite,*

\* to be succeeded on July 1, 2017, as per Board decision of June 9, 2017, by:

Mr. Luciano de Araújo Ferraz.

**V The Chief Officers elected declared** in advance that they are not subject to any prohibition on exercise of commercial activity, that they do not occupy any position in a company which could be considered a competitor of the Company, and that they do not have, nor represent, any interest conflicting to Cemig's interest; and made a formal commitment to become aware of, obey and comply with the principles, ethical values and rules established by the Code of Professional Conduct of Cemig and the Code of Ethical Conduct of Government Workers and Senior Administration of the State of Minas Gerais.

**The following were present:**

Board members: Nelson José Hubner Moreira,

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José Afonso Bicalho Beltrão da  
Silva,

Bernardo Afonso Salomão de  
Alvarenga,

Antônio Dirceu Araújo Xavier,

Arcângelo Eustáquio Torres  
Queiroz,

Bruno Magalhães Menicucci,

Helvécio Miranda Magalhães  
Junior,

Marco Antônio de Rezende  
Teixeira,

Marco Antônio Soares da Cunha  
Castello Branco,

Patrícia Gracindo Marques de Assis  
Bentes,

Aloísio Macário Ferreira de Souza,

Carolina Alvim Guedes Alcoforado,  
Anamaria Pugedo Frade Barros.

Secretary:  
(Signed by:) Anamaria Pugedo Frade Barros.

José Pais Rangel,

Saulo Alves Pereira Junior,

Marina Rosenthal Rocha,

Agostinho Faria Cardoso,

Antônio Carlos de Andrada Tovar,

Geber Soares de Oliveira,

Luiz Guilherme Piva,

Otávio Silva Camargo,

Ricardo Wagner Righi de Toledo,

Tarcísio Augusto Carneiro,

Wieland Silberschneider;

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**MATERIAL ANNOUNCEMENT DATED AS OF DECEMBER 28, 2017: CEMIG COMPLETES R\$ 3.4BN  
DEBT RE-PROFILING**

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

**LISTED COMPANY CNPJ 17.155.730/0001-64 NIRE 31300040127**

**MATERIAL ANNOUNCEMENT**

**Cemig completes R\$ 3.4bn debt re-profiling**

Supplementing the Material Announcement published on November 20, 2017, **Cemig** (*Companhia Energética de Minas Gerais* listed and traded, in São Paulo, New York and Madrid), in compliance with CVM Instruction 358 of January 3, 2002 as amended, **hereby reports** to the Brazilian Securities Commission (CVM), the São Paulo Stock Exchange (B3) and the market as follows:

Cemig's wholly-owned subsidiaries Cemig D and Cemig GT have completed the re-profiling of their debt, through: (i) a debenture issuance by Cemig D, and (ii) amendments to loan debt transactions of Cemig D and Cemig GT changing the maturity dates for debt representing a total of approximately R\$ 3.4 billion.

Adding these transactions to the total of R\$ 3.2 billion raised in the international market through a Eurobond issuance as reported to the market on December 1 and 5, 2017 Cemig D and Cemig GT have balanced their cash flows, lengthened the average tenor of their debt, and enhanced their credit quality.

After such re-profiling, the amortization timetable for Cemig's consolidated debt is the following (the newly contracted components, replacing previous maturities, are shown in yellow):

Belo Horizonte, December 28, 2017

Adézio de Almeida Lima

Chief Finance and Investor Relations Officer

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**NOTICE TO STOCKHOLDERS DATED AS OF JANUARY 8, 2018: FINAL FIGURES FOR R\$ 1.2BN  
CAPITAL INCREASE**

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

**LISTED COMPANY CNPJ 17.155.730/0001-64**

**NOTICE TO STOCKHOLDERS**

**Final figures for R\$ 1.2bn capital increase**

Further to the Notice to Stockholders published on December 13, 2017, **Cemig** (*Companhia Energética De Minas Gerais*) **hereby informs** its stockholders and the market **as follows**:

The period for subscription in the second (and last) apportionment of shares not subscribed in the Preemptive Right Exercise Period of the capital increase approved by the Extraordinary General Meeting of October 26, 2017 ended on December 28, 2017.

The total amount of the funds raised by Cemig through such capital increase, now held by the company in cash, is R\$ 1.2 billion.

The following numbers of shares were subscribed in the phases of the capital increase:

**Numbers of shares**

Type	Proposed	Preemptive right exercise period	Subscribed in:		Balance of shares not subscribed
			1 <sup>st</sup> subsequent apportionment period	2 <sup>nd</sup> subsequent apportionment period	
ON	66,849,505	50,106,730	2,954,905	658,191	13,129,679
PN	133,061,442	118,949,754	11,004,208	1,291,730	1,815,750
<b>Total</b>	<b>199,910,947</b>	<b>169,056,484</b>	<b>13,959,113</b>	<b>1,949,921</b>	<b>14,945,429</b>

Cemig will disclose, at the appropriate time, the next phase for the completion of this corporate event.

Belo Horizonte, January 8, 2018

**Adézio de Almeida Lima**

**Chief Finance and Investor Relations Officer**

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**MATERIAL ANNOUNCEMENT DATED AS OF JANUARY 12, 2018: BOARD PROPOSES THE MERGER  
OF CEMIGTELECOM**

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

**LISTED COMPANY CNPJ 17.155.730/0001-64 NIRE 31300040127**

**MATERIAL ANNOUNCEMENT**

**Board proposes the merger of CemigTelecom**

**Cemig** (*Companhia Energética de Minas Gerais*) (listed and traded in São Paulo, New York and Madrid), in compliance with CVM Instruction 358 of January 3, 2002 as amended, **hereby reports** to the Brazilian Securities Commission (CVM), the São Paulo Stock Exchange (B3) and the market **as follows**:

In the meeting held on the date hereof, Cemig's Board of Directors resolved to present to the Extraordinary General Meeting of Stockholders a proposal concerning the merger of Cemig Telecomunicações S.A. ( CemigTelecom ) into Cemig. Cemig Telecomunicações S.A. is a wholly-owned subsidiary of Cemig.

The merger will have a positive impact on the involved companies resulting from the optimization of assets and synergies, and will reduce financial, operational and administrative costs through concentration of existing administrative structures, while improving options for use of available funds.

The proposal will be submitted to decision by stockholders at an Extraordinary General Meeting to be called on an appropriate date and time (subject to the terms specified by the law and the by-laws).

To take effect, the merger will need also to be submitted, separately, to Cemig's Audit Committee, pursuant Sub-item III of Article 163 of Law 6404/1976.

Considering that the proposed transaction involves the merger of a wholly-owned subsidiary, there will be no capital increase, nor issuance of new shares. The shares of CemigTelecom will be canceled and the necessary accounting records will be made.

Cemig reiterates its commitment to keep stockholders and the market timely informed in accordance with applicable law and regulations.

Belo Horizonte, January 12, 2018

Adézio de Almeida Lima

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Chief Finance and Investor Relations Officer

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**SUMMARY OF THE MINUTES OF THE 720TH MEETING OF THE BOARD OF DIRECTORS HELD ON  
JANUARY 12, 2018**

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

**LISTED COMPANY**

**CNPJ 17.155.730/0001-64 NIRE 31300040127**

**BOARD OF DIRECTORS**

**Meeting of January 12, 2018**

**SUMMARY OF MAIN RESOLUTIONS**

At its 720<sup>th</sup> meeting, held on January 12, 2018, the Board of Directors of **Cemig** (*Companhia Energética de Minas Gerais*) resolved the following:

1. Budget for 2018.
2. Instruction to vote in an Extraordinary General Meeting of Lepsa, on: reduction of the corporate capital, amendment of the by-laws, and execution of legal instruments.
3. Instruction to vote in an Extraordinary General Meeting of RME, on: reduction of the corporate capital, amendment of the by-laws, and execution of legal instruments.
4. Internal Regulations on Competitive Bids and Contracts.
5. Execution of a corporate guaranty letter for agreements between Cemig GT and electricity generators or traders, guaranteed by Cemig.
6. Appointment of a Manager for MESA.

7. Structure of CemigTelecom.
8. Convocation of an Extraordinary General Meeting of Stockholders to discuss CemigTelecom.

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**CONVOCATION OF EXTRAORDINARY GENERAL MEETING OF STOCKHOLDERS DATED AS OF  
JANUARY 12, 2018 TO BE HELD ON FEBRUARY 28, 2018**

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

**CNPJ 17.155.730/0001-64 NIRE 31300040127**

**EXTRAORDINARY GENERAL MEETING OF STOCKHOLDERS**

**CONVOCATION**

Stockholders are hereby called to an Extraordinary General Meeting of Stockholders to be held on February 28, 2018 at 3 p.m., at the company's head office, Av. Barbacena 1200, 21 floor, Belo Horizonte, Minas Gerais, Brazil, to decide on the following matters:

- 1 Approval and authorization for execution of a Protocol of Merger and Justification, with Cemig Telecomunicações S.A. CemigTelecom, which will set out the terms and conditions to govern the merger of CemigTelecom into Cemig.
- 2 Ratification of the nomination of the three experts to provide a valuation, for the purposes of Article 8 of Law 6404/1976, of the net equity of CemigTelecom.
- 3 Approval of the Net Equity Valuation Report of CemigTelecom, at book value, as set forth in 2 above.
- 4 Authorization to the merger CemigTelecom into Cemig, and subsequent termination of CemigTelecom.
- 5 Authorization to Cemig to be the successor of CemigTelecom, in all its rights and obligations, for all purposes of law and otherwise.
- 6 Authorization to the transfer to Cemig, by merger, of all the facilities, tangible and intangible assets and goods, inventories, real estate property, credits, assets, rights, employees, stockholdings, contracts, obligations, liabilities, tax books and invoices, controls, records, accounting, documents, systems and information of CemigTelecom, including its shares in Ativas Data Center S.A. (Ativas), which corresponds to 19.6% of the



share capital of Ativas, and the contracts related to this stockholding interest.

Proxy votes

Any stockholder who wishes to be represented by proxy at the above General Meeting of Stockholders shall comply with the provisions of Article 126 of Law 6406 of 1976 and with the sole paragraph of Section 9 of the Company's by-laws, by presenting at the time or providing Cemig, preferably by February 26, 2018, with evidence of ownership of the shares, issued by a depositary financial institution, and a power of attorney with specific powers, at Cemig's Corporate Executive Office (*Superintendência da Secretaria Geral*) at Av. Barbacena 1200 - 19th Floor, B1 Wing, Belo Horizonte, Minas Gerais, Brazil.

Belo Horizonte, January 12, 2018

José Afonso Bicalho Beltrão da Silva

Chair of the Board of Directors

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**PROPOSAL BY THE BOARD OF DIRECTORS DATED AS OF JANUARY 12, 2018 TO THE  
EXTRAORDINARY GENERAL MEETING OF STOCKHOLDERS TO BE HELD ON FEBRUARY 28, 2018**

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**PROPOSAL**  
**BY THE BOARD OF DIRECTORS TO THE**  
**EXTRAORDINARY GENERAL MEETING OF STOCKHOLDERS**  
**TO BE HELD ON FEBRUARY 28, 2018**

Dear Stockholders:

**The Board of Directors of the Company proposes to you the following:**

- 1 Approval and authorization for execution of a Protocol of Merger and Justification, with Cemig Telecomunicações S.A. CemigTelecom, which will set out the terms and conditions to govern the merger of CemigTelecom into Cemig.
- 2 Ratification, because the transaction involves the merger of a wholly-owned subsidiary into its parent company, of the appointment of the three experts,  
Mr. Flávio de Almeida Araújo, CRC/MG 86.861,  
Mr. Francisco do Couto, CRC/MG 58.343, and  
Mr. Leonardo George de Magalhães, CRC/MG 53.140,  
to prepare the valuation, under and for the purposes of Article 8 of Law 6404/1976, of the Net Equity Valuation of CemigTelecom.
- 3 Approval of the Net Equity Valuation Report of CemigTelecom, at book value, prepared by three experts, under and for the purposes of Article 8 of Law 6404/1976.
- 4 Authorization to the merger of CemigTelecom into Cemig and subsequent termination of CemigTelecom.

- 5 Authorization for Cemig to be the successor of CemigTelecom, in all its rights and obligations, for all purposes of law and otherwise.
- 6 Authorization to the transfer to Cemig, by merger, of all the facilities, tangible and intangible assets and goods, inventories, real estate property, credits, assets, rights, employees, stockholdings, contracts, obligations, liabilities, tax books and invoices, controls, records, accounting, documents, systems and information of CemigTelecom, including its shares in Ativas Data Center S.A. (Ativas), which corresponds to 19.6% of the share capital of Ativas, and the contracts related to this stockholding interest.

As can be seen, the purpose of this proposal is to meet the genuine interests of the stockholders and of the Company, therefore the Board of Directors expects that it will be approved by the Stockholders.

Belo Horizonte, January 12, 2018

José Afonso Bicalho Beltrão da Silva  
Marco Antônio de Rezende Teixeira  
Bernardo Afonso Salomão de Alvarenga  
Antônio Dirceu Araújo Xavier  
Arcângelo Eustáquio Torres Queiroz  
Arlindo Magno de Oliveira  
Carlos Eduardo Lessa Brandão  
Daniel Alves Ferreira

Helvécio Miranda Magalhães Junior  
Hermes Jorge Chipp  
José Pais Rangel  
Marcelo Gasparino da Silva  
Marco Antônio Soares da Cunha Castello Branco  
Nelson José Hubner Moreira  
Patrícia Gracindo Marques de Assis Bentes

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APPENDIX II	Appendix 21 of CVM Instruction 481/2009
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APPENDIX IV	Opinion of the Auditing Board
APPENDIX V	Net Equity Valuation Report of CemigTelecom.
APPENDIX VI	Cemig: Financial Statements for 2016
APPENDIX VII	Cemig: Quarterly Information ( ITR ) for 3Q 2017
APPENDIX VIII	CemigTelecom: Financial Statements for 2016
APPENDIX IX	CemigTelecom: Quarterly Information ( ITR ) for 3Q 2017

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

**CNPJ 17.155.730/0001-64 NIRE 31300040127**

**APPENDIX I TO THE PROPOSAL BY MANAGEMENT**

**INFORMATION ON THE MERGER**

**(AS PER APPENDIX 20-A OF CVM INSTRUCTION 481)**

**1. Protocol and justification of the transaction as per Articles 224 and 225 of Law 6404 of 1976.**

The protocol and justification of the merger of Cemig Telecomunicações S.A. ( CemigTelecom ) into Companhia Energética de Minas Gerais Cemig ( the Company or Cemig ), ( the Protocol and Justification ) is in **Appendix III** to the Management Proposal.

**2. Any other agreements, contracts or pre-contracts regulating the exercise of the right to vote or transfer of shares in the companies subsisting or resulting from the transaction, filed at the head office of the company or to which the controlling stockholder of the company is a party.**

None.

**3. Description of the transaction, including:**

**a. Terms and conditions.**

The transaction will consist of the merger of CemigTelecom, a wholly-owned subsidiary, into Cemig, its parent company, at the book value of CemigTelecom, and consequent termination of CemigTelecom; and Cemig will be successor of CemigTelecom in all the goods and assets, rights and obligations of CemigTelecom ( the Merger ). All of the shares in CemigTelecom are owned by Cemig and will be extinguished, as specified in Article 226, §1, of Law 6404, of December 15, 1976 as amended ( the Corporate Law ).

The Merger will not result in an increase or reduction of the stockholders' equity or of the share capital of Cemig, since the stockholders' equity of CemigTelecom is already reflected in full in the stockholders' equity of Cemig, as a result of the application of the equity method accounting.

It is intended that the Merger shall not take effect before March 31, 2018, or before completion of the following events:

- (i) Holding of a General Meeting of Debenture Holders of the 2<sup>nd</sup> (second) issuance of debentures of CemigTelecom ( the GMDH ), to be called to take place up to March 16, 2018, including in its agenda the approval of the Merger and of its consequences for the debenture holders.

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- (ii) To be assured, under Article 231, §1 of the Corporate Law, to the debenture holders of CemigTelecom that are dissident or absent to the GMDH, that their debentures will be redeemed within 6 (six) months from the date of publication of the minutes of the General Meeting relating to the Merger.
  
- (iii) Approval by a General Meeting of Stockholders of CemigTelecom of:
  - (a) the execution of the Protocol and Justification; and
  
  - (b) the Merger, among other matters.
  
- (iv) Holding of a General Meeting of Stockholders of Cemig to:
  - (a) approve the execution of the Protocol and Justification;
  
  - (b) ratify the nomination of the Accounting Experts:
    - (b.i) Flávio de Almeida Araújo, accountant, registered in the Minas Gerais Regional Accounting Council (CRC/MG) under N° 86.861;
  
    - (b.ii) Francisco do Couto, accountant, registered in the CRC/MG under N° 58.343; and
  
    - (b.iii) Leonardo George de Magalhães, accountant, CRC/MG registration N° 53.140.  
to be responsible for preparation of the net equity valuation report of CemigTelecom at book value, for the merger of CemigTelecom into the Company (the Valuation Report);
  
  - (c) approve the Valuation Report;
  
  - (d) approve the Merger and the subsequent termination of CemigTelecom;
  
  - (e) authorize Cemig to be the successor of CemigTelecom in all its rights and obligations, howsoever, and for all purposes of law; and
  
  - (f) authorize transfer to Cemig, by merger, of all the facilities, tangible and intangible assets and goods, inventories, real estate property, credits, assets, rights, employees, stockholdings, contracts, obligations,



liabilities, tax books and tax invoices, controls, records, accounting, documents, systems and information of CemigTelecom, including the shares held by CemigTelecom in Ativas Data Center S.A. (Ativas), which corresponds to 19.6% of the share capital of Ativas, and the contracts related to this stockholding interest.

**b. Obligations to indemnify: (i) the managers of any of the companies involved; (ii) in the event that the transaction is not completed.**

None.

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**c. Comparative table of the rights, advantages and restriction applying to shares of the companies involved or the resulting companies, before and after the transaction.**

After the Merger, only the common and preferred shares issued by Cemig existing prior to the transaction will remain to exist, which will preserve the same rights and advantages that current are:

<b>Common shares in Cemig</b>	
<b>Right to dividends:</b>	The common shares have the same rights as the preferred shares in distribution of bonuses. In fiscal years in which the Company does not generate sufficient profits to pay dividends to its stockholders, the State of Minas Gerais guarantees, for the shares issued by the Company up to August 5, 2004 and held by individual persons, a minimum dividend of 6% (six percent) per year.
<b>Right to vote:</b>	Full.
<b>Description of any restriction on voting:</b>	Not applicable.
<b>Convertibility:</b>	None.
<b>Condition of the convertibility, and effects on the share capital:</b>	Not applicable.
<b>Right to reimbursement of capital:</b>	Yes.
<b>Characteristics of the reimbursement of capital:</b>	The preferred shares have right of preference in the event of reimbursement of shares.
<b>Restrictions on trading:</b>	None.
<b>Nature of restriction:</b>	Not applicable.
<b>Redeemable:</b>	None.
<b>Conditions for alteration of the rights carried by the said securities.</b>	Under Article 109 of the Corporate Law, neither the by-laws nor the General Meeting of Stockholders may deprive the stockholder of the right to: (i) participate in the profits of the company; (ii) participate in the net equity of the company, in the event of liquidation; (iii) inspect the management of the company's business, in the manner specified in the Corporate Law; (iv) have first refusal to subscribe shares, founder's shares convertible into shares, debentures convertible into shares and/or warrants; (v) withdraw from the company in the eventuality specified in the Corporate Law.
<b>Other material characteristics:</b>	All the information that is relevant and pertinent to this topic has been disclosed in the items above.

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	<b>Preferred shares in Cemig</b>
<b>Right to dividends:</b>	<p>Minimum annual dividend equivalent to the greater of:</p> <p>(a) 10% (ten per cent) of the nominal value of the shares; or</p> <p>(b) 3% (three per cent) of the value of the stockholders equity corresponding to the shares.</p> <p>The common shares shall be subject to the same conditions as the preferred shares in distribution of bonuses. In business years in which the Company does not obtain sufficient profit to pay dividends to its stockholders, the State of Minas Gerais guarantees to the shares issued by the Company up to August 5, 2004 and held by individual persons, a minimum dividend of 6% (six per cent) per year.</p>
<b>Right to vote:</b>	Restricted.
<b>Description of restriction on voting:</b>	The right to vote is reserved exclusively for the common shares, and each common share has the right to one vote in decisions of the General Meeting of Stockholders.
<b>Convertibility:</b>	None.
<b>Condition of the convertibility, and effects on the share capital:</b>	Not applicable.
<b>Right to reimbursement of capital:</b>	Yes.
<b>Description of the characteristics of the reimbursement of capital:</b>	The preferred shares will have the right of preference in the event of reimbursement of shares.
<b>Restrictions on trading:</b>	None.
<b>Nature of restriction:</b>	Not applicable.
<b>Redeemable:</b>	None.
<b>Conditions for alteration of the rights carried by the said securities.</b>	Under Article 109 of the Corporate Law, neither the by-laws nor the General Meeting of Stockholders may deprive the stockholder of the right to: (i) participate in the profits of the company; (ii) participate in the assets and liabilities of the company, in the event of liquidation; (iii) inspect the management of the company's business, in the manner specified in the Corporate Law; (iv) have first refusal to subscribe shares, founder's shares convertible into shares, debentures convertible into shares and/or warrants; (v) withdraw from the company in the eventuality specified in the Corporate Law.
<b>Other material characteristics:</b>	All the information that is relevant and pertinent to this topic has been disclosed in the items above.

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As a result of the Merger, all the shares issued by CemigTelecom (100% held by Cemig) will be canceled. Therefore, as there will be no delivery of shares issued by Cemig to stockholders of CemigTelecom, a comparison of the rights and advantages between the shares of the two companies is unnecessary.

### **d. Is there any need for approval by debenture holders or other creditors?**

Not in relation to Cemig.

In relation to CemigTelecom, the Merger will be submitted to the approval of the General Meeting of Debenture Holders, which will state whether or not they are favorable to the Merger. Any of the holders of debentures of CemigTelecom that is dissident or be absent to the General Meeting of Debenture Holders shall have the right to redeem its debentures, under Article 231, §1, of the Corporate Law, for a period of six months from the date of publication of the minutes of the General Meetings relating to the Merger.

### **e. Any asset or liability elements that will form each portion of the equity, in the event of a split.**

Not applicable.

### **f. Whether the resulting companies have any intention to be listed as issuers of securities.**

Not applicable.

### **4. Plans to conduct of the companies' businesses, particularly in relation to the specific corporate events that are planned.**

After completion of the Merger, Cemig will continue to dedicate itself to the activities covered by its corporate purpose, keeping its registry as a listed company, and to succeeding the rights and obligations of CemigTelecom.

### **5. Analysis of the following aspects of the transaction:**

#### **a. Description of the principal benefits expected, including:**

##### **i. Synergies**

With the merger, the Company will seek to achieve gains from optimization of assets and synergies, and reduce financial, operational and administrative costs through concentration of existing administrative structures, which will expand the means for Cemig to make use of available resources.

##### **ii. Tax benefits**

The Company's management sees no tax benefits arising from the Merger.

##### **iii. Strategic advantages**

One of the important strategic advantages inherent in the Merger is simplification of the current corporate structure and expansion of the means for Cemig to make use of available resources.

##### **b. Costs**

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The managements of both companies estimate that there will be no additional costs as a result of the Merger. CemigTelecom is today a wholly-owned subsidiary, and all its costs are 100% consolidated by Cemig.

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**c. Risk factors**

One of the goals of the Merger is to integrate the businesses of the companies and improve the use of the synergies obtained from the combination of the businesses of Cemig and CemigTelecom. This process of integration could result in difficulties of operational, regulatory, commercial, financial and contractual nature, which may prevent the expected synergies to be achieved or result in unforeseen losses or expenses.

**d. If this is a transaction with a related party, indicate alternatives that could have been used to reach the same objectives, indicating the reasons why those alternatives were discarded.**

No alternative structure to the Merger could result in the simplification and integration of the businesses of both companies, with the termination of one of the legal entities and its succession by the remaining company, as it is intended. Additionally, because this case involves the merger of a wholly-owned subsidiary by its parent company, the present question loses its relevance.

**e. Exchange ratio**

Not applicable, CemigTelecom is a wholly-owned subsidiary of Cemig and thus the Merger will not result in an increase in the net equity of Cemig.

**f. For a transaction involving parent companies, subsidiaries or companies under joint control, please provide:**

- (i) **The share exchange ratio calculated in accordance with Article 264 of Law 6404 of 1976.**
- (ii) **Detailed description of the process of negotiation of the exchange ratio and other terms and conditions of the transaction.**
- (iii) **If the transaction was preceded, in the last 12 (twelve) months, by an acquisition of control or acquisition of participation in a controlling stockholding block:**
  - (a) **Comparative analysis of the exchange ratio and the price paid in acquisition of control;**
  - (b) **Reasons justifying any differences of valuation in the different transactions;**
- (iv) **Justification of why the exchange ratio is commutative, with description of the procedures and criteria adopted to guarantee the commutability of the transaction or, if the exchange ratio is not commutative, detailing of the payment or equivalent measures adopted to ensure adequate compensation.**

Cemig is the holder of 100% of the share capital of CemigTelecom, so that the transaction does not result in an increase of capital in Cemig, nor any alteration in the participation of its stockholders. Therefore, there is no need to consider any exchange ratio.



**6. Copy of the minutes of all the meetings of the Board of Directors, Auditing Board and special committees in which the transaction was discussed, including any dissident votes.**

The Opinion of the Auditing Board of Cemig is attached hereto as **Appendix IV**.

**7. Copy of studies, presentations, reports, opinions, professional opinions or valuation reports of the companies involved in the transaction that have been placed at the disposal of the controlling stockholder at any stage of the transaction.**

The Valuation Report is attached hereto as **Appendix V**.

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**7.1. Identify any conflicts of interests between the financial institutions, companies and professionals that have prepared the documents referred to in item 7 and the companies involved in the transaction.**

None.

**8. Plans for by-laws, or changes to by-laws, of the company resulting from the transaction.**

No changes to Cemig's bylaws are being proposed; Cemig will be the successor of CemigTelecom.

**9. Financial statements used for the purpose of the transaction, under the applicable rule.**

In accordance with Article 6 of CVM Instruction 565 of June 15, 2015, as amended (CVM Instruction 565), the following financial statements have been disclosed:

- (i) Financial Statements of Cemig of December 31, 2016 (attached hereto as **Appendix VI**);
- (ii) Interim Accounting Statements of Cemig of September 30, 2017 (attached hereto as **Appendix VII**);
- (iii) Financial Statements of CemigTelecom of December 31, 2016 (attached hereto as **Appendix VIII**); and
- (iv) Interim Accounting Statements of CemigTelecom of September 30, 2017 (attached hereto as **Appendix IX**). The valuation of the net equity value of CemigTelecom, expressed in the Valuation Report, has been based on CemigTelecom's balance sheet of November 30, 2017, which comprises the Appendix I to the Valuation Report.

Aiming to ensure the accuracy of the accounting amounts of the assets and liabilities elements comprising the balance sheet of CemigTelecom, on November 30, 2017, the following procedures were adopted in the Valuation Report:

Reading of the Financial Statements of CemigTelecom of December 31, 2016 (attached hereto as **Appendix VIII**).

Reading of the Independent Auditor's Report on the Financial Statements issued by Deloitte Touche Tohmatsu Auditores Independentes on April 6, 2017, without qualification in relation to the Balance Sheet of December 31, 2016.

The Interim Accounting Information of CemigTelecom of September 30, 2017 (attached hereto as **Appendix IX**), combined with the Report of the External Auditors, Ernst & Young Auditores Independentes, on their review of the quarterly information, issued without any qualification on November 10, 2017; and

Analytical review of the movement in the balances of assets and liabilities in the period between September 2017 and November 30, 2017.

**10. Pro-forma financial statements prepared for the purposes of the transaction, in the terms of the applicable rule.**

Considering that CemigTelecom is a wholly-owned subsidiary of Cemig, and is consolidated in Cemig's results, we present the Interim Accounting Information of Cemig on September 30, 2017, consolidated and audited (attached hereto as **Appendix VII**), in compliance with the requirement of Article 7 of CVM Instruction 565 of June 15, 2015 as amended.

**11. Document containing information on the non-listed companies directly involved, including:**

- a. Risk factors, in the terms of Items 4.1 and 4.2 of the Reference Form;**
- b. Description of the principal changes in the risk factors that have taken place in the prior business period and expectations in relation to reduction or increase in the exposure to risks as a result of the transaction, in the terms of Item 5.4 of the Reference Form;**
- c. Description of its activities, in the terms of Items 7.1, 7.2, 7.3 and 7.4 of the Reference Form;**

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**d. Description of the economic group, in the terms of Item 15 of the Reference Form;**

**e. Description of the share capital, in the terms of item 17.1 of the Reference Form.**

Not applicable.

**12. Description of the structure of capital and control after the transaction, in the terms of Item 15 of the Reference Form.**

**Items 15.1 and 15.2 of the Reference Form of Cemig:**

Those items are not subject to any change as a result of the intended transaction.

**Item 15.3 of the Reference Form of Cemig:**

Those items are not subject to any change as a result of the intended transaction.

**Item 15.4 of the Reference Form of Cemig:**

Organization diagram before the transaction:

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Organization diagram after the transaction:

**Items 15.5, 15.6, 15.7 and 15.8 of the Reference Form of Cemig:**

Those items are not subject to any change as a result of the intended transaction.

**13. Number, class, form and type of the securities of each company involved in the transaction held by any other companies involved in the transaction, or by people related to these companies, as defined by the rules that govern public offerings for acquisition of shares**

Cemig is, in the present date, holder of 448,340,822 (four hundred forty eight million three hundred and forty thousand eight hundred twenty two) nominal common shares without par value, comprising 100% (one hundred per cent) of the share capital of CemigTelecom.

**14. Exposure of the companies involved in the transaction or any of their related parties, as defined in the rules that govern public offerings for acquisition of shares to derivatives referenced to securities issued by other companies involved in the transaction.**

Not applicable.

**15. Report covering all transactions carried out, in the last 6 (six) months, by the following persons with securities issued by the companies involved in the transaction:**

**a. Companies involved in the transaction:**

**i. Private purchase transactions**

None.

**ii. Private sale transactions**

None.

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**iii. Purchase transactions in regulated markets**

None.

**iv. Sale transactions in regulated markets**

None.

**b. Any persons or entities that are related parties to the companies that are involved in the transaction:**

**i. Private purchase transactions**

None.

**ii. Private sale transactions**

None.

**iii. Purchase transactions in regulated markets**

None.

**iv. Sale transactions in regulated markets**

None.

**16. Document by which the Special Independent Committee submitted its recommendations to the Board of Directors, in the event that the transaction has been negotiated in the terms of CVM Orientation Opinion 35 of 2008**

Not applicable. Cemig is holder of 100% of the shares corresponding to the share capital of CemigTelecom and, thus, the transaction does not result in an increase of capital of Cemig or in any change to the participation of its stockholders. Therefore, there was no exchange ratio to be negotiated.

\* \* \* \*

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

CNPJ 17.155.730/0001-64 NIRE 31300040127

**APPENDIX II TO THE PROPOSAL OF MANAGEMENT**

**INFORMATION ON THE VALUER AND PROPOSAL FOR THE VALUATION WORK**

**(APPENDIX 21 TO CVM INSTRUCTION 481)**

**1. List the valuers recommended by the management.**

Expert Accountants:

- (a) Mr. Flávio de Almeida Araújo, accountant, enrolled with the Minas Gerais State Regional Accounting Council ( CRC/MG ) under the No. 86,861;
- (b) Mr. Francisco do Couto, accountant, enrolled with the CRC/MG under the No. 58,343.
- (c) Mr. Leonardo George de Magalhães, accountant, enrolled with the CRC/MG under the No. 53,140.

**2. Describe the qualifications of the recommended valuers.**

Mr. Flávio de Almeida Araújo has a degree in accountability from Minas Gerais Federal University (UFMG) and a post-graduation MBA with specialization in finance from the Dom Cabral Foundation (FDC). He works at Cemig since 2006, holding, currently, the position of Financial Manager for Equity Holdings.

Mr. Francisco do Couto has a degree in accountability from the Newton Paiva University Center, with specialization in external auditing from UFMG, and MBA in Management, Finance, Controllershship and Auditing from the Getúlio Vargas Foundation (FGV). His professional life has been almost entirely dedicated to accounting. He has been an independent auditor for 10 years. He has been a professor to undergraduate and extension courses at UFMG. Since February 1999 he has been working as an accountant at Cemig and is currently responsible for the preparation of the Consolidated Financial Statements of the Group. He is also a graduate and undergraduate professor at Centro Universitário UNA, where he has been teaching since 2003.

Mr. Leonardo George de Magalhães has a degree in accountability from UNA Faculdade de Ciências Econômicas, Belo Horizonte, with specialization in accountability from FGV and specialization in business management from UFMG. At Cemig he has been Controller since June 2008. Since September 2017 he has also served as General Manager for Planning and Corporate Control.

**3. Provide a copy of the proposals for work and remuneration of the recommended valuers.**

Appendix I to this document comprises a copy of the work proposal.

Scope: Accounting Net Equity of Cemig Telecomunicações S.A. CemigTelecom.

Fees: No remuneration for the valuers further to their normal remuneration as employees of Cemig.

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**4. Describe any material relationship existing in the last three years between the recommended valuers and related parties to the company, as defined in the accounting rules that deal with this subject.**

Flávio de Almeida Araújo:

Is currently Cemig's Financial Manager for Holdings, with the following principal duties:

to promote the financial management of Cemig Group;

to follow the economic and financial results of the companies;

to participate in processes of merger, split, acquisition and disposal of corporate interests.

to act as a member of the Board of Directors in companies of the Cemig Group; and

to prepare accounting opinions for the purposes of spin-offs, mergers and allocations of capital to companies of the group.

Mr. Francisco do Couto:

Works as an accountant at Cemig.

Is currently responsible for the preparation of the Group's Consolidated Financial Statements.

Mr. Leonardo George de Magalhães:

Is the executive responsible for accounting, management of costs and tax planning of Cemig and its wholly-owned subsidiaries, and also management of budgeting, economic-financial planning, and analysis and monitoring of projects. He is:

Chairman of the Board of Forluz – the pension fund of the employees of Cemig;

a member of the Rate-regulated Activities Consultative Group of IASB – the International Accounting Standards Board;

a member of the Board of Directors of Aliança Norte – stockholder of the Belo Monte power plant;

Coordinator of the Control and Management Committee of Cemig: this body monitors the budgets and results of the businesses and also advises management in control and management analyzes and initiatives.

Coordinator of the Budget Prioritization Committee: a committee supporting management in decisions and management of investment projects, including analyses and prioritization of use of funds; and

represents Cemig in investor relation events in Brazilian and international financial markets.

He participates, jointly with the CFO and the Investor Relations Director, in the quarterly presentations of the Company's results to investors.

He has participated in various processes of mergers and acquisitions of Cemig.

\* \* \* \*

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

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**APPENDIX I TO APPENDIX II**

**COPY OF THE WORK PROPOSAL OF THE ACCOUNTING EXPERTS**

The accounting examination was carried out in accordance with NBC T 13, and comprised:

- (a) planning of the work;
- (b) application of procedures judged to be necessary in the circumstances;
- (c) issuance of the expert opinion on valuation of the equity to be incorporated.

The scope of the work is specified as: valuation of the equity of CemigTelecom, at book value, for the purpose of absorption. The following procedures were adopted:

Reading of the Financial Statements of December 31, 2016.

Reading of the Report of the External Auditors on the Financial Statements, issued by Deloitte Touche Tohmatsu Auditores Independentes on April 6, 2017, with no qualifications, in relation to the Financial Statements of December 31, 2016.

Reading of the Interim Accounting Information of September 30, 2017, jointly with the Report of the External Auditors, Ernst & Young Auditores Independentes, issued on November 10, 2017 on review of that quarterly information, without qualification.

Analytical review of the movement of balances of assets and liabilities in the period from September 30, 2017 to November 30, 2017.

At September 30, 2017 the books of account of CemigTelecom were compliant with the relevant legal formalities, and were written in accordance with the accounting practices adopted in Brazil.

The Accounting Experts used historic information and data audited by third parties and data provided by the management of CemigTelecom, via email or through its website. This being so, we assume that the data and information obtained for this Opinion is true.

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**Appendix III**

**PROTOCOL OF MERGER AND JUSTIFICATION**

By this private instrument and for all purposes of law,

- (a) **COMPANHIA ENERGÉTICA DE MINAS GERAIS – CEMIG**, with head office in Belo Horizonte, Minas Gerais State, at Avenida Barbacena 1200, Santo Agostinho, registered in the CNPJ/MF under N° 17.155.730/0001-64, herein represented in accordance with its by-laws ( Cemig ) and
- (b) **CEMIG TELECOMUNICAÇÕES S.A.**, with head office in Belo Horizonte, Minas Gerais State, at Rua Inconfidentes 1051, registered in the CNPJ under N°. 02.983.428/0001-27, herein represented in accordance with its Articles of Association ( CemigTelecom );  
jointly, the Companies

have agreed on the terms and decided to execute the present Protocol of Merger and Justification, in the form set forth by Law 6404 of December 15, 1976 ( the Corporate Law ), to set out the terms and conditions governing the merger of CemigTelecom into Cemig.

**CORPORATE PURPOSE AND SHARE CAPITAL OF THE COMPANIES**

1. Cemig is a Brazilian publicly held company, its corporate purpose encompasses the following activities:
  - a) to build, operate and exploit systems of generation, transmission, distribution and sale of electricity and related services;
  - b) to develop activities in various energy related fields, regardless of the source, focusing on the economic and commercial exploitation;

- c) to render consulting services, within its fields of operation, to Brazilian and foreign companies; and
  - d) to carry out activities direct or indirectly related to its corporate purpose, including the development and commercial operation of telecommunication and information systems.
2. CemigTelecom is a Brazilian corporation, its corporate purpose encompasses the following activities:
- a) to render and commercially operate limited specialized telecommunication services, through an integrated system of fiber optic cables, coaxial cables, and electronic and related equipment for transmission, emission or reception of symbols, characters, signals, written material, images, sound and information of any type;
  - b) to render telecommunications services, through various technologies;
  - c) to render consulting services in telecommunications to Brazilian and foreign companies;
  - d) to grant use of its telecommunications system upon compensation to:
    - (i) holders of public electricity services concessions, for their use in the management their generation, transmission and distribution activities; and
    - (ii) companies aiming to commercially operate the system as alternative provider of carriage of signal to companies holding concession, permission or authorization to provide telecommunications services.

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(e) to commercial operate its telecommunications system as an alternative provider of carriage of signal to companies holding concession, permission or authorization to provide telecommunications services.

f) to render multimedia communication services ( SCM ) in all the Brazilian territory.

g) to hold corporate interests in other companies.

**JUSTIFICATION AND BASES FOR THE MERGER**

3. The transaction that is the subject of this protocol is the merger of CemigTelecom into Cemig, with transfer of the totality of the net assets and liabilities of CemigTelecom to Cemig, which will be the sole successor of CemigTelecom in all its goods and assets, rights and obligations, in the terms of Articles 227 *et seq.* of the Corporate Law ( the Merger ).
4. After implementation of the Merger the credits and debits of CemigTelecom, which currently constitute its assets and liabilities, will become part of the accounts of Cemig, being transferred to the corresponding lines in Cemig's accounting books, subject to any necessary adaptations.
5. The Merger will provide gains from synergies and reduce financial, operational and administrative costs through concentration of existing administrative structures in Cemig, which will increase the possibilities for Cemig to take advantage of all its available resources.
6. The Merger will take effect only as from March 31, 2018 ( the Effective Date ), regardless of the date on which the required approvals are obtained.
7. On the Effective Date, CemigTelecom will cease to exist.

**ORGANIZATION AND COMPOSITION OF THE COMPANIES**

8. Cemig is a Brazilian publicly held company, with corporate capital of R\$ 6,294,208,270.00 (six billion two hundred ninety four million two hundred and eight thousand two hundred seventy Reais), divided in
- a) 420,764,708 (four hundred twenty million seven hundred sixty four thousand seven hundred and eight) nominal common shares each with nominal value of R\$ 5.00 (five Reais); and
  - b) 838,076,946 (eight hundred thirty eight million seventy six thousand nine hundred forty six) nominal preferred shares each with nominal value of R\$ 5.00 (five Reais).
9. CemigTelecom is a Brazilian corporation, with corporate capital of R\$ 292,399,303.29 (two hundred ninety two million three hundred ninety nine thousand three hundred and three Reais and twenty nine centavos), fully paid up, divided in 448,340,822 (four hundred forty eight million three hundred and forty thousand eight hundred twenty two) nominal common shares without par value, all owned by Cemig:

Sole stockholder		Shares	%
Companhia Energética de Minas Gerais	CEMIG	448,340,822	100

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**VALUATION**

10. Subject to ratification by the stockholders of the Companies, the managers of the Companies have appointed the following Expert Accountants to prepare the valuation of the net equity of CemigTelecom, as per Article 8 of the Corporate Law:

<b>Mr. Flávio de Almeida Araújo</b>	Brazilian, married, resident and domiciled in Belo Horizonte, Minas Gerais, at Rua José de Alencar 984, Apt. 401, Nova Suíça, holder of Identity Card MG-7.348.434, CPF 045.915.356-06, and CRC/MG (Minas Gerais Regional Council of Accountants) 86.861/O-7;
<b>Mr. Francisco do Couto</b>	Brazilian, single resident and domiciled in Belo Horizonte, MG, at Rua Uberlândia 555, Apt. 902, Carlos Prates, holder of Identity Card MG-3.124.729, CPF 525.441.416-20, and CRC/MG 58.343; and
<b>Mr. Leonardo George de Magalhães</b>	Brazilian, married, resident and domiciled in Nova Lima, Minas Gerais, at Rua Vega 55, Quintas do Sol, holder of Identity Card 4.303.799 SSP/MG, CPF 617.665.426-20, and CRC/MG 53.140/O-4.

11. For the purposes of the Merger, the elements of the equity of CemigTelecom to be transferred to Cemig have been valued at book value, based on the financial statements of CemigTelecom on November 30, 2017.
12. Having been previously informed of their appointment as valuers subject to ratification by the stockholders of the Companies, the Accounting Experts determined, based on the financial statements on November 30, 2017, that the net value of the total assets and liabilities of CemigTelecom is

R\$ 245,761,413.36 (two hundred forty five million seven hundred sixty one thousand four hundred thirteen Reais and thirty six centavos),  
after the adjustments described in Chapter 4 of the Valuation Report and the cancelation of the investment of Cemig in CemigTelecom.

13. Any change in the value of the net equity after the date of those financial statements will be absorbed by Cemig on the Effective Date of the Merger.

**CORPORATE INTERESTS IN COMMON AND SUBSTITUTION OF SHARES**

14. Considering that Cemig is the holder of 100% (one hundred per cent) of the share capital of CemigTelecom, there will be no substitution of shares issued by CemigTelecom by shares issued by Cemig.

With the cancelation of the shares issued by CemigTelecom, the value of the investment recorded in the assets of Cemig will be replaced by the equity value of CemigTelecom, as valued by the experts.

The Merger will not result in a change in the net equity of Cemig since the net equity value of CemigTelecom is already reflected in its entirety in the Stockholders' equity of Cemig, due to application of the equity method accounting. Consequently there will be no increase in the share capital of Cemig, nor any issue of new shares.

15. Since this is a merger of a wholly-owned subsidiary into its parent company, with no other stockholders of CemigTelecom, and since there will be no increase of the corporate capital of the Cemig, there is no need to establish parameters for an exchange ratio, and there is no additional information to be made available to the stockholders of Cemig.

Av. Barbacena 1200	Santo			Tel.: +55 31	Fax +55 31
Agostinho	30190-131	Belo Horizonte, MG	Brazil	3506-5024	3506-5025

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**FINAL PROVISIONS**

16. Approval of this Protocol by the stockholders of CemigTelecom and by the stockholders of Cemig will result in the termination of CemigTelecom on the Effective Date of the Merger, with the cancellation of all the shares issued by CemigTelecom. The management of Cemig will be responsible for filing all the corporate documents required for the registry of the Merger with the relevant entities.
17. With the Merger coming into effect on the Effective Date, all the goods and assets, rights, receivables, obligations and liabilities of CemigTelecom will automatically become part of the assets and liabilities of Cemig, which will succeed CemigTelecom in all its rights and obligation, regardless of any formalities other than those specified by law.
18. The provisions relating to the withdraw right and reimbursement of shares are not applicable due to the fact that:
  - (i) in relation to CemigTelecom: Cemig owns the totality of the shares issued by CemigTelecom and, hence, there is no stockholder dissenting in relation to the Merger; and
  - (ii) in relation to Cemig: there is no provision of law or in the by-laws of the company that grants a withdraw right to any dissenting stockholder.
19. Under Article 231 of the Corporate Law, the Merger will be conditional upon:
  - (i) the approval by the holders of debentures issued by CemigTelecom, in a General Meeting called specifically to approve the Merger; and
  - (ii) the granting by CemigTelecom of a minimum period of 6 (six) months, from the date of publication of the minutes of the Meetings relating to the Merger, for redemption of its outstanding debentures.

Having agreed with the terms and conditions set forth above, the parties execute this instrument, in six counterparties of equal form and content, for it to produce its legal and regulatory effects.

Belo Horizonte, \_\_\_\_\_, 2018  
**By COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

**By CEMIG TELECOMUNICAÇÕES S.A.**

Witnesses:

1.

Name:  
CPF/MF:  
ID/Issuer:

2.

Name:  
CPF/MF:  
ID/Issuer:

Av. Barbacena 1200 Santo Agostinho 30190-131 Belo Horizonte, MG Brazil Tel.: +55 31 3506-5024 Fax +55 31 3506-5025

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**Appendix IV**

**OPINION OF THE AUDITING BOARD**

The undersigned members of the Auditing Board of the Companhia Energética de Minas Gerais – Cemig, in performance of their role under the law and under the by-laws of the company, have analyzed the Proposal made by the Board of Directors to the Extraordinary General Meeting of Stockholders to be held on February 28, 2018, which is for the following:

- 1 Approval and authorization for execution of a Protocol of Merger and Justification, with Cemig Telecomunicações S.A. – CemigTelecom, which will set out the terms and conditions to govern the merger of CemigTelecom into Cemig.
- 2 Ratification of the nomination of the following 3 (three) experts – Mr. Flávio de Almeida Araújo, CRC/MG 86.861, Mr. Francisco do Couto, CRC/MG 58.343, and Mr. Leonardo George de Magalhães, CRC/MG 53.140, that will provide a valuation, for the purposes of Article 8 of Law 6404/1976, of the net equity of CemigTelecom.
- 3 Approval of the Net Equity Valuation Report of CemigTelecom, at book value, prepared by the three experts, in accordance with Article 8 of Law 6404/1976.
- 4 Authorization to the merger of CemigTelecom into Cemig and subsequent termination of CemigTelecom.
- 5 Authorization to Cemig to be the successor of CemigTelecom, in all its rights and obligations, for all purposes of law and otherwise.
- 6 Authorization to the transfer to Cemig, by merger, of all the establishments, tangible and intangible assets and goods, inventories, real estate property, credits, assets, rights, employees, stockholdings, contracts, obligations, liabilities, tax books and invoices, controls, records, accounting, documents, systems and information of CemigTelecom, including its shares in Ativas Data Center S.A. (Ativas), which corresponds

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to 19.6% of the share capital of Ativas, and the contracts related to this stockholding interest. After carefully analyzing the above proposal and considering that the applicable rules governing the matters under discussion have been complied with, it is the opinion of the members of the Auditing Board that the proposal should be approved by the said General Meeting of Stockholders.

Belo Horizonte, January 25, 2018

Signed:

Edson Moura Soares

Camila Nunes da Cunha Pereira Paulino

Manuel Jeremias Leite Caldas

Rodrigo de Mesquita Pereira

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Agostinho	30190-131	Belo Horizonte, MG	Brazil	3506-5024 3506-5025

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**Appendix V**

**VALUATION REPORT ON THE EQUITY OF CEMIG TELECOMUNICAÇÕES S.A. FOR THE  
PURPOSES OF MERGER**

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Belo Horizonte, December 22, 2017.

To the Management of

Companhia Energética de Minas Gerais Cemig

Av. Barbacena, 1.200 18º Andar

Belo Horizonte, Minas Gerais

In accordance with the provisions of Paragraphs 1 and 6 of Article 8 of Law 6404/75, the Management of Cemig Companhia Energética de Minas Gerais CEMIG ( Cemig ) has appointed three expert accountants to prepare a valuation report, at book value, on the net equity of Cemig Telecomunicações S.A. CemigTelecom ( CemigTelecom or the Company), details of which are in the appendix to this document. This appointment will be ratified in an Extraordinary General Meeting of Stockholders of Cemig.

**1. INFORMATION ABOUT THE EXPERTS**

The accountants listed below were appointed as experts to carry out the valuation of the Net Equity of CemigTelecom, and have prepared this Valuation Report in accordance with the accounting practices adopted in Brazil, as defined in Item 7 of Accounting Pronouncement NBC TG 26 *Presentation of Accounting Statements*:

Flávio de Almeida Araújo, accountant, enrolled with the Minas Gerais State Regional Accounting Council (CRC/MG) under No. 86.861.

Mr. Francisco do Couto, accountant, enrolled with the CRC/MG under No. 58.343.

Mr. Leonardo George de Magalhães, accountant, enrolled with the CRC/MG under No. 53.140.

In compliance with CVM Instruction 319/99, as amended, the expert accountants represent that:

- (a) they have no direct or indirect interest in the Company or in the operations carried out by it.
- (b) they found no limitations imposed by the controlling stockholders or managers that might have hindered or jeopardized the access to, use or knowledge of information, goods and assets, documents or work methodologies necessary for construction of their conclusions.

The accounting inspection was carried out in accordance with NBC T 13, and comprised:

- (a) Planning of the work;



(b) Application of the necessary procedures due to the circumstances;

(c) Issuance of the expert valuation report on the stockholders' equity to be transferred to the surviving company.

**2. GENERAL INFORMATION ON THE COMPANY BEING VALUED, SUBJECT OF THE MERGER**

Cemig Telecomunicações S.A. is a listed corporation and a wholly-owned subsidiary of Companhia Energética de Minas Gerais S.A. - Cemig. It offers optical network for services of carriage of telecommunications in the State of Minas Gerais, using the electricity transmission and distribution infrastructure of Cemig.

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CemigTelecom was incorporated on January 13, 1999, with the following purposes: to provide telecommunication services, through an integrated system consisting of fiber optic cables, coaxial cables, and electronic and related equipment for transmission, emission and reception of symbols, characters, signals, written material, images, sound and information of any type, and to operate telecommunications systems as an alternative provider of carriage of signal and other services to companies holding concession, permission or authorization to provide telecommunications services.

### **3. PURPOSE OF THE VALUATION; BASE DATE**

The objective of the valuation of the net equity of CemigTelecom, at book value, on the base date of November 30, 2017, is the merger of its total net assets and liabilities into its parent company Cemig, in accordance with Articles 226 and 227 of Law 6404/76.

### **4. SCOPE OF THE WORK**

To ensure accuracy of the accounting values of the asset and liability elements that comprise the balance sheet of CemigTelecom on November 30, 2017, we adopted the following procedures:

- Ø Reading of the Financial Statements at December 31, 2016.
- Ø Reading of the Report by the Independent Auditor, Deloitte Touche Tohmatsu Auditores Independentes, issued on April 6, 2017 on the Financial Statements, without qualification in relation to the Balance Sheet of December 31, 2016.
- Ø Interim Accounting Statements of September 30, 2017, accompanied by the Report of the external auditor, Ernst & Young Auditores Independentes, issued on November 10, 2017 on the review of the quarterly information, without qualification.
- Ø Analytical review of the movement of balances of assets and liabilities in the period between September 30, 2017 and November 30, 2017.

On September 30, 2017 the accounting records of CemigTelecom were in compliance with the pertinent legal formalities and are written in accordance with accounting practices adopted in Brazil.

The experts used historic information and data audited by third parties and data supplied by the management of CemigTelecom, via email or through its website. We, thus, assume that the data and information obtained for this Opinion is true.

This Report was prepared for use solely and exclusively by Cemig, for the purpose mentioned in Item 3.

### **5. PRESENTATION OF THE BALANCE SHEET**

The Balance Sheet of November 30, 2017 was prepared in accordance with accounting practices adopted in Brazil. The experts verified that the assets and liabilities of CemigTelecom are properly accounted in accordance with the

Plan of Accounts of the Telecommunications Sector.

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**Table of Contents****6. COMPOSITION OF NET ASSETS AND LIABILITIES****6.1. Accounting Valuation and base date:**

The components of net equity of CemigTelecom on November 30, 2017 are represented, in summary, by the following account lines:

<b>ASSETS</b>	<b>In Reais (R\$)</b>
Current and non-current assets	363,453,288.20
<b>LIABILITIES</b>	
Current and non-current liabilities	117,691,874.84
<b>TOTAL OF STOCKHOLDERS' EQUITY</b>	<b>245,761,413.36</b>

**6.2. Net equity at market price**

Since both the companies involved in the transaction, are listed companies, valuation at market price or any other economic-financial valuation technique is not justified, as specified by Article 264 of Law 6404/76, since this is a case of merger of a wholly-owned subsidiary into its parent company, and there is no determination of an exchange ratio that could be the subject to comparison and/or right to withdraw by dissenting shareholders. In other words, there will be no change in the net equity of Cemig, and consequently, no issuance of new shares, for which reason valuation at market price is not applicable.

**6.3. Treatment of subsequent variations in the value of equity**

Under Article 224, Sub-item III of Law 6404/76, the variations in equity that take place between the base date of this Opinion and the date of the merger of CemigTelecom into Cemig will be appropriated directly by Cemig, and at the time of the actual merger, the balances of existing account lines in the analytical interim balance sheet of CemigTelecom will be reflected, line by line, into Cemig's balance sheet.

**7. CONCLUSION**

As a result of the procedures and analyses effected, we conclude that the value of the stockholders' equity of CemigTelecom, on November 30, 2017 is R\$ 245,761,413.36 (two hundred forty five million seven hundred sixty one thousand four hundred thirteen Reais and thirty six centavos).

Expert accountant: Flávio de Almeida Araújo

Expert accountant: Francisco do Couto

Expert accountant: Leonardo George de Magalhães

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**Table of Contents****APPENDIX I BALANCE SHEET AT NOVEMBER 30, 2017**

LECOMUNICAÇÕES S.A. -  
LECOM

SHEET ON NOVEMBER 30, 2017 AND  
R 31, 2016

CEMIG TELECOMUNICAÇÕES S.A. - CEMIGTELEC

BALANCE SHEET ON NOVEMBER 30, 2017 AND DECEMBER 31, 2016

(In reais)

	Nov. 30, 2017 30/11/2017	Dec. 31, 2016 31/12/2016	% change AH%		Nov. 30, 2017 30/11/2017	Dec. 31, 2016 31/12/2016
				<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
				<b>CURRENT:</b>		
h	12.806.068	1.033.959	1138,5%	Loans and debentures	13.132.426	63.751.66
	524.834	1.855.029	-71,7%	Suppliers	18.778.123	21.750.01
om	20.832.186	19.552.443	6,5%	Tax obligations	10.597.094	9.572.51
rable	4.148.829	3.683.818	12,6%	Salary-related charges	3.199.241	4.862.62
	1.677.037	898.825	86,6%	Advances from clients	459.764	459.76
nses	37.559	33.931	10,7%	Other	571.122	973.00
nt	<b>40.026.512</b>	<b>27.058.004</b>	<b>47,9%</b>	<b>Total, current</b>	<b>46.737.770</b>	<b>101.369.57</b>
				<b>NON-CURRENT:</b>		
sssets				Loans and debentures	55.109.273	37.620.51
d to	203.143	83.248	144,0%	Provisions for contingencies	56.714	82.85
om	11.602.136	11.875.973	-2,3%	Advances from clients	4.227.688	4.663.10
rable	3.184.911	2.997.422	6,3%	Tax obligations	1.907.021	2.465.57
ome	6.345.656	8.037.818	-21,1%	Salary-related charges	3.279.115	2.800.76
l	239.113	906.930	-73,6%	Ativas	6.374.295	3.409.65
sets	<b>4.483.565</b>	<b>4.586.470</b>	<b>-2,2%</b>	<b>Total, Non-current</b>	<b>70.954.105</b>	<b>51.042.47</b>
	17.598.105	19.744.312	-10,9%			
	<b>270.145.535</b>	<b>261.612.715</b>	<b>3,3%</b>	<b>STOCKHOLDERS EQUITY:</b>		

	9.624.612	9.489.877	1,4%	Share capital	292.399.303	241.741.86
				Equity valuation adjustments	(755.826)	(755.82
				Retained losses	(45.882.064)	(47.005.31
				<b>Total stockholders equity</b>	<b>245.761.413</b>	<b>193.980.72</b>
<b>SETS</b>	<b>363.453.288</b>	<b>346.392.769</b>	<b>4,9%</b>	<b>TOTAL LIABILITIES</b>	<b>363.453.288</b>	<b>346.392.76</b>

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**Nov. 30, 2017    Dec. 31, 2016    % change**

Cemig Telecomunicações S.A.    CemigTelecom

Cemig Telecomunicações S.A.    CemigTelecom

**BALANCE SHEETS ON NOVEMBER 30, 2017 AND  
DECEMBER 31, 2016**

**BALANCE SHEETS ON NOVEMBER 30, 2017  
AND DECEMBER 31, 2016**

(In Reais    R\$)

(In Reais    R\$)

**ASSETS**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT**

Cash and cash equivalents  
Securities  
Accounts receivable from clients  
Taxes recoverable  
Advances  
Prepaid expenses  
**Total, current**

**CURRENT:**

Loans and debentures  
Suppliers  
Tax obligations  
Salary-related charges  
Advances from clients  
Other  
**Total, current**

**NON-CURRENT:**

**NON-CURRENT:**

**Long term assets**

Securities held to maturity  
Accounts receivable from clients  
Taxes recoverable  
Deferred income tax and Social Contribution  
Other

Loans and debentures  
Provisions for contingencies  
Advances from clients  
Tax obligations  
Salary-related charges  
Ativas

**Financial assets**

**Total, Non-current**

**Investments**

**STOCKHOLDERS' EQUITY:**

**Net PP&E**

Share capital  
Equity valuation adjustments  
Retained losses

**Intangible**

**Total stockholders' equity**

**TOTAL ASSETS**

**TOTAL LIABILITIES**



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**Appendix VI**

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**Companhia Energética de**

**Minas Gerais**

**CEMIG**

*Financial Statements as of December 31, 2016 and December*

*31, 2015 and for the Years Ended December 31, 2016, 2015 and*

*2014 and Report of Independent Registered Public Accounting*

*Firm*

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	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Current</b>			
Cash and cash equivalents	6	995	925
Securities	7	1,014	2,427
Consumers and traders and			
Concession holders Transport of electricity	8	3,425	3,765
Financial assets of the concession	14	730	874
Recoverable taxes	9	236	175
Income and social contribution tax credits	10a	590	306
Dividends receivable		11	62
Restricted cash	11	367	
Inventories		49	37
Advance to suppliers	28	1	87
Energy Development Account (CDE)	13	64	72
Low-income subscriber subsidy		36	31
Receivable from Eletrobras RGR	21	48	
Receivable from Eletrobras CDE		90	
Other		630	616
<b>TOTAL, CURRENT</b>		<b>8,286</b>	<b>9,377</b>
<b>NON-CURRENT</b>			
Securities	7	31	84
Advance to suppliers	28	229	60
Consumers and traders and Concession holders Transport of electricity	8	146	133
Recoverable taxes	9	178	258
Income and social contribution taxes recoverable	10a	112	206
Deferred income and social contribution taxes	10b	1,797	1,498
Escrow deposits	12	1,887	1,813
Other credits		1,051	808
Financial assets of the concession	14	4,971	2,660
Investments Equity method	15	8,753	9,745
Property, plant and equipment	16	3,775	3,940
Intangible assets	17	10,820	10,275

<b>TOTAL, NON-CURRENT</b>	<b>33,750</b>	<b>31,480</b>
<b>TOTAL ASSETS</b>	<b>42,036</b>	<b>40,857</b>

The Notes are an integral part of these Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****AS OF DECEMBER 31, 2016 AND 2015****LIABILITIES****(MILLIONS OF BRAZILIAN REAIS R\$ mn)**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>CURRENT</b>			
Suppliers	18	1,940	1,901
Regulatory charges	21	381	517
Profit sharing		18	114
Taxes payable	19a	794	740
Income and Social Contribution tax	19b	27	11
Interest on equity and dividends payable	24	467	1,307
Loans, financings and debentures	20	4,837	6,300
Payroll and related charges		225	221
Post-retirement liabilities	22	199	167
Concessions payable		3	3
Financial liabilities of the concession	14	482	
Financial Instruments put options	15	1,150	1,245
Advance sales of power supply	8	181	
Other obligations		743	548
<b>TOTAL, CURRENT</b>		<b>11,447</b>	<b>13,074</b>
<b>NON-CURRENT</b>			
Regulatory charges	21	455	226
Loans, financings and debentures	20	10,342	8,867
Taxes payable	19a	724	740
Deferred income and social contribution tax	10b	582	689
Provisions	23	815	755
Post-retirement liabilities	22	4,043	3,086
Concessions payable		19	19
Financial liabilities of the concession	14	323	
Financial Instruments put options	15	192	148
Other obligations		160	265
<b>TOTAL, NON-CURRENT</b>		<b>17,655</b>	<b>14,795</b>
<b>TOTAL LIABILITIES</b>		<b>29,102</b>	<b>27,869</b>



<b>EQUITY</b>	24	
Share capital	6,294	6,294
Capital reserves	1,925	1,925
Profit reserves	5,200	4,663
Accumulated Other Comprehensive Income	(489)	102
<b>EQUITY ATTRIBUTABLE TO THE CONTROLLING SHAREHOLDERS</b>	<b>12,930</b>	<b>12,984</b>
<b>EQUITY ATTRIBUTABLE TO NON-CONTROLLING SHAREHOLDER</b>	<b>4</b>	<b>4</b>
<b>TOTAL EQUITY</b>	<b>12,934</b>	<b>12,988</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>42,036</b>	<b>40,857</b>

The Notes are an integral part of these Consolidated Financial Statements.

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**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

(MILLIONS OF BRAZILIAN REAIS R\$ mn)

(except Net income per share)

	Note	2016	2015 Restated	2014 Restated
<b>NET REVENUE</b>	<b>25</b>	<b>18,773</b>	<b>21,868</b>	<b>19,595</b>
<b>OPERATING COSTS</b>				
<b>COST OF ELECTRICITY AND GAS</b>	<b>26</b>			
Electricity purchased for resale		(8,273)	(9,542)	(7,428)
Charges for the use of the national grid		(947)	(999)	(744)
Gas purchased for resale		(878)	(1,051)	(254)
		(10,098)	(11,592)	(8,426)
<b>OTHER COSTS</b>	<b>26</b>			
Personnel and managers		(1,348)	(1,143)	(999)
Materials		(41)	(126)	(340)
Outsourced services		(720)	(740)	(736)
Depreciation and amortization		(802)	(811)	(779)
Operating provisions		(171)	(23)	(262)
Infrastructure construction cost		(1,193)	(1,252)	(942)
Other		(57)	(96)	(318)
		(4,332)	(4,191)	(4,376)
<b>TOTAL COST</b>		<b>(14,430)</b>	<b>(15,783)</b>	<b>(12,802)</b>
<b>GROSS PROFIT</b>		<b>4,343</b>	<b>6,085</b>	<b>6,793</b>
<b>OPERATING EXPENSES</b>	<b>26</b>			
Selling expenses		(382)	(175)	(128)
General and administrative expenses		(667)	(674)	(654)
Operating provisions		(5)	(1,203)	(190)
Other operating expenses		(420)	(452)	(674)
		(1,474)	(2,504)	(1,646)
Equity in earnings of unconsolidated investees, net	15	(302)	393	210

Impairment of Investments	15	(763)		
Fair value gain (loss) on stockholding transaction	15		729	
Gain on acquisition of control of investee	15			281
<b>Income before Financial income (expenses) and taxes</b>		<b>1,804</b>	<b>4,703</b>	<b>5,638</b>
Financial revenues	27	1,041	863	535
Financial expenses	27	(2,478)	(2,204)	(1,694)
<b>Income before income tax and social contribution tax</b>		<b>367</b>	<b>3,362</b>	<b>4,479</b>
Current income and social contribution taxes	10c	(174)	(881)	(1,259)
Deferred income and social contribution taxes	10c	141	(12)	(83)
<b>NET INCOME FOR THE YEAR</b>		<b>334</b>	<b>2,469</b>	<b>3,137</b>
Total of net income for the year attributed to:				
Controlling shareholders		334	2,469	3,137
Non-controlling shareholder				
		<b>334</b>	<b>2,469</b>	<b>3,137</b>
Basic income per preferred share R\$	24	0.35	1.96	2.49
Basic income per common share R\$	24	0.10	1.96	2.49
Diluted income per preferred share R\$	24	0.32	1.96	2.49
Diluted income per common share R\$	24	0.07	1.96	2.49

The Notes are an integral part of these Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014****(MILLIONS OF BRAZILIAN REAIS R\$ mn)**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>NET INCOME FOR THE YEAR</b>	<b>334</b>	<b>2,469</b>	<b>3,137</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Post retirement liabilities remeasurement of obligations of the defined benefit plans, net of taxes	(515)	(360)	(44)
Equity gain (loss) on Other comprehensive income in jointly-controlled entities	4	(1)	(7)
	(511)	(361)	(51)
<b>Items that may be reclassified to profit or loss</b>			
Conversion adjustment of equity gain (loss) in other comprehensive income in subsidiary and jointly-controlled entity	(3)	54	10
Recycling of conversion adjustments to the Income statement arising from sale of Transchile	(39)		
	(42)	54	10
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>(219)</b>	<b>2,162</b>	<b>3,096</b>
<b>Total of comprehensive income for the year attributed to:</b>			
Controlling shareholders	(219)	2,162	3,096
Non-controlling shareholder			
	<b>(219)</b>	<b>2,162</b>	<b>3,096</b>

The Notes are an integral part of these Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014****(MILLIONS OF BRAZILIAN REAIS R\$ mn, except where otherwise indicated)**

	Share capital	Capital reserves	Profit reserves	Accumulated Other Comprehensive Income	Retained earnings	Total interest of the controlling shareholders	Total interest of the non-controlling shareholders	Total equity
<b>AS OF DECEMBER 31, 2013</b>	<b>6,294</b>	<b>1,925</b>	<b>3,840</b>	<b>579</b>		<b>12,638</b>		<b>12,638</b>
Net income for the year					3,137	3,137		3,137
<b>Other comprehensive income</b>								
Post retirement liabilities, net of taxes				(44)		(44)		(44)
Equity gain on Other comprehensive income in jointly-controlled entity				3		3		3
<b>Total Comprehensive income for the year</b>				<b>(41)</b>	<b>3,137</b>	<b>3,096</b>		<b>3,096</b>
<b>Other changes in equity:</b>								
Additional dividends proposed in 2013 (R\$ 0.04 per share)			(55)			(55)		(55)
Extraordinary dividends (R\$ 2.23 per share)			(2,804)			(2,804)		(2,804)
Statutory dividends (R\$ 1.04 per share)					(1,364)	(1,364)		(1,364)
Interest on Equity (R\$ 0.18 per share)					(230)	(230)		(230)
<b>Constitution of reserves</b>								
Tax incentives reserve			29		(29)			
Profit reserve			1,584		(1,584)			
<b>Realization of reserves</b>								
Equity valuation adjustments deemed cost of PP&E				(70)	70			
<b>ATTRIBUTED TO INTEREST OF THE CONTROLLING SHAREHOLDERS</b>	<b>6,294</b>	<b>1,925</b>	<b>2,594</b>	<b>468</b>		<b>11,281</b>		<b>11,281</b>

Non controlling shareholder						4	4
<b>AS OF DECEMBER 31, 2014</b>	<b>6,294</b>	<b>1,925</b>	<b>2,594</b>	<b>468</b>		<b>11,281</b>	<b>4 11,285</b>
Net income for the year					2,469	2,469	2,469
<b>Other comprehensive income</b>							
Post retirement liabilities, net of taxes				(361)		(361)	(361)
Equity gain on Other comprehensive income in jointly-controlled entity				54		54	54
<b>Total Comprehensive income for the year</b>				<b>(307)</b>	<b>2,469</b>	<b>2,162</b>	<b>2,162</b>
<b>Other changes in equity:</b>							
Reserve for obligatory dividends not distributed			797			797	797
Statutory dividends (R\$ 0.84 per share)					(1,056)	(1,056)	(1,056)
Interest on Equity (R\$ 0.16 per share)					(200)	(200)	(200)
<b>Constitution of reserves</b>							
Tax incentives reserve			21		(21)		
Profit reserve			1,251		(1,251)		
<b>Realization of reserves</b>							
Equity valuation adjustments deemed cost of PP&E				(59)	59		
<b>ATTRIBUTED TO INTEREST OF THE CONTROLLING SHAREHOLDERS</b>	<b>6,294</b>	<b>1,925</b>	<b>4,663</b>	<b>102</b>		<b>12,984</b>	<b>12,984</b>
Non-controlling shareholder						4	4
<b>AS OF DECEMBER 31, 2015</b>	<b>6,294</b>	<b>1,925</b>	<b>4,663</b>	<b>102</b>		<b>12,984</b>	<b>4 12,988</b>

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	Share capital	Capital reserves	Profit reserves	Equity Valuation adjustment	Retained earnings	Total interest of the controlling shareholders	Total interest of Non- controlling shareholders	Total equity
<b>AS OF DECEMBER 31, 2015</b>	<b>6,294</b>	<b>1,925</b>	<b>4,663</b>	<b>102</b>		<b>12,984</b>	<b>4</b>	<b>12,988</b>
Net income for the year					334	334		334
<b>Other comprehensive income</b>								
Post retirement liabilities remeasurement of obligations of the defined benefit plans, net of taxes				(515)		(515)		(515)
Equity gain on Other comprehensive income in subsidiary and jointly-controlled entity				(39)		(39)		(39)
<b>Total comprehensive income for the year</b>				<b>(554)</b>	<b>334</b>	<b>(220)</b>		<b>(220)</b>
<b>Other changes in equity:</b>								
Reserve for mandatory dividends not distributed			623			623		623
Dividends under by-laws (R\$ 0.16 per share )			127		(204)	(77)		(77)
Interest on equity (R\$ 0.30 per share )			(380)			(380)		(380)
<b>Constitution of reserves</b>								
Tax incentive reserves			7		(7)			
Retained earnings reserve			160		(160)			
Equity valuation adjustments deemed cost of PP&E				(37)	37			
<b>ATTRIBUTED TO INTEREST OF THE CONTROLLING SHAREHOLDERS</b>	<b>6,294</b>	<b>1,925</b>	<b>5,200</b>	<b>(489)</b>		<b>12,930</b>		<b>12,930</b>
Non-controlling shareholder							4	4
<b>AS OF DECEMBER 31, 2016</b>	<b>6,294</b>	<b>1,925</b>	<b>5,200</b>	<b>(489)</b>		<b>12,930</b>	<b>4</b>	<b>12,934</b>

The Notes are an integral part of these Consolidated Financial Statements.





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**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
**(MILLIONS OF BRAZILIAN REAIS R\$ mn)**

	2016	2015	2014
<b>CASH FLOW FROM OPERATIONS</b>			
Net income for the year	334	2,469	3,137
<b>Expenses (revenues) not affecting cash and cash equivalents</b>			
Income and social contribution taxes	33	893	1,342
Depreciation and amortization	834	835	801
Write-offs of PP&E, Intangible assets and Investments	109	124	105
Gain on disposal of investments	(315)		
Impairment of Investments	763		
Equity in earnings (losses) of unconsolidated investees, net	302	(393)	(210)
Interest and monetary variation	808	818	1,384
Fair value gain (loss) on stockholding transaction		(729)	
Provisions for operating losses	704	1,401	581
Net gain on indemnity of assets			(420)
Financial assets CVA	1,455	(1,704)	(1,107)
Gain on acquisition of subsidiary			(281)
Post-retirement liabilities	447	285	311
	5,475	3,999	5,643
(Increase) / decrease in assets			
Consumers and traders	(64)	(1,470)	(285)
Financial assets CVA	341	1,529	
Energy Development Account (CDE)	8	273	(170)
Recoverable Taxes	19	167	320
Income and social contribution tax credit	(62)	(77)	(37)
Transport of electricity	8	(5)	(5)
Escrow deposits	(28)	(67)	(305)
Dividends received from investments	683	487	683
Financial assets	(1,941)	10	6
Advance to suppliers	(120)	(131)	
Gas	(193)	(141)	(265)
Other	105	(248)	74
	(1,244)	327	16
Increase (decrease) in liabilities			
Suppliers	38	297	472
Taxes payable	38	202	54

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Income and social contribution taxes payable	24	(105)	(22)
Payroll and related charges	4	26	4
Regulatory charges	92	386	11
Post-retirement liabilities	(239)	(208)	(195)
Financial instruments Put options	(150)		
Other	(167)	156	(160)
	(360)	754	164
Cash generated by operating activities	3,871	5,080	5,823
Interest paid on loans and financings	(2,369)	(1,331)	(781)
Income and Social Contribution taxes paid	(289)	(741)	(1,308)
<b>NET CASH GENERATED BY OPERATING ACTIVITIES</b>	<b>1,213</b>	<b>3,008</b>	<b>3,734</b>

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	2016	2015	2014
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
Marketable securities	1,400	(1,499)	116
Financial assets		(145)	(80)
Restricted cash	(367)	1	1
Investments			
Acquisition of equity investees		(310)	(2,405)
Disposal of Investments	949		
Acquisition of subsidiary Gasmig			(465)
Capital increase in investees	(1,455)	(181)	(546)
PP&E	(120)	(126)	(122)
Intangible assets	(1,021)	(957)	(798)
<b>NET CASH USED IN INVESTMENT ACTIVITIES</b>	<b>(614)</b>	<b>(3,217)</b>	<b>(4,299)</b>
<b>CASH FLOW IN FINANCING ACTIVITIES</b>			
Loans, financings and debentures	5,737	5,739	4,562
Payment of loans financings and debentures	(5,591)	(4,696)	(1,394)
Interest on equity and dividends	(675)	(796)	(3,918)
<b>NET CASH FROM (USED IN) FINANCIAL ACTIVITIES</b>	<b>(529)</b>	<b>247</b>	<b>(750)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>70</b>	<b>38</b>	<b>(1,315)</b>
<b>STATEMENT OF CHANGES IN CASH AND CASH EQUIVALENTS</b>			
Beginning of the year	925	887	2,202
End of the year	995	925	887
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>70</b>	<b>38</b>	<b>(1,315)</b>

The Notes are an integral part of these Consolidated Financial Statements.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016 AND 2015 AND FOR THE YEARS ENDED ON DECEMBER 31, 2016, 2015  
AND 2014**

**(In Millions of Brazilian Reais R\$ mn except where otherwise indicated)**

**1. OPERATING CONTEXT**

Companhia Energética de Minas Gerais ( Cemig , also herein the Company , Parent company or Holding company ) is a listed corporation registered in the Brazilian Registry of Corporate Taxpayers (CNPJ) under number 17.155.730/0001-64, with shares traded on the BM&F Bovespa ( Bovespa ) at Corporate Governance Level 1; on the New York Stock Exchange ( NYSE ); and on the stock exchange of Madrid ( Latibex ). It is domiciled in Brazil, with head office at Avenida Barbacena 1200, Belo Horizonte, capital of the state of Minas Gerais. It operates exclusively as a holding company, with interests in subsidiaries or jointly controlled entities, which are engaged in the activities of the construction and operation of systems for generation, transformation, transmission, distribution and sale of electricity, and also activities in the various fields of energy, for the purpose of commercial operation.

In order to finance the capital expenditures needed to meet long-term growth objectives, CEMIG have incurred a substantial amount of debt. As of December 31, 2016, the CEMIG's Current Liabilities exceeded Current Assets by R\$3,162. As of December 31, 2016, the CEMIG total short-term and long-term loans, financing and debentures are R\$4,837 and R\$10,342, maturing in the first, second, third and fourth quarters of 2017, in the amounts of R\$783, R\$1,017, R\$579 and R\$2,458, respectively. Those CEMIG had positive operating cash flows in the amounts of R\$1,213, R\$3,007 and R\$3,733 in 2016, 2015 and 2014, respectively.

CEMIG's substantial debt could adversely affect the business, financial condition, and results of operations. Specifically, CEMIG is subject to certain restrictions on its ability to raise funds from third parties, which might prevent it from entering into new contracts for financing of its operations, or for the re-financing of its existing obligations, including the following:

The by-laws of CEMIG express the obligation for the consolidated figures of the group to maintain certain financial indicators, related to factors including debt and Capital Expenditures, within certain limits, and this could affect its operational flexibility. In the years 2015 and 2016, certain limits and financial ratios specified in the bylaws of CEMIG were exceeded, under approval by the General Meeting of Stockholders. CEMIG has obtained its stockholders to exceed these limits and financial ratios applicable for 2017.

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In relation to loans from outside parties: (i) as a state-controlled company, CEMIG is subject to rules and limits relating to the level of credit applicable to the public sector, including rules established by the National Monetary Council (Conselho Monetário Nacional, or CMN), and by the Brazilian Central Bank; (ii) CEMIG operates in the electricity sector, it is subject to the rules and limits established by Aneel which deal with indebtedness for companies of the electricity sector and (iii) state-controlled companies may use funds arising from transactions with commercial banks only for refinancing of financial obligations, or in transactions guaranteed by duplicate trade bills.

The National Treasury Department (part of the Finance Ministry) and by the Central Bank would need to approve certain international financial transactions; this approval is usually given only if the purpose of the transaction is to finance importation of goods or to roll over external debt. These rules have the effect of placing limits on the CEMIG H's capacity for indebtedness.

CEMIG is subject to certain contractual conditions under existing debt instruments. In the event of non-compliance with an obligation under that financing contract, the CEMIG will be required to strengthen the guarantees for the financing, on penalty of early maturity of the contract. Any default event in our financial instruments might lead creditors to cause all the amounts relating to that debt to become payable immediately. Acceleration of debts might cause significant negative effects on the CEMIG H's financial situation, and might also cause activation of cross-default clauses in other financial instruments. In the event of a default, CEMIG H's cash flow might be insufficient to completely settle the debts, or to comply with the servicing of such debts.

The credit risk rating agencies attribute a rating to Brazil, the Company and its debt securities on a Brazilian basis, and also a rating for the Company on the global basis. If ratings are downgraded due to any external factor, operational performance or high levels of debt, it may increase the cost of capital.

In order to amortize scheduled debt maturities, CEMIG will need to raise significant amounts of debt capital from a broad range of funding sources. To service CEMIG debt after meeting our capital expenditure targets, CEMIG have relied upon, and may continue to rely upon, a combination of cash flows provided by our operations, drawdowns under our available credit facilities, our cash and short-term financial investments balance and the incurrence of additional indebtedness.

CEMIG has several initiatives designed to increase liquidity through entering into new contracts for financing or for the re-financing of its existing obligations and potential divestitures of non-core assets. In 2016, CEMIG introduced a divestment program that contemplates the sale of assets for the period of 2017-2018, with the goal of improving our short-term liquidity position by increasing our cash balance and reducing indebtedness.

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Although the CEMIG is significantly leveraged, it expects that the current cash balances, liquidity from its revolving credit facility, cash generated from the initiatives described above, and from operations should be sufficient to meet working capital, capital expenditure, debt service, and other cash needs for the next year. Management believes that they will be successful in their plans.

If, for any reason, CEMIG are faced with continued difficulties in accessing debt financing, this could hamper our ability to make capital expenditures in the amounts needed to maintain our current level of investments or our long-term targets and could impair our ability to timely meet our principal and interest payment obligations with our creditors, as our cash flow from operations is currently insufficient to fund such both planned capital expenditures and all of our debt service obligations. A reduction in our capital expenditure program or the sale of assets could significantly affect our results of operations.

Cemig has interests in the following subsidiaries, jointly-controlled entities and affiliated company (information in MW has not been audited by the external auditors):

**Cemig Geração e Transmissão S.A. ( Cemig GT )** is Cemig's wholly-owned subsidiary operating in generation and transmission. It is listed, in Brazil, but not traded. Cemig GT has interests in 60 power plants, of which 56 are hydroelectric, 3 are wind power plants and one is a thermal plant, and associated transmission lines, most of which are part of the Brazilian national generation and transmission grid system. Cemig GT has interests in the following jointly-controlled entities and affiliated company:

Jointly-controlled entities and affiliated company:

- **Hidrelétrica Cachoeirão S.A. ( Cachoeirão )** (Jointly controlled): Production and sale of electricity as an independent power producer, through the *Cachoeirão* hydroelectric power plant, located at Pocrane, in the State of Minas Gerais.
- **Baguari Energia S.A. ( Baguari Energia )** (Jointly controlled): Construction, operation, maintenance and commercial operation of the *Baguari* Hydroelectric Plant, through participation in the UHE Baguari Consortium (Baguari Energia 49.00%, Neoenergia 51.00%), located on the Doce River in Governador Valadares, Minas Gerais State.
- **Central Eólica Praias de Parajuru S.A. ( Parajuru )** (Jointly controlled): Production and sale of electricity from the *Parajuru* wind farm at Beberibe, in the State of Ceará, Northern Brazil.
- **Central Eólica Praias do Morgado S.A. ( Morgado )** (Jointly controlled): Production and sale of electricity from the *Morgado* wind farm at Acaraú in Ceará, Northern Brazil.

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- **Central Eólica Volta do Rio S.A. ( Volta do Rio )** (Jointly controlled): Production and sale of electricity from at the *Volta do Rio* wind farm also at Acaraú, in the State of Ceará, Northern Brazil.
- **Hidroelétrica Pipoca S.A. ( Pipoca )** (Jointly controlled): Independent production of electricity, through construction and commercial operation of the *Pipoca* Small Hydro Plant (*Pequena Central Hidrelétrica*, or PCH), on the Manhuaçu River, in the counties of Caratinga and Ipanema, in the State of Minas Gerais.
- **Madeira Energia S.A. ( Madeira )** (Affiliated): Construction and commercial operation, through its subsidiary **Santo Antônio Energia S.A.**, of the Santo Antônio hydroelectric plant, in the basin of the Madeira River, in the State of Rondônia.
- **Lightger S.A.** (Jointly controlled): Independent power production through building and commercial operation of 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.
- **Renova Energia S.A. ( Renova )** (Jointly controlled): 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.
- **Retiro Baixo Energética S.A. ( RBE )** (Jointly controlled): RBE holds the concession to operate the *Retiro Baixo* hydroelectric plant, on the Paraopeba River, in the São Francisco river basin, in the municipalities of Curvelo and Pompeu, in Minas Gerais State. The plant has installed capacity of 83.7 MW and assured energy offtake level of 38.5MW average.
- **Aliança Norte Energia Participações S.A. ( Aliança Norte )** (Jointly controlled): A special-purpose company (SPC) created by Cemig GT (49.9% ownership) and Vale S.A. (50.1% ownership), for acquisition of an interest of 9% in Norte Energia S.A. ( *Nesa* ), the company holding the concession for the *Belo Monte* Hydroelectric Plant, on the Xingu River, in the State of Pará. The first turbine of Belo Monte Plant started operating on April 20, 2016 and the second turbine began operating on July 16, 2016. There are more details on this in Note 15.

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- **Aliança Geração de Energia S.A. ( Aliança )** (Jointly controlled): Unlisted corporation created by **Cemig GT** and **Vale S.A.** to become a platform for consolidation of generation assets held by the two parties in generation consortia, and investments in future generation projects. The two parties subscribed their shares in the company by transfer of their interests in the following generation assets: *Porto Estrela, Igarapava, Funil, Capim Branco I and II, Aimorés* and *Candonga*. With these assets the company has installed hydroelectric generation capacity in operation of 1,158 MW (physical offtake guarantee 652 MW average), and other generation projects. **Vale** and **Cemig GT** respectively hold 55% and 45% of the total capital.
  
- **Cemig Geração Três Marias S.A.:** A corporation wholly owned by Cemig GT. Its objects are production and sale of electricity as public service concession holder, by commercial operation of the *Três Marias* Hydroelectric Plant, and sale and trading of electricity in the Free Market. It has installed capacity of 396 MW, and guaranteed offtake level ( Assured energy ) of 239 MW average.
  
- **Cemig Geração Salto Grande S.A.:** A corporation wholly owned by **Cemig GT**. Its objects are production and sale of electricity as public concession holder, by commercial operation of the *Salto Grande* Hydroelectric Plant, and trading in electricity in the Free Market. This company has installed generation capacity of 102 MW, and average offtake guarantee of 75 MW.
  
- **Cemig Geração Camargos S.A.:** Corporation wholly owned by **Cemig GT**. Its objects are production and sale of electricity as public concession holder, by commercial operation of the *Camargos* Hydroelectric Plant, and trading in electricity in the Free Market. Has installed generation capacity of 46 MW, and average offtake guarantee of 21 MW.
  
- **Cemig Geração Itutinga S.A.:** Corporation wholly owned by **Cemig GT**. Its objects are production and sale of electricity as public concession holder, by commercial operation of the *Itutinga* Hydroelectric Plant, and trading in electricity in the Free Market. Has installed generation capacity of 52 MW, and average offtake guarantee of 28 MW.
  
- **Cemig Geração Leste S.A.:** Corporation wholly owned by **Cemig GT**. Its objects are production and sale of electricity as public concession holder, by operation of the *Dona Rita, Sinceridade, Neblina, Ervália, Tronqueiras* and *Peti* Small Hydroelectric Plants (PCHs), and trading in electricity in the Free Market. Installed generation capacity is 35.16 MW; average offtake guarantee is 18.64 MW.
  
- **Cemig Geração Oeste S.A.:** Corporation wholly owned by **Cemig GT**. Its objects are production and sale of electricity as public concession holder, by commercial operation of the *Gafanhoto, Cajuru and Martins* Small Hydroelectric Plants, and trading in electricity in the Free Market. Installed generation capacity is 28.90 MW, and average offtake guarantee 11.21 MW.





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- **Cemig Geração Sul S.A.:** Corporation wholly owned by **Cemig GT**. Its objects are production and sale of electricity as public concession holder, by commercial operation of the *Coronel Domiciano*, *Marmelos*, *Joasal*, *Paciência* and *Piau* Small Hydroelectric Plants and trading in electricity in the Free Market. Installed generation capacity is 39.53 MW; average offtake guarantee is 27.42 MW.

Subsidiaries and jointly-controlled entities at development stage:

- **Guanhães Energia S.A. ( Guanhães Energia )** (Jointly controlled): Production and sale of electricity through building and commercial operation of the following Small Hydro Plants (PCHs): *Dores de Guanhães*, *Senhora do Porto and Jacaré*, in the county of *Dores de Guanhães*; and *Fortuna II*, in the county of *Virginópolis*, in Minas Gerais. Construction works are 97% completed, and start of commercial generation is scheduled for April 2017.
- **Cemig Baguari Energia S.A. ( Cemig Baguari )** (Subsidiary) Production and sale of electricity as an independent power producer in future projects.
- **Amazônia Energia Participações S.A. ( Amazônia Energia )** (Jointly controlled) Unlisted company whose object is to hold and manage equity interest in **Norte Energia S.A. (Nesa)**, which holds the concession to operate the *Belo Monte* Hydroelectric Plant, on the Xingu River, in the State of Pará. It is jointly controlled by **Light S.A.** (25.5%) and **Cemig** (74.5%). *Amazônia Energia* owns 9.77% of the share capital of *Nesa*. The first turbine of the *Belo Monte* Plant started operating on April 20, 2016 and the second turbine began operating on July 16, 2016. There are more details in Note 15.

**Cemig Distribuição S.A. ( Cemig D or Cemig Distribution )** (Subsidiary): Wholly-owned subsidiary, listed but not traded; distributes electricity through networks and distribution lines to practically the whole of the Brazilian State of Minas Gerais.

**Transmissora Aliança de Energia Elétrica S.A. ( Taesa )** (Jointly controlled): Construction, operation and maintenance of electricity transmission facilities in 17 states of Brazil through direct and indirect equity interests in investees.

**Light S.A. ( Light )** (Jointly controlled): Holds direct or indirect interests in other companies and directly or indirectly operates electricity services, including generation, transmission, trading or distribution, and other related services. *Light S.A.* has the following subsidiaries and jointly-controlled entities:

- **Light Serviços de Eletricidade S.A. ( Light Sesa )** (Subsidiary) A listed company operating primarily in electricity distribution, in various municipalities of Rio de Janeiro State.



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- **Light Energia S.A.** (Subsidiary) Plans, builds and operate electricity generation, transmission and sales/trading systems and related services. Owns equity interests in two wind power companies **Central Eólica São Judas Tadeu Ltda.** and **Central Eólica Fontainha Ltda** and in **Guanhães Energia S.A.** and **Renova Energia S.A.**
- **Light Esco Prestação de Serviços Ltda.** ( **Light Esco** ) (Subsidiary) Purchase, sale, importation and exportation of electricity and consultancy services in the electricity sector. Light Esco has an interest in **EBL Companhia de Eficiência Energética S.A.**
- **Itaocara Energia Ltda.** (Subsidiary) Company and pre-operational phase: principal activity will be construction and operation of generation plants. It is a member of the Itaocara Hydro Plant Consortium for commercial operation of the Itaocara Hydroelectric Plant (51%). **Cemig GT** owns 49%. There are more details in Note 14.
- **Lightger S.A.** (Jointly controlled) Described in the list of jointly controlled entities of Cemig GT, above.
- **Light Soluções em Eletricidade Ltda.** (Subsidiary): Its main objects are provision of service to low-voltage clients including assembly, overhaul and maintenance of installations in general.
- **Instituto Light para o Desenvolvimento Urbano e Social (Light Institute)** (Subsidiary): Participation in social and cultural projects, and interest in economic and social development of cities.
- **Lightcom Comercializadora de Energia S.A.** (Subsidiary): Purchase, sale, importation and exportation of electricity, and general consultancy, in the free and regulated electricity markets.
- **Axxiom Soluções Tecnológicas S.A.** (Jointly controlled): Unlisted company, providing technology and systems solutions for operational management of public service concession holders, including companies in electricity, gas, water, sewerage, and other utilities. Jointly owned by Light (51%) and Cemig (49%).
- **Amazônia Energia Participações S.A.** (Jointly controlled) Described in the list of equity interests of **Cemig GT** above.
- **Renova Energia S.A.** (Jointly controlled) Described in the list of equity interests of **Cemig GT** above.



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

**Usina Térmica Ipatinga S.A. ( Ipatinga )** (Subsidiary) Currently without operational activity.

**Companhia de Gás de Minas Gerais ( Gasmig )** (Subsidiary): Acquisition, transport and distribution of combustible gas or sub-products and derivatives, through a concession for distribution of gas in the State of Minas Gerais.

**Cemig Telecomunicações S.A. ( CemigTelecom**  previously named *Empresa de Infovias S.A.*)(Subsidiary): Provision and commercial operation of a specialized telecommunications service through an integrated multi-service network of fiber optic cables, coaxial cables, and electronic and associated equipment. CemigTelecom owns 19.6% of **Ativas Data Center ( Ativas )** (a jointly controlled entity), which operates primarily in supply of IT and communications infrastructure services, including physical hosting and related services for medium-sized and large corporations.

**Efficientia S.A.** (Subsidiary): Provides electricity efficiency and optimization services and energy solutions through studies and execution of projects; and services of operation and maintenance in energy supply facilities.

**Horizontes Energia S.A.** (Subsidiary): Production and sale of electricity, as an independent power producer, through the *Machado Mineiro* and *Salto do Paraopeba* hydroelectric power plants in the State of Minas Gerais, and the *Salto do Voltão* and *Salto do Passo Velho* hydro power plants in the State of Santa Catarina.

**Cemig Comercializadora de Energia Incentivada S.A. ( CCEI**  previously named *Central Termelétrica de Cogeração S.A.*) (Subsidiary) Production and sale of electricity as an independent power producer, in future projects.

**Rosal Energia S.A.** (Subsidiary): Production and sale of electricity, as a public electricity service concession holder, through the *Rosal* hydroelectric power plant located on the border between the States of Rio de Janeiro and Espírito Santo.

**Empresa de Serviços e Comercialização de Energia Elétrica S.A. ( ESCE**  previously named *Central Hidrelétrica Pai Joaquim S.A.*) (Subsidiary): Production and sale of electricity as an independent power producer, in future projects.

**Cemig PCH S.A.** (Subsidiary): Production and sale of electricity as an independent power producer, through the *Pai Joaquim* hydroelectric power plant.

**Cemig Capim Branco Energia S.A. (Capim Branco)** (Subsidiary): Production and sale of electricity as an independent producer, through the *Amador Aguiar I* and *Amador Aguiar II* hydroelectric power plants, built through a consortium with private-sector partners. This company was merged with and into **Cemig GT** in 2015.

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**UTE Barreiro S.A.** (Subsidiary): Production and sale of thermally generated electricity, as an independent producer, through construction and operation of the *UTE Barreiro* thermal generation plant, located on the premises of V&M do Brasil S.A., in the State of Minas Gerais.

**Cemig Trading S.A.** (Subsidiary): Sale and intermediation of business transactions related to energy.

**Companhia Transleste de Transmissão** (Jointly controlled): Operation of the transmission line connecting the substation located in Montes Claros to the substation of the *Irapé* hydroelectric power plant.

**Companhia Transudeste de Transmissão** (Jointly controlled): Construction, operation and maintenance of national grid transmission facilities of the *Itutinga Juiz de Fora* transmission line.

**Companhia Transirapé de Transmissão** (Jointly controlled): Construction, operation and maintenance of the *Irapé Araçuaí* transmission line.

**Axxiom Soluções Tecnológicas S.A.** (Jointly controlled): Described in the investees of Light, above.

**Transchile Charrúa Transmisión S.A.** (Jointly controlled): Construction, operation and maintenance of the *Charrúa-Nueva Temuco* transmission line, and two sections of transmission line at the *Charrúa* and *Nueva Temuco* substations, in the central region of Chile. The head office of Transchile is in Santiago, Chile. In 2016 Cemig sold the whole of its interest in Transchile to Ferrovial Transco Chile SpA., a company controlled by Ferrovial S.A.

**Companhia de Transmissão Centroeste de Minas** (Jointly controlled): Construction, operation and maintenance of the *Furnas-Pimenta* transmission line part of the national grid.

**Participações em Ativos de Energia Elétrica ( Parati )** (Jointly controlled): Holding company owning interests, through shares or share units, in other companies, Brazilian or foreign, in any business activity. Parati holds an equity interest of 26.03% in Light. Parati was closed down in 2016, following its reverse absorption by RME and Lepsa, with 50% Cemig ownership in each of these two companies.

Where Cemig exercises joint control it does so through shareholders agreements with the other shareholders of the investee company.

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**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board (IASB).

Management certifies that all the material information in the financial statements, and only that information, is being presented, and that it corresponds to the information used by Management in its administration of the company.

On May 16, 2017, the Company's Audit Board authorized filing of the Financial Statements for the year ended December 31, 2016.

**2.2 Bases of measurement**

The consolidated financial statements have been prepared based on historical cost, with the exception of the following material items recorded 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 the New Replacement Value (VNR), equivalent to fair value.

**2.3 Functional currency and currency of presentation**

These consolidated financial statements are presented in Reais, which is the Company's presentation and functional currency. All the financial information is presented in millions of Reais, except where otherwise indicated.

**2.4 Use of estimates and judgments**

The preparation of the consolidated financial statements, under IFRS, requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in assets, liabilities, revenues and expenses. Future reported results may differ from these estimates.



Estimates and assumptions are revised continually, using as a reference both historical experience and also any significant changes of scenario that could affect the equity situation of the company or its results in the applicable items. Revisions in relation to accounting estimates are recognized in the period in which the estimates are reviewed, and in any future periods affected.

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The principal estimates related to the financial statements refer to recording of effects arising from:

Allowance for doubtful accounts    see Note 8;

Deferred income and social contribution taxes    see Note 10;

Financial assets of the concession    see Note 14;

Investments    See Note 15.

Property, plant and equipment    Note 16.

Intangible assets    see Note 17;

Depreciation    see Note 16;

Amortization    see Note 17;

Employee post-retirement liabilities    see Note 22;

Provisions    see Note 23;

Unbilled electricity supplied    see Note 25; and

Fair value measurement and Derivatives instruments    see Note 30.

**2.5 Rules, interpretations and changes that came into force on January 1, 2016**

The following rules and changes of rules came into effect during 2016

The Changes to IFRS 7 provide additional orientations to clarify whether a service contract constitutes continuous involvement in an asset transferred, for the purposes of the necessary disclosures in relation to the transferred assets.

The changes to IAS 19 clarify that the rate used to discount obligations for post-retirement benefit should be determined based on AA corporate bond yields at the end of the reporting period.

The changes to IFRS 5 introduce specific orientations in relation to when an entity reclassifies an asset (or group of assets held for sale) from held for sale to held for distribution to holders (or vice-versa).

Changes to IAS 16 and IAS 38 Clarification of the acceptable methods for depreciation and amortization.

Changes to IAS 1 Disclosure Initiative These offer orientations on application of the concept of materiality in practice.

Changes to IFRS 10, IFRS 12 and IAS 28 *Investment entities: Applying exception from consolidation* These clarify that exemption from preparing consolidated financial statements is applicable to a controlling entity that is the subsidiary of an investment entity, even if the investment entity values all its subsidiaries at fair value under IFRS 10.

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Changes to IFRS 11 *Joint Arrangements* provides instructions on accounting for the acquisition of a business combination as defined by IFRS 3 *Business Combinations*.

The application of these changes had no significant impact on the disclosures or the amounts recognized in the financial statements of Cemig.

**2.6 New and revised rules and interpretations already issued and not yet adopted, with possible impacts for the Company**

In effect for annual periods starting on or after January 1, 2017:

Changes to IAS 12 *Recognition of deferred tax assets for non-realized losses*.

Disclosure Initiative (Changes to IAS 7) Alters IAS 7 *Statement of Cash Flows*, to clarify that entities should supply disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Applicable to annual periods starting on or after January 1, 2017

In effect for annual periods starting on or after January 1, 2018:

Changes to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* Deals with situations that involve sale or contribution of assets between an investor and its associate or joint venture.

IFRS 9 *Financial instruments* Establishes that all the financial assets recognized that are within the scope of IAS 39 must be subsequently measured at amortized cost or fair value. In relation to the impairment of financial assets, IFRS 9 requires use of a forward-looking expected loss impairment model, in contrast to the model of actual impairment stated in IAS 39.

IFRS 15 *Revenue from Contracts with Customers*: Issued in May 2014, IFRS 15 established a simple and clear model for companies to use in accounting for revenue arising from contracts with clients. When it comes into effect, it will replace the present orientations on recognition of revenue contained in IAS 18 *Revenues*, IAS 11 *Construction Contracts* and the related interpretations.

In effect for annual periods starting on or after January 1, 2019:

IFRS 16 *Leases* With this new rule, lessors will have to recognize the liability for future payments and the right to use of the leased asset for practically all leasing contracts, including those currently classified as

operational leasing contracts.

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The Company is still evaluating the effects of application of these new rules, and changes to existing rules, on the amounts and disclosures presented in the financial statements.

**2.7 Principal accounting policies**

The accounting policies described in detail below have been applied consistently to all the periods presented in these consolidated financial statements, in accordance with the rules and regulations described in item 2.1 *Statement of compliance*.

The accounting policies relating to the Company's present operations that require judgment and the use of specific valuation criteria are the following:

a) **Financial instruments**

*Financial liabilities relating to put options* The options to sell units in FIP Melbourne and FIP Malbec ( the SAAG Put ) and the options to sell shares in RME and Lepsa ( the Parati PUT ) were valued at fair value using the Black-Scholes-Merton (BSM) method. Both the options were calculated using the discounted cash flow method: for the SAAG Put option, up to the third quarter of 2016; and for the Parati Put option, up to the first quarter of 2016. The method used was changed, in the fourth and second quarters, respectively, to the BSM model. The Company calculated the fair value of these options having as a reference their respective prices obtained by the BSM model, valued on the closing date of the financial statements for the 2016 business year.

*Share capital:* The rights to minimum dividends as established for the preferred shares are described in Note 24 to the financial statements.

*Financial instruments available for sale:* As from December 31, 2012, assets in this category include the financial assets of the transmission and distribution concession that were covered by Law 12783 (of January 11, 2013). They are measured at New Replacement Value (*Valor Novo de Reposição*, or VNR), equivalent to fair value on the date of these financial statements. The Company recognizes a financial asset resulting from a concession contract when it has an unconditional contractual right to receive cash or another financial asset from, or under the direction of, the Concession-granting power for the services of construction or improvement provided.

*Loans and receivables* The category includes: Cash equivalents; Consumers and traders; Power transport concession holders; Financial assets of the concession not covered by Law 12783; the CVA Account (for compensation of changes in Portion A costs) and *Other financial components* of tariff adjustments; Escrow deposits; and Traders Free Energy transactions.

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Cash and cash equivalents includes: Balances of cash; Bank deposits; and cash investments with original maturity of three months or less from the date of contracting, which are subject to an insignificant risk of change in value. Cash and cash equivalents are maintained for the purpose of meeting cash commitments in the short term and not for investment or other purposes.

b) Consumers and traders; Power transport concession holders; and Traders transactions in Free Energy  
Accounts receivable from Consumers and traders, and from power transport concession holders, are initially recorded at value, whether already invoiced or not, and measured by amortized cost. They include any direct taxes for which the company has the tax responsibility, less taxes withheld at source, which are considered to be tax credits.

The provision for doubtful receivables, for low and medium voltage consumers, is recorded based on estimates by Management, in an amount sufficient to cover probable losses. The principal criteria set by the company are: (i) For consumers with significant balances, the balance receivable is analyzed in the light of the history of the debt, negotiations in progress, and real guarantees. (ii) For other consumers, the following are provisioned: Debts from residential consumers more than 90 days past due; debts from commercial consumers more than 180 days past due; and debts more than 360 days past due from other consumers. These criteria are the same as those established by Aneel.

For large consumers an individual analysis is made of the debtors and of the actions in progress for receipt of the credits.

c) Investments  
The Company's investments include the intangible concession assets identified on acquisitions, net of any accumulated losses by impairment.

d) Assets linked to the concessions  
*Electricity distribution activity:* The portion of the assets of the concession that will be totally amortized during the concession period is recorded as intangible and is completely amortized during the concession agreement period.

The amortization reflects the pattern of consumption of the rights acquired. It is calculated on the balance of the assets linked to the concession, by the straight-line method, based on the application of the rates set by Aneel for the electricity distribution activity.

The Company calculates the value of the assets which will not be fully amortized by the end of the concession agreement period, and reports this amount as a financial asset because it is an unconditional right to receive cash or other financial asset directly from the grantor.

Company has measured the parcel of the assets that will be completely amortized by the end of the concession, assuming extension of its concession agreement for a further 30 years, as described in more detail in Note 4.

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 paragraphs: 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 Aneel for the Asset Base for Remuneration in the processes of tariff review.

When an asset is replaced, the net book value of the asset is written down as an expense in the Statement of income.

*Transmission activity:* For the new transmission concessions, granted after the year 2000, the costs related to construction of the infrastructure are recorded in the Statement of income as and when they are calculated, and a Construction Revenue is recorded based on the stage of conclusion of the assets, including the taxes applicable to the revenue and any profit margin.



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

Of the invoiced amounts of Permitted Annual Revenue (RAP), the portion relating to the fair value of the operation and maintenance of the assets is recorded as revenue in the Statement of income, and the portion relating to the construction revenue, originally recorded at the time of the formation of the assets, is used to recover the financial assets.

Additional expenditures incurred for purposes of capital expansion and improvements to the transmission assets generate additional cash flow, and hence this new cash flow is capitalized into the financial asset balance.

In counterpart to acceptance of the terms of renewal of the old transmission concessions, as described in more detail in Note 4, the greater part of the transmission assets of the old concessions will be the subject of indemnity by the Concession-granting power, having already been written off on December 31, 2012, and an item in Accounts receivable having been posted corresponding to the estimated indemnity to be received.

*Gas distribution activity:* The portion of the assets of the concession that will be amortized in full during the concession is recorded as an Intangible asset and fully amortized over the period of the concession contract.

The amortization is calculated on the balance of the assets linked to the concession by the straight line method, applying amortization rates that reflect the estimated useful life of the assets.

The Company calculates the value of the assets which will not be fully amortized by the end of the concession agreement period, and reports this amount as a financial asset, because it is an unconditional right to receive cash or other financial asset directly from the grantor.

New assets are recorded initially in Intangible assets, valued at acquisition cost, including capitalized borrowing costs. When they start operation they are divided into a financial asset and an intangible asset, in accordance with a criterion mentioned in the previous paragraphs. When an asset is replaced, the net book value of the asset is written down as an expense in the Statement of income.

e) **Intangible assets**

Intangible assets comprise assets relating to: service concession contracts, and software. These are measured at total acquisition cost, less expenses of amortization.

Interest and other financing charges incurred on financings linked to works in progress are appropriated to Intangible assets in progress, and Consortia, during the period of construction.

For borrowings raised for the construction of a specific PP&E asset, the Company allocates all of the financial costs related to the borrowings directly to the respective assets being financed. For other borrowings raised that are not linked directly to a specific PP&E asset, a weighted average rate is established for the capitalization of the costs of

those loans.

For intangible assets linked to the concession, the accounting practices described in the item Assets linked to the concession above are applied.

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f) **Property, plant and equipment**

*Depreciation and amortization:* These are calculated on the balance of property, plant and equipment in service and investments in consortia, on a straight-line basis, using the rates determined by Aneel for the assets related to electricity activities, which reflect the estimated useful life of the assets.

The depreciation rates applied to the Company's property, plant and equipment assets are shown in Note 16 to the financial statements.

Assets not fully depreciated by the end of the concession will be reverted to the Concession-granting power and this non-depreciated portion will be indemnified.

Interest and other financing charges incurred on financings linked to works in progress are appropriated to PP&E assets in progress, and Consortia, during the period of construction.

For borrowings raised for the construction of a specific PP&E asset, the Company capitalizes all of the financial costs related to the borrowings directly to the respective assets being financed. For other borrowings raised that are not linked directly to a specific PP&E asset, a weighted average rate is established for the capitalization of the costs of those loans.

The residual value is the balance remaining of the asset at the end of the concession, thus, as established in a contract signed between the Company and the federal government, at the end of the concession the assets will be reverted to the federal government which, in turn, will indemnify the Company for those assets that have not yet been totally depreciated. In cases where there is no indemnity at the end of the concession, no residual value is recognized, and the depreciation rates are adjusted so that all the assets are depreciated within the concession period. See more details in Note 14.

g) **Impairment**

In assessing impairment, the Company uses historic trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

h) **Benefits to employees**

For the Company's retirement benefit pension plan obligations, the liability recorded in the statement of financial position is the greater of: (a) the debt agreed upon with the foundation for amortization of the actuarial obligations, and (b) the present value of the actuarial obligation, as calculated by a qualified actuary, less the fair value of the plan's assets, and adjusted for unrecognized actuarial gains and losses. In the business years presented, the expenses related to the debt agreed upon with the pension fund were registered in Financial revenue (expenses), because they represent interest and monetary updating. The other expenses on the pension fund were recorded as operational expenses.

*Short-term benefits to employees:* Employees' profit shares specified in the Company's by-laws are accrued for in accordance with the collective agreement established with the employee unions and recorded in Employees' and managers' profit shares in the Statement of income.

i) Income and Social Contribution taxes

Deferred income tax and Social Contribution tax assets are reviewed at each financial position date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

j) Operational revenue

In general, for the Company's business in the electricity, gas, telecommunications and other sectors, revenues are recognized when there is persuasive evidence of agreements, when delivery of merchandise takes place or when the services are provided, the prices are fixed or determinable, and receipt is reasonably assured, independently of whether the money has actually been received.

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Revenues from sale of electricity are recorded based on the electricity delivered and the tariffs specified in the terms of the contract or in effect in the market. Revenues from retail supply of electricity to final consumers are recorded when the delivery has taken place. The billing is carried out monthly. Unbilled retail supply of electricity, 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. The differences between the estimated amounts accrued and the actual revenues realized are recorded in the following month.

Revenue from the supply of electricity to the Brazilian grid system is recorded when the delivery has taken place and is invoiced to consumers on a monthly basis, in accordance with the payment schedules specified in the concession agreement.

For the older transmission concessions, granted before 2000, the fair value of the operation and maintenance of the transmission lines and the remuneration of the financial asset are recorded as revenue in the Statement of income for each period.

The services provided include charges for connection and other related services; the revenues are accounted when the services are provided.

The Portion A revenue and the Other financial items related to tariff adjustments are recognized in the statement of income when the costs effectively incurred are different from those incorporated into the electricity distribution tariff. For more details, see Note 14.

The gain on adjustment of expectation of cash flow from the indemnifiable financial asset of the distribution concession arising from the variation in the fair value of the Remuneration Asset Base is presented as operational revenue, together with the other revenues related to the Company's end-activity.

### **k) Financial revenue and expenses**

Financial revenue includes interest income on funds invested, fee income for consumer payments made late, interest income on financial assets of the concession, and interest income on other financial assets. Interest income is recognized in the Statement of income using the effective interest method.

Financial expenses include: interest expense on borrowings; and foreign exchange and monetary variation on borrowing cost of debt, financings and debentures. Interest expense on the Company's borrowings that is not capitalized is recognized in the Statement of income using the effective interest method.

### **l) Segment reporting**

The operating results of all operating segments for which discrete financial information is available are reviewed regularly by the Company's CEO, to make decisions about resources to be allocated to the segment, and to assess its performance.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters) and head office expenses.

Segment capital expenditure is the total cost incurred during the year to acquire: the Financial assets of the concession; Property, plant and equipment; and Intangible assets other than Goodwill.

m) Determination of the adjustment to present value

The Company has applied adjustment to present value to certain concession contracts held for consideration, and also to the balance of debentures issued by the Company. Discount rates were used that are compatible with the cost of funding in transactions with the same maturity on the date of the transactions. These rates are: 12.50% for the small hydro plants and 5.10% for the conventional hydroelectric plants.

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**2.8 Restatement of the Income Statement for the years ended December 31, 2015 and 2014**

The Company, in order to more adequately present its financial and operational performance, concluded that the adjustment related to the expectation of cash flow from the indemnifiable financial asset of the distribution concession should be presented as an operating revenue, instead of financial revenue, under net financial revenue (expenses), as originally presented, in order to be presented together with the other revenues related to its core business. This classification results in a more adequate presentation of the energy distribution business performance and provides a better presentation of the company's performance.

This conclusion is based in the following facts:

- i. Investing in infrastructure is an inherent activity of the energy distribution business, which business model is supported by the construction, maintenance and operation of this infrastructure;
  - ii. Part of the energy distribution industry, as well as the energy transmission industry, already adopts this classification, hence the Company will be increasing the comparability of its financial statements with others;
  - iii. As a result of the inflation increase in the past years faced by the country, which directly impacted the increase in the financial asset of the concession, impacted the importance of this revenue in the income statement.
- In accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the Company changed the accounting policy previously adopted to an accounting policy that better presents its business performance (as described in the above mentioned topics). Therefore, the corresponding figures in the financial statements relating to the consolidated income statement for the year ended December 31, 2015 and 2014, presented for purposes of comparison, were retrospectively reclassified and are being restated for purposes of comparison. The reclassification does not change the total consolidated assets, consolidated equity, net income, statements of comprehensive income and cash flow.

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The consolidated income statement for the year ended December 31, 2015, presented for purposes of comparison, is as follows:

	2015	Ajustment	2015 Restated
<b>NET REVENUE</b>	<b>21,292</b>	<b>576</b>	<b>21,868</b>
<b>OPERATING COSTS</b>			
<b>COST OF ELECTRICITY AND GAS</b>			
Electricity purchased for resale	(9,542)		(9,542)
Charges for use of the national grid	(999)		(999)
Gas bought for resale	(1,051)		(1,051)
	(11,592)		(11,592)
<b>OTHER COSTS</b>			
Personnel and managers	(1,143)		(1,143)
Materials	(126)		(126)
Outsourced services	(740)		(740)
Depreciation and amortization	(811)		(811)
Operating provisions	(23)		(23)
Infrastructure construction cost	(1,252)		(1,252)
Other	(96)		(96)
	(4,191)		(4,191)
<b>TOTAL COST</b>	<b>(15,783)</b>		<b>(15,783)</b>
<b>GROSS PROFIT</b>	<b>5,509</b>	<b>576</b>	<b>6,085</b>
<b>OPERATING EXPENSES</b>			
Selling expenses	(175)		(175)
General and administrative expenses	(674)		(674)
Operating provisions	(1,203)		(1,203)
Other operating expenses	(482)	30	(452)
	(2,534)	30	(2,504)
Equity method gains in non-consolidated investees	393		393
Fair value results in Corporate Operation	729		729
<b>Income before Financial income (expenses) and taxes</b>	<b>4,097</b>	<b>606</b>	<b>4,703</b>
Financial revenues	1,469	(606)	863
Financial expenses	(2,204)		(2,204)
<b>Income before income tax and social contribution tax</b>	<b>3,362</b>		<b>3,362</b>
Current income tax and Social Contribution tax	(881)		(881)
Deferred income tax and Social Contribution tax	(12)		(12)
<b>NET INCOME FOR THE YEAR</b>	<b>2,469</b>		<b>2,469</b>



**Total of net income for the year attributed to:**

Interest of the controlling shareholders	2,469	2,469
Interest of non-controlling shareholder		

	<b>2,469</b>	<b>2,469</b>
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Basic and diluted income per preferred share	1.96	1.96
Basic and diluted income per common share	1.96	1.96

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The consolidated income statement for the year ended December 31, 2014, presented for purposes of comparison, is as follows:

	2014	Adjustment	2014 Restated
<b>NET REVENUE</b>	<b>19,540</b>	<b>55</b>	<b>19,595</b>
<b>OPERATING COSTS</b>			
<b>COST OF ELECTRICITY AND GAS</b>			
Electricity purchased for resale	(7,428)		(7,428)
Charges for the use of the national grid	(744)		(744)
Gas purchased for resale	(254)		(254)
	(8,426)		(8,426)
<b>OTHER COSTS</b>			
Personnel and managers	(999)		(999)
Materials	(340)		(340)
Outsourced services	(736)		(736)
Depreciation and amortization	(779)		(779)
Operating provisions	(262)		(262)
Infrastructure construction cost	(942)		(942)
Other	(318)		(318)
	(4,376)		(4,376)
<b>TOTAL COST</b>	<b>(12,802)</b>		<b>(12,802)</b>
<b>GROSS PROFIT</b>	<b>6,738</b>	<b>55</b>	<b>6,793</b>
<b>OPERATING EXPENSES</b>			
Selling expenses	(128)		(128)
General and administrative expenses	(654)		(654)
Operating provisions	(190)		(190)
Other operating expenses	(677)	3	(674)
	(1,649)	3	(1,646)
Equity in earnings of unconsolidated investees, net	210		210
Gain on acquisition of control of investee	281		281
<b>Income before Financial income (expenses) and taxes</b>	<b>5,580</b>	<b>58</b>	<b>5,638</b>
Financial revenues	593	(58)	535
Financial expenses	(1,694)		(1,694)
<b>Income before income tax and social contribution tax</b>	<b>4,479</b>		<b>4,479</b>
Current income and social contribution taxes	(1,259)		(1,259)
Deferred income and social contribution taxes	(83)		(83)
<b>NET INCOME FOR THE YEAR</b>	<b>3,137</b>		<b>3,137</b>



**Table of Contents****3. PRINCIPLES OF CONSOLIDATION**

The financial statements date of the subsidiaries and jointly-controlled entities, used for the purposes of calculation of consolidation and equity in earnings of unconsolidated investees coincide with those of the Company.

The Company uses the criteria of full consolidation for the following companies which are direct equity investments of Cemig:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Dec. 31, 2014</b>
	<b>Direct interest %</b>	<b>Direct interest %</b>	<b>Direct interest %</b>
Cemig Geração e Transmissão	100.00	100.00	100.00
Cemig Distribuição	100.00	100.00	100.00
Gasmig	99.57	99.57	99.57
CemigTelecom	100.00	100.00	100.00
Rosal Energia	100.00	100.00	100.00
Sá Carvalho	100.00	100.00	100.00
Horizontes Energia	100.00	100.00	100.00
Usina Térmica Ipatinga	100.00	100.00	100.00
Cemig PCH	100.00	100.00	100.00
Cemig Capim Branco Energia			100.00
Cemig Trading	100.00	100.00	100.00
Efficientia	100.00	100.00	100.00
Cemig Comercializadora de Energia Incentivada	100.00	100.00	100.00
UTE Barreiro (Barreiro Thermal Plant)	100.00	100.00	100.00
Empresa de Serviços e Comercialização de Energia Elétrica	100.00	100.00	100.00

**a) Subsidiaries and jointly-controlled entities**

The financial statements of subsidiaries are included in the consolidated financial statements as from the date on which the control starts until the date on which the control ceases to exist. The assets, liabilities and profit (loss) of the subsidiaries were consolidated using full consolidation. The accounting policies of the subsidiaries and jointly-controlled entities are aligned with the policies adopted by the Company. The financial information of the jointly-controlled entities is recognized by the equity method of accounting.

**b) Consortia**

The assets, liabilities, and profits (losses) of a consortium are recorded in accordance with the percentage interest held in the consortium, since these investments are considered to be joint operations in accordance with the requirements of IFRS11.



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**c) Transactions eliminated in consolidation**

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with investee companies recorded by the equity method are eliminated against the investment in proportion to the Company's equity interests in the investee. Unrealized losses are eliminated in the same way as unrealized gains are eliminated, but only up to the point at which there is no evidence of impairment.

The financial statements of Transchile, for the purposes of calculations by the equity method, are converted from US dollars (the functional currency of Transchile) to Reais based on the exchange rate at last quoted day of the year, since Cemig's functional currency is the Real. Foreign currency differences are recognized in Other comprehensive income and presented in equity up to the date of the sale of the interest in Transchile. After conclusion of the sale, the amount recognized in Other comprehensive income, in Equity, was transferred in full to the Income statement. In 2016, the whole of Cemig's interest in Transchile was sold to Ferrovia Transco Chile SpA., a company controlled by Ferrovia S.A. For fuller details please see Note 15.

The consolidated financial statements include the balances and transactions of the investment funds in which the Company and its subsidiaries and jointly-held subsidiaries are the sole unit holders. These funds comprise public securities, private securities and debentures of companies which have low risk classification, ensuring high liquidity.

These investment funds, the financial statements of which are regularly reviewed/audited, are subject to limited obligations, namely payment for services provided by the administrators of the assets, attributed to the operation of the investments, such as charges for custody, auditing and other expenses, and there are no significant financial obligations, nor are there assets of the unit holders to guarantee those obligations.

**Table of Contents****4. CONCESSIONS AND AUTHORIZATIONS**

Cemig and its subsidiaries hold the following concessions and authorizations, from the National Electricity Agency, Aneel:

	<b>Location</b>	<b>Date of concession or authorization</b>	<b>Expiration date</b>
<b>GENERATION</b>			
<b>Hydroelectric plants</b>			
São Simão (1)	Rio Paranaíba	01/1965	01/2015
Emborcação	Rio Paranaíba	07/1975	07/2025
Nova Ponte	Rio Araguari	07/1975	07/2025
Jaguara (1)	Rio Grande	08/1963	08/2013
Miranda (1)	Rio Araguari	12/1986	12/2016
Três Marias	Rio São Francisco	01/2015	01/2045
Volta Grande	Rio Grande	02/1967	02/2017
Irapé	Rio Jequitinhonha	01/1999	02/2035
Salto Grande	Rio Santo Antônio	01/2015	01/2045
Queimado	Rio Preto	11/1997	01/2033
Itutinga	Rio Grande	01/2015	01/2045
Camargos	Rio Grande	01/2015	01/2045
Piau	Rio Piau / Pinho	01/2015	01/2045
Gafanhoto	Rio Pará	01/2015	01/2045
Cachoeirão SHP	Rio Manhuaçu	07/2000	07/2030
Santo Antônio	Madeira	06/2008	06/2043
Baguari	Rio Doce	08/2006	08/2041
Pipoca SHP	Rio Manhuaçu	09/2001	09/2031
Other	Various	Various	Various
<b>Wind farms (2)</b>			
Morro do Camelinho	Gouveia Minas Gerais	03/2000	01/2017
Praias do Parajuru	Beberibe Ceará	09/2002	08/2029
Volta do Rio	Acaraú Ceará	12/2001	08/2034
Praia de Morgado	Acaraú Ceará	12/2001	08/2034

<b>Thermal plants</b>			
Igarapé	Juatuba Minas Gerais	01/2001	08/2024
Barreiro	Belo Horizonte, Minas Gerais	02/2002	04/2023
<b>TRANSMISSION</b>			
National grid	Minas Gerais	07/1997	07/2015
Itajubá Substation	Minas Gerais	10/2000	10/2030
<b>DISTRIBUTION</b>	Minas Gerais	01/2016	12/2045

(1) The extension of the concession specified in the concession contract is not included in these figures. See details in this Note.

(2) Permission to operate the activity of wind power generation is given by means of authorizations.

#### **Generation concessions**

In the generation business, the Company sells electricity: (1) through auctions to distributors to meet the demands of their captive markets; and (2) to Free Consumers in the Free Market (*Ambiente de Contratação Livre*, or ACL). In the Free Market, electricity is traded by generation concession holders, Small Hydro Plants (SHPs), self-producers, traders, and importers of electricity.

Free Consumers are those that have demand of more than 3MW at a voltage of 69kV or higher, or at any voltage if their supply began after July 1995.



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A consumer that has opted for the Free Market may return to the regulated system only if it gives its distributor five years' prior notice. The purpose of this period of notice is to ensure that if necessary the distributor will be able to buy additional electricity to supply the re-entry of Free Consumers into the Regulated Market. The state-controlled generators can sell electricity to Free Consumers but, unlike the private generators they are obligated to do so through an auction process.

**Auctions of electricity generation concessions**

In November 2015, Cemig GT took part in Auction 12/2015 and won the concessions for Lot D. This was for 18 plants shown below for five of which the concession had been previously held by Furnas S.A.:

<b>Generating plant</b>	<b>Concession expiry date</b>	<b>Installed capacity (MW)</b>	<b>Average physical offtake guarantee level ( Assured Energy ) MW</b>
Três Marias Hydroelectric Plant	Jan. 2045	396.00	239.00
Salto Grande Hydroelectric Plant	Jan. 2045	102.00	75.00
Itutinga Hydroelectric Plant	Jan. 2045	52.00	28.00
Camargos Hydroelectric Plant	Jan. 2045	46.00	21.00
Piau Small Hydroelectric Plant	Jan. 2045	18.01	13.53
Gafanhoto Small Hydroelectric Plant	Jan. 2045	14.00	6.68
Peti Small Hydroelectric Plant	Jan. 2045	9.40	6.18
Tronqueiras Small Hydroelectric Plant	Jan. 2045	8.50	3.39
Joasal Small Hydroelectric Plant	Jan. 2045	8.40	5.20
Martins Small Hydroelectric Plant	Jan. 2045	7.70	1.84
Cajuru Small Hydroelectric Plant	Jan. 2045	7.20	2.69
Paciência Small Hydroelectric Plant	Jan. 2045	4.08	2.36
Marmelos Small Hydroelectric Plant	Jan. 2045	4.00	2.74
Coronel Domiciano Small Hydroelectric Plant (1)	Jan. 2045	5.04	3.59
Dona Rita Small Hydroelectric Plant (1)	Jan. 2045	2.41	1.03
Ervália Small Hydroelectric Plant (1)	Jan. 2045	6.97	3.03
Neblina Small Hydroelectric Plant (1)	Jan. 2045	6.47	4.66
Sinceridade Small Hydroelectric Plant (1)	Jan. 2045	1.42	0.35
		<b>699.60</b>	<b>420.27</b>

(1) Plants for which the concession was previously held by Furnas.

Please note that the information presented in this table on installed capacity, guaranteed average offtake, and other operational information is not part of the scope of an audit of financial statements, and has thus not been examined by the external auditors.

For more information please see Note 14.

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### **Renewal of the concessions of the *Jaguara*, *São Simão* and *Miranda* Hydroelectric Plants**

The company believes that it has the right to completion of periods of these concessions, based on the original terms of the Concession Contracts, and is currently arguing this in the courts.

#### **The *Jaguara* hydroelectric plant**

As specified in the Concession Contract for the *Jaguara* Plant, the Company applied for the extension of the concession. The Mining and Energy Ministry ( MME ) refused the Company's application, on the grounds that the application was made outside the time limits set by Law 12783/13.

On June 20, 2013, Cemig GT obtained an interim injunction in its application to the Higher Appeal Court (*Superior Tribunal de Justiça*, or STJ) for order of *mandamus* No. 20.432/2013, against the decision of the MME not to entertain the application for extension of the period of concession of the *Jaguara* plant (424MW capacity, with average 336 MW assured offtake), which had an expiration date on August 28, 2013. The interim remedy, given by Reporting Justice Sérgio Kukina, ensured that Cemig GT would continue to operate the concession for the *Jaguara* plant until final judgment in the action. On August 23, 2013, Reporting Justice Sérgio Kukina ruled that the application for *mandamus* had failed.

On August 30, 2013 the STJ granted an interim order, published on September 3, 2013, in a new application for *mandamus* in the STJ, against the decision by the Mining and Energy Ministry which, in a dispatch published on August 23, 2013, refused, on its merits, the application by Cemig GT for extension of the concession of the *Jaguara* Plant under its Concession Agreement. This interim order gave Cemig GT the right to remain in control of the *Jaguara* Plant, commercially operating the public service concession granted to it, until final judgment of the case.

On June 24, 2015 the judgment on the application for *mandamus* brought by Cemig GT was completed. With all the votes given by the Justices of the first Section of the STJ, the applications made by Cemig GT were defeated by six judgment votes to 2.

On September 22, 2015, Cemig GT filed a further action, for Provisional Remedy, with the Federal Supreme Court (*Supremo Tribunal Federal*, or STF), to maintain ownership of the concession for the *Jaguara* plant, on the initial bases of the concession agreement.

On November 3, 2015, the Reporting Justice of the Federal Supreme Court published a Dispatch requesting a position from the parties on their interest in holding a reconciliation hearing, due to the complexity and importance of the debate on the subject in the action for Provisional Remedy. On November 4, 2015, Cemig filed a statement with the Court stating its interest in such a hearing.

On December 21, 2015, Supreme Court Justice Dias Toffoli, rapporteur of the case, granted the application for interim injunction made by the Company, to suspend the effects of the judgment of the First Section of the STJ, and keep Cemig GT in possession of the concession to operate the *Jaguara* plant, on the initial bases of the concession agreement, until such time as the Supreme Court might make a decision to the contrary. On February 1, 2016, the decision granting the application for interim injunction applied for was published.



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On February 15, 2016 the Panel Judgment of the STJ was published, containing the decision of the First Section of that Court, which refused to grant mandamus and refused the Special Appeal.

On February 22, 2016, in the STF, the Reporting Justice issued a Dispatch extending continuity of the Reconciliation Hearing between Cemig GT and the federal government; the parties are currently awaiting a further dispatch to set a new date for continuation of that hearing, begun on December 15, 2015.

On March 1, 2016 the Company filed an Ordinary Appeal with the STJ against the panel judgment of February 15, 2016, and on April 11, 2016 the Justice Deputy Chair of the STJ issued a decision accepting that this Ordinary Appeal should be heard, and ordered it to be submitted to the STF.

On March 21, 2017 the Federal Supreme Court revoked the interim order given in the case in which Cemig GT is requesting suspension, until final judgment on the Ordinary Appeal by the Supreme Court, of the effects of the judgment of the First Section of the Supreme Court which refused to grant an order to maintain Cemig GT's ownership of the concession for the Jaguará Plant on the initial bases of Concession Contract 007/97. The judgment remitted the case records to the office of the Procurator-General of the Republic (PGR), for that body to state its opinion.

On December 31, 2016 the asset, at book value of R\$ 41, is posted in PP&E, and in 2016 the Company recognized the plant's revenues from sales of power supply, and operational costs, since it remained in control of the asset during this period.

On March 29, 2017 Cemig GT filed an Internal Appeal against the decision that repealed the remedy, requesting a revision of judgment, to allow cognizance to be taken of a Special Appeal.

**The São Simão hydroelectric plant**

On June 3, 2014, the Company filed a request for extension of the concession of the *São Simão* Hydroelectric Plant, since it believes that the concession contract for this plant is not subject to the new rules created by Provisional Measure 579 (which became Law 12783/2013).

On August 5, 2014, the Council of Aneel decided to recommend to the Mining and Energy Ministry (MME) that renewal of the concession for the São Simão plant should be refused.

On August 29, 2014, the Mining and Energy Minister decided to refuse the request for extension of the period of concession of the São Simão plant, based on Opinion 559/2014/CONJURMME/CGU/AGU.

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On September 10, 2014, Cemig GT filed a Hierarchy Appeal with the MME, with request for reconsideration, for the Mining and Energy Minister to reconsider his decision and to grant the Company's request based only on the Concession Contract; and, successively, that the appeal should be sent to the President of the Republic, so that the President should issue a decision in favor of the Company's request in the same terms. This appeal is still pending, awaiting consideration by the MME.

Notwithstanding this, on December 15, 2014 Cemig GT filed an application for mandamus (No. 21465/DF), with the Higher Appeal Court (STJ), requesting interim relief, against an illegal act by the Mining and Energy Minister, violating net and certain right of the plaintiff, for the purpose of obtaining extension of the period of concession of the São Simão plant, based on the Concession Contract.

On December 17, 2014, Justice Mauro Campbell granted an interim order (published on December 19, 2014) that Cemig GT should remain in control of the plant, commercially operating the public service concession conceded to it, until the final judgment on application for mandamus governing the *Jaguara* plant, or until a re-examination of the remedy just refused.

When the judgment in the application for mandamus governing the *Jaguara* plant was concluded, with rejection of the application, the Reporting Justice revoked the interim remedy given in the Application for mandamus relating to the *São Simão* plant, the decision on which was published on June 30, 2015.

On July 3, 2015, Cemig GT filed a Special Appeal for retraction of the decision by the Reporting Justice, or, if the court should not be of that opinion, that the appeal referred to should be submitted to consideration by the First Section of the STJ, for an interim remedy ordering that the Company should continue to hold the concession for the São Simão Plant, on the initial bases of the Concession Contract.

On July 10, 2015, the Energy Planning and Development Department (*Secretaria de Planejamento e Desenvolvimento Energético*) sent an official letter to Cemig GT requiring it to state whether the Company would be interested in remaining in possession of the *São Simão* Plant, on the new bases of Law 12783/13, until its assumption by the winner of a new tender to be held, in view of the repeal of the interim remedy.

In response to this new event, on July 22, 2015 Cemig GT filed a petition with the Chair of the STJ requesting the application for retraction made within the Special Appeal, in such a way that, through reconsideration of the decision appealed against, an interim remedy should be granted, to keep the Company as holder of the concession of the São Simão Plant, on the initial basis of the Concession Agreement, until final judgment be given on this application for mandamus, or, subsidiarily, that, at least, suspension effect should be attributed to the Special Appeal.

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On August 20, 2015 it was stated that the MME would take the necessary measures to designate Cemig GT as provider of electricity generation service through the São Simão plant, under the quota regime, on the basis that the revocation of the interim order given in the application for mandamus had immediate enforceability.

In response, Cemig GT stated interest in remaining responsible for the provision of the electricity generation service of the São Simão plant, but pointed out that there are doubts as to the type, and legal security, of this provision of services, since the matter was still pending court and administrative decisions.

The MME, by Ministerial Order 432/2015, published on September 15, 2015, designated Cemig GT as the party responsible for provision of electricity generation service through the São Simão plant, under the quota regime (being responsible for the operation and maintenance of the plant without, however, having the right to its output of electricity, which will be allocated to the Guaranteed Power Offtake Auctions) until the taking over of the concession by the winner of the auction.

Further, in the judiciary, Cemig GT filed a further application for mandamus, to Justice Mauro Campbell Marques, requesting an annulment of the act of coercion, and assertion of the interim remedy that authorized the applicant to remain in possession and operation of the concession of the São Simão plant, on the initial bases of the contract, until final judgment was given on the application for mandamus governing the São Simão plant or, subsidiarily, until the merit of the Special Appeal would be considered.

On September 8, 2015, the decision of the Reporting Justice (Justice Herman Benjamin) was published, refusing the application for interim remedy applied for by the Company.

Also on September 8, 2015, a Special Appeal was filed against the decision of Justice Herman Benjamin that refused the application for interim remedy that had been made. During the Session of the Special Court of the STJ, on November 4, 2015, the Special Appeal was unanimously refused, in the terms of the judgment of the Reporting Justice.

On November 25, 2015, the Special Appeal filed by Cemig GT against the decision that overturned the interim remedy, in application for mandamus N° 21.465/DF, was, unanimously, refused by the first Section of the STJ, the said Appeal Court Judgment being published on December 1, 2015, the judgment on the merits of this application for mandamus remaining to be heard.

On March 6, 2017 the STJ granted an interim remedy maintaining Cemig GT in possession of the concession to operate the São Simão plant on the initial terms of its Concession Contract 007/1997, until conclusion of the judgment of the Company's application for mandamus.

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On March 28, 2017 the interim remedy was revoked in the case in which Cemig GT seeks, in the STJ, annulment of the decision of the Mining and Energy Ministry (MME) which refused, on its merits, the application by Cemig GT for extension of the period of concession of the São Simão hydro Plant, in the terms of its Concession Contract.

Considering the present status of the legal dispute, the Company:

recognized, up to the date of September 15, 2015, the operational revenues from sales of power supply and costs of this plant, in accordance with current accounting practices, in view of the fact that it remained in control of the asset up to that date;

considering the requirements of Ministerial Order 432/2015, as from September 16, 2015, ceased to recognize the expenses of depreciation on the São Simão plant, and began to recognize revenues relating to the provision of services of operation and maintenance of the plant, in accordance with the regime of quotas;

transferred, on September 16, 2015, the amount of R\$ 220 from its PP&E to the account line Other long term assets, considering that it is still under decision in the Courts. Based on the terms of the concession agreement, this asset is considered as having a recovery value higher than the value at which it is recorded.

### Concession of the *Miranda* Hydroelectric Plant

On June 10, 2016, Cemig Geração e Transmissão filed application to the regulator, Aneel, to extend the period of the concession for the *Miranda* Hydroelectric Plant for 20 years. On July 12, 2016, Aneel, complying with the judgment vote of the Reporting Council Member in the case, José Jurhosa Junior, decided to submit the case *to the Mining and Energy Ministry with the recommendation not to give cognizance to the request by Cemig Geração e Transmissão S.A. Cemig GT for extension of the period of concession of the Miranda Hydroelectric Plant, since that request was made outside the period stipulated by Law 12783/2013*.

Cemig GT filed a request with the Concession-granting power requesting extension of the concession for the *Miranda* Hydroelectric Plant under Concession Contract 007/1997 this plant had a period of the concession expiring on December 23, 2016.

Considering that this request was not accepted by the Mining and Energy Ministry, Cemig GT applied to the Higher Appeal Court (STJ) for an interim remedy. This was granted on December 22, 2016, ordering that control of the *Miranda* hydroelectric plant should remain with the Company, on the initial bases of Concession Contract 007/1997, until completion of the judgment in the application for Mandamus made by the Company.

On December 31, 2016 the asset, with book value of R\$ 756, is posted in PP&E, and in 2016 the Company recognized the revenue from sales of power supply, and operational costs, of this plant, since it remained in control of the asset during that period.





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On March 29, 2017, the interim remedy (injunction) given in application for mandamus number 23.042/DF, before the Higher Appeal Court (STJ), brought by the Company to annul the decision by the Mining and Energy Ministry (MME) which refused, on merits Cemig GT's request for ratification of the extension of its concession for the Miranda Hydroelectric Plant, under its Concession Contract, number 007/97, was revoked.

**Administrative proceedings – Material Announcement of February 21, 2017**

Subsidiarily to its request for extension for 20 years of the concessions of the Jaguará, São Simão and Miranda Hydroelectric Plants, the Company requested opening of an Administrative Proceeding under Paragraph 1-C of Article 8 of Law 12783/2013, in benefit of Cemig GT.

Paragraph 1-C was added to Article 8 of Law 12783, of 2013, by Law 13360, of November 17, 2016, and enables the federal government to grant a concession contract for electricity generation for a period of 30 (thirty) years when there is transfer of control of a legal entity that is already providing this service (in this case, one of the subsidiaries of Cemig GT), and is under direct or indirect control of an individual State, or the Federal District, or the municipality, provided that:

I – the tender, which may be by auction or by competitive bidding, is held by the controlling shareholder on or before February 28, 2018; and

II – the transfer of control takes place by June 30, 2018.

The subsidiary request was made on the grounds of the spirit of conciliation and cooperation that should govern the relationship between a concession holder and the concession-granting power, and the constant quest, at all times, for alternatives that present the best solution for consumers, for the country and for the shareholders of the Company – who in this case include the people of the state of Minas Gerais.

Thus, in the event that the Ministry decides to maintain its position, and if all the court judgments that have determined that Law 12783/2013 should prevail to the detriment of the provisions of the Second Subclause of Clause 4 of Contract CEMIG 007 of 1997 are maintained, Cemig GT has requested, for the benefit of one of its subsidiaries, application of the rule that is now contained in §1-C of Article 8 of Law 12783 of 2013.

We would point out that the presentation of the Subsidiary Request does not result in any waiver by Cemig GT of its right – which is the subject of the legal actions that it currently has in progress against the federal government – that is to say its right to guaranteed extension of the concessions as specified in Clause 4 of Concession Contract 007/1997.

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On the same date the Company filed with the MME a response to the formal question as to its interest in remaining as provider of electricity generation service after the ending of the concession period of the *Volta Grande* Hydroelectric Plant, which took place on February 23, 2017. In this response, and adding a request of its own, the Company stated its interest in remaining responsible for the provision of electricity generation service by this hydroelectric plant, and also requested opening of an administrative proceeding for the purposes of §1-C of Article 8 of Law 12783/2013, also to the benefit of one of the service providing subsidiaries of Cemig GT.

Management continues to be confident of its right in relation to the *Jaguara*, *São Simão* and *Miranda* plants, supported by a contractual clause, by the legislation in force, and by opinions issued by renowned jurists. The Company's internal and external legal advisers have categorized the chance of success in the court dispute as possible.

**Transmission concessions**

Under its transmission concession contracts, the Company is authorized to charge the Tariff for Use of the Transmission System (*Tarifa de Uso do Sistema de Transmissão*, or TUST). Tariffs are adjusted annually on the same date as the adjustments of the Permitted Annual Revenue (*Receitas Anuais Permitidas*, or RAP) of the holders of transmission concessions. This tariff period starts on July 1 of the year of publication of the tariffs and runs until June 30 of the subsequent year.

The service of transport of large quantities of electricity for long distances, in Brazil, is provided by a network of transmission lines and substations operating at a voltage of 230kV or higher, referred to technically as the Basic Grid (*Rede Básica*), or National Grid.

Any agent of the electricity sector that produces or consumes electricity has the right to use the National Grid, as does the consumer, provided certain technical and legal requirements are met. This is referred to as Open Access, and in Brazil is guaranteed by law and by the regulator, Aneel.

The payment for use of transmission service also applies to generation provided by Itaipu Binacional. However, due to the legal characteristics of that plant, the corresponding charges are assumed by a number of holders of distribution concessions that hold quotas of its output.

For the newer transmission concessions granted after the year 2000 the portion of the assets that will not be used up during the concession is recorded as a financial asset, because there is an unconditional right to receive cash or other financial assets directly from the grantor at the end of the concession agreement period.

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For the older transmission concessions, granted before the year 2000, renewals have been applied for as from January 1, 2013 in accordance with Law 12783, under which the assets are the property of the Concession-granting Power, and the Company is remunerated, as from 2013, for the operation and maintenance of these assets.

### **Distribution of electricity concessions**

Cemig D has the concession from Aneel for commercial exploration of the activity of distribution of electricity in the greater part of the State of Minas Gerais, expiring in December 2045.

As determined by the concession contract, all assets and facilities that are linked to the provision of the distribution service and which have been created by the concession holder are considered reversible and part of the assets of the related concession. These assets are automatically reverted to the Grantor at the end of the contract, and are then valued to determine the amount of the indemnity payable to the concession holder, subject to the amounts and the dates on which they were incorporated into the electricity system.

The Company does not have obligations to make payment in compensation for commercial operation of the distribution concessions, but is required to comply with requirements related to quality, and investments made, in accordance with the concession contract.

The concession contracts, and the Brazilian legislation, establish a mechanism of maximum prices that allows for three types of adjustment to tariffs: (i) an annual tariff adjustment; (ii) periodic review of tariffs; and (iii) extraordinary reviews.

Each year the Company has the right to request the annual adjustment, the purpose of which is to compensate for the effects of inflation on the tariffs, and to allow for certain changes in costs that are outside the Company's control to be passed through to clients—for example the cost of electricity purchased for resale, and sector charges, including charges for the use of the transmission and distribution facilities.

Also, Aneel makes a Periodic Review of tariffs every five years, which aims to identify changes in the Company's costs, and to establish a factor based on scale gains, which will be applied in the annual tariff adjustments, for the purpose of sharing such gains with the Company's consumers.

The Company also has the right to request an extraordinary review of tariffs, in the event that any unforeseen development significantly alters the economic-financial equilibrium of the concession. The Periodic Review and the Extraordinary Review are subject, to a certain degree, to the discretion of Aneel, although there are pre-established rules for each cycle of revision. When the Company requests an annual tariff adjustment, it becomes necessary to prove the resulting financial impact of these events on operations.

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Under the distribution concession contracts, the Company is authorized to charge consumers a tariff consisting of two components: (i) One part relating to electricity purchased for resale, charges for use of the transmission grid and charges for use of the distribution system that are not under its control ( Portion A costs ); and (ii) a portion relating to operating costs ( Portion B costs ).

### **Renewal of concessions**

On December 21, 2015 the Company signed, with the Mining and Energy Ministry, the Fifth Amendment to its concession contracts, extending its electricity distribution concessions for a further 30 years, as from January 1, 2016.

The principal characteristics and terms of the Amendment are as follows:

The annual tariff adjustment will take place on May 28 of each year, the first to be in 2016. For this first adjustment the rules specified in the previous concession contract will be applied. For the subsequent tariff adjustments the rules in Clause 6 of the Amendment will be applied.

Limitation of distribution of dividends and/or payment of Interest on Equity to the minimum established by law, if there is non-compliance with the annual indicators for outages for two consecutive years, or for three in any five years, until the regulatory parameters are restored.

Requirement for injections of capital from the controlling shareholder in an amount sufficient to meet the minimum conditions for economic and financial sustainability.

Subject to the right to full defense and right of reply, for the concession to be maintained, compliance is required with efficiency criteria for continuity of supply and for economic and financial management, as follows: (i) for five years from January 1, 2016, any non-compliance for two consecutive years, or non-compliance with any of the conditions at the end of five years, will result in extinction of the concession; (ii) as from January 1, 2021, any non-compliance for three consecutive years with the criteria of efficiency in continuity of supply, or for two consecutive years with the criteria of efficiency in economic and financial management, will result in proceedings to establish expiration of the concession.

### **Distribution of gas concessions**

The concessions for distribution of natural gas are given by Brazilian states, and in the state of Minas Gerais the tariffs for natural gas are set by the regulatory body, the State's Economic Development Secretariat, by market segment. The tariffs comprise a portion for the cost of gas and a portion for the distribution of gas. Every quarter the tariffs are adjusted to pass through the cost of gas, and once a year they are adjusted to update the portion allocated to cover the costs relating to the provision of the distribution service remuneration of invested capital and to cover all the operating, commercial and administrative expenses of the concession holder.

In addition to these adjustments, in April 2015 the Economic Development Secretariat sent Gasmig Official Letter SEDE/GAB/Nº303/2014 stating the timetable set for the first Tariff Review cycle. The decision process is still in progress; the latest estimated date for its completion is the beginning of the second half of 2017. These reviews occur every five years, to evaluate the changes in the costs of the Company, and to adapt the tariffs. The Concession Contract also specifies the possibility of an extraordinary review of tariffs if any event occurs that puts the economic-financial balance of the Concession at risk.

On December 26, 2014 the Second Amendment to the Concession Contract was signed by Gasmig and the Minas Gerais State Government, extending by 30 years the period of concession in which Gasmig may commercially operate the services of industrial, commercial, institutional and residential piped gas in the state of Minas Gerais. The expiration date of the contract is thus now extended from January 10, 2023 to January 10, 2053.

**Table of Contents****Concessions payable**

In obtaining the concessions for construction of certain generation projects, the Company undertook to make payments to Aneel, over the period of the contract, as compensation for the commercial operation. The information on the concessions and the amounts to be paid is as follows:

<b>Enterprise</b>	<b>Percentage interest</b>	<b>Nominal value in 2016</b>	<b>Present value in 2016</b>	<b>Amortization period</b>	<b>Updating index or</b>
Irapé	100.00	35	14	03/2006 to 02/2035	IGP-M
Queimado (Consortium)	82.50	9	4	01/2004 to 12/2032	IGP-M
Salto Morais Small Hydro Plant	100.00			06/2013 07/2020	IPCA
Rio de Pedras Small Hydro Plant	100.00	1	1	06/2013 09/2024	IPCA
Various Small Hydro Plants (*)	100.00	4	3	06/2013 08/2025	IPCA

(\*) Luiz Dias, Poço Fundo, São Bernardo and Xicão.

The concessions to be paid to the concession-granting power provide for monthly portions with different values over time. For the purposes of accounting and recognition of costs, due to the understanding that they represent an Intangible Asset related to the right of commercial operation, they are recorded as from the date of signature of the contracts at the present value of the payment obligation.

The portions paid to the Concession-granting power in 2016, the present value and the nominal value of the portions to be paid in the forthcoming period of 12 months, are as follows:

<b>Enterprise</b>	<b>Percentage interest</b>	<b>Amounts paid in 2016</b>	<b>Present value of amounts to be paid in 12 months</b>	<b>Nominal value of amounts to be paid in 12 months</b>
Irapé	100.00	2	2	2
Queimado (Consortium)	82.50	1		1

(\*) Luiz Dias, Poço Fundo, São Bernardo and Xicão.

The rates used for discounting of liabilities to present value, of 12.50% for the small hydro plants and 5.10% for the conventional hydroelectric plants, are the average rates for raising of funds in normal conditions on the date of registration of each concession.

## **5. OPERATING SEGMENTS**

The operating segments of Cemig reflect the structure of the regulatory framework for the Brazilian electricity sector, with different legislation for the sectors of generation, transmission and distribution of electricity. The Company also operates in gas, telecommunications, and other businesses, which have a smaller impact on the results from its operations.

These segments are reflected in the Company's management, organizational structure, and monitoring of results. In accordance with the regulatory framework of the Brazilian electricity sector, there is no segmentation by geographical area.



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These tables show the operating revenues, costs and expenses for 2016, 2015 and 2014 in consolidated form:

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	<b>ELECTRICITY</b>				
	<b>GENERATION</b>	<b>TRANSMISSION</b>	<b>DISPATCH</b>	<b>COMMERCE</b>	<b>GAS</b>
<b>OPERATING REVENUES</b>	14.414	4.267	18.166	338	2.73
<b>OPERATING EXPENSES</b>	916		1.602	163	5
<b>OPERATING INCOME</b>	2.217	54			
<b>FINANCIAL REVENUES AND JOINTLY-CONTROLLED ENTITIES</b>	5.292	1.670	1.754	18	
<b>FINANCIAL EXPENSES</b>	5.875	1.113	10.597	125	1.18
<b>FINANCIAL INCOME</b>					
<b>FINANCIAL EXPENSES</b>	(3.071)		(5.260)		
<b>FINANCIAL INCOME</b>	(321)		(760)		
<b>FINANCIAL INCOME</b>					(8)
<b>FINANCIAL INCOME</b>	(3.392)		(6.020)		(8)
<b>FINANCIAL EXPENSES</b>					
<b>FINANCIAL EXPENSES</b>	(271)	(111)	(1.147)	(23)	(4)
<b>FINANCIAL EXPENSES</b>	(1)		(10)	(1)	
<b>FINANCIAL EXPENSES</b>	(54)	(23)	(231)		
<b>FINANCIAL EXPENSES</b>	(11)	(3)	(42)		
<b>FINANCIAL EXPENSES</b>	(129)	(30)	(674)	(23)	(3)
<b>FINANCIAL EXPENSES</b>	(202)		(525)	(38)	(5)
<b>FINANCIAL EXPENSES</b>	(88)	(10)	(544)	(4)	
<b>FINANCIAL EXPENSES</b>		(54)	(1.102)		(3)
<b>FINANCIAL EXPENSES</b>	(57)	(13)	(395)	11	
<b>FINANCIAL EXPENSES</b>	(813)	(244)	(4.670)	(78)	(10)
<b>FINANCIAL EXPENSES</b>	(4.205)	(244)	(10.690)	(78)	(1.04)
<b>FINANCIAL EXPENSES</b>	1.670	869	(93)	47	14
<b>FINANCIAL EXPENSES</b>	(448)	362	(180)	(31)	
<b>FINANCIAL EXPENSES</b>	(763)				
<b>FINANCIAL EXPENSES</b>	190	7	743	4	3
<b>FINANCIAL EXPENSES</b>	(1.320)	(4)	(1.078)	(9)	(4)
<b>FINANCIAL EXPENSES</b>	(671)	1.234	(608)	11	10
<b>FINANCIAL EXPENSES</b>	(24)	5	103	(6)	
<b>FINANCIAL EXPENSES</b>	(695)	1.239	(505)	5	9

**INCOME**

**ed to profit or loss**

statement of obligations of the defined benefit plans, net of taxes	(92)	(380)
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prehensive income in jointly-controlled entities

**to profit or loss**

gain (loss) in other comprehensive income in subsidiary and jointly-controlled entity

ments to the Income statement arising from sale of Transchile	(39)
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**E FOR THE YEAR**

(92)	(39)	(380)
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**e for the year attributed to:**

(787)	(1,200)	(885)	5	9
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OPERATING SEGMENTS, 2015 (RESTATED)						
	GENERATION	TRANSMISSION	DISTRIBUTION	PIPELINE	COMGAS	OTHER
<b>ASSETS</b>	<b>13,382</b>	<b>4,880</b>	<b>17,738</b>	<b>317</b>	<b>2,530</b>	<b>2,986</b>
<b>THE SEGMENT</b>	<b>577</b>		<b>1,044</b>	<b>42</b>	<b>62</b>	<b>1</b>
<b>FINANCIAL ASSETS</b>		<b>146</b>				
<b>IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES</b>	<b>5,751</b>	<b>2,423</b>	<b>1,547</b>			<b>24</b>
	<b>7,047</b>	<b>519</b>	<b>12,962</b>	<b>123</b>	<b>1,395</b>	<b>90</b>
<b>LIABILITIES</b>						
and for resale	(2,669)		(6,993)			
of the national grid	(297)		(814)			
resale					(1,051)	
	<b>(2,966)</b>		<b>(7,807)</b>		<b>(1,051)</b>	
	(224)	(113)	(1,000)	(15)	(43)	(40)
managers' profit shares	(24)	(12)	(95)	(2)		(4)
ilities	(21)	(10)	(121)			(4)
	(95)	(5)	(52)		(2)	
	(143)	(37)	(697)	(25)	(15)	(13)
ortization	(273)		(444)	(49)	(54)	(15)
s (reversals)	(109)	2	(209)	(1)		(1,084)
		(146)	(1,044)		(62)	
enses, net	(62)	(16)	(283)	(20)	(9)	(42)
<b>LIABILITIES</b>	<b>(951)</b>	<b>(337)</b>	<b>(3,945)</b>	<b>(112)</b>	<b>(185)</b>	<b>(1,202)</b>
<b>NET EXPENSES</b>	<b>(3,917)</b>	<b>(337)</b>	<b>(11,752)</b>	<b>(112)</b>	<b>(1,236)</b>	<b>(1,202)</b>
<b>Before Equity gains (losses) and Financial revenue (expenses)</b>	<b>3,130</b>	<b>182</b>	<b>1,210</b>	<b>11</b>	<b>159</b>	<b>(1,112)</b>
of unconsolidated investees, net	17	410	(6)	(28)		
Corporate Operation	729					
	199	22	543	4	23	73
	(984)	(7)	(1,130)	(6)	(42)	(35)
<b>Income tax and social contribution taxes</b>	<b>3,091</b>	<b>607</b>	<b>617</b>	<b>(19)</b>	<b>140</b>	<b>(1,074)</b>
ontribution taxes	(836)	(71)	(256)	(16)	(23)	309
<b>FOR THE YEAR</b>	<b>2,255</b>	<b>536</b>	<b>361</b>	<b>(35)</b>	<b>117</b>	<b>(765)</b>
<b>COMPREHENSIVE INCOME</b>						
<b>to be reclassified to profit or loss</b>						
ilities' restatement of obligations of the defined benefit plans, net of taxes	(84)		(170)			(106)
Other comprehensive income in jointly-controlled entities						(1)
<b>to be reclassified to profit or loss</b>						
Other comprehensive income in jointly-controlled entities	14					40

<b>NET INCOME FOR THE YEAR</b>	<b>2,171</b>	<b>536</b>	<b>194</b>	<b>(35)</b>	<b>117</b>	<b>(821)</b>
<b>Net income for the year attributed to:</b>						
<b>Common stockholders</b>	<b>2,171</b>	<b>536</b>	<b>194</b>	<b>(35)</b>	<b>117</b>	<b>(821)</b>
<b>Noncontrolling interest</b>						

(\*) The expense of R\$ 1,084 recorded as operating provisions in the *Others* column refers substantially to expenses on the option to purchase investments held by the parent company and described in Note 15.

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OPERATING SEGMENTS. 2014 (RESTATED)						
	GENERATION	TRANSMISSION	DISTRIBUTION	DECOM	GAS	OTHER
TS	11,528	3,882	15,064	327	2,549	2,007
THE SEGMENT	2,995		792	29	501	19
FINANCIAL ASSETS		80				
IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES	4,036	2,315	1,199			490
	7,339	708	11,296	119	340	90
STS						
ed for resale	(1,833)		(5,747)			
of the national grid	(282)		(573)			
resale					(254)	
	(2,115)		(6,320)		(254)	
	(201)	(105)	(886)	(13)	(11)	(36)
anagers profit shares	(39)	(16)	(184)	(1)		(9)
ilities	(34)	(14)	(153)			(11)
	(295)	(5)	(80)		(1)	
s	(159)	(39)	(737)	(23)	(2)	(23)
mortization	(324)		(428)	(34)	(4)	(11)
f water resources	(127)					
ns (reversals)	(62)	(26)	(300)			(193)
		(81)	(861)			
enses, net	(130)	(34)	(297)	(27)	(11)	(29)
ation	(1,371)	(320)	(3,926)	(98)	(29)	(312)
AND EXPENSES	(3,486)	(320)	(10,246)	(98)	(283)	(312)
before Equity gains (losses) and Financial revenue (expenses)	3,853	388	1,050	21	57	(222)
of unconsolidated investees, net	(386)	386	150	(28)	47	41
a of control of investee						281
	119	46	300	5	21	44
	(396)	(291)	(751)	(3)	(6)	(247)
ome tax and social contribution taxes	3,190	529	749	(5)	119	(103)
contribution taxes	(1,116)	(44)	(169)	(7)	(12)	6
OR THE YEAR	2,074	485	580	(12)	107	(97)
EHENSIVE INCOME						

**to be reclassified to profit or loss**

liabilities	restatement of obligations of the defined benefit plans, net of taxes	(36)	(8)
	on other comprehensive income in jointly-controlled entities		(7)

**to be reclassified to profit or loss**

	on other comprehensive income in jointly-controlled entities		10
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<b>NET INCOME FOR THE YEAR</b>	<b>2,074</b>	<b>485</b>	<b>544</b>	<b>(12)</b>	<b>107</b>	<b>(102)</b>
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**Comprehensive income for the year attributed to:**

holders	2,074	485	544	(12)	107	(102)
shareholder						

**Table of Contents****6. CASH AND CASH EQUIVALENTS**

	<b>2016</b>	<b>2015</b>
Bank accounts	101	52
Cash investments		
Bank certificates of deposit	524	723
Repos ( Overnight market)	370	128
Other		22
	<b>894</b>	<b>873</b>
	<b>995</b>	<b>925</b>

Bank certificates of deposit (*Certificados de Depósito Bancário*, or CDBs), with fixed or floating rates, are remunerated at a percentage varying from 75% to 106% in 2016 (75% to 111% in 2015) of the CDI rate (Interbank Rate for Certificates of Deposit – *Certificados de Depósito Interbancário*, or CDIs), published by the Custody and Settlement Chamber (*Câmara de Custódia e Liquidação*, or Cetip).

Overnight repo transactions are short-term cash investments, with availability for redemption on the day following the date of investment. They are usually backed by treasury bills, notes or bonds and referenced to a fixed rate of approximately 13.64% p.a. in 2016 (14.3% p.a. in 2015).

The Company's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities are given in Note 29 to the consolidated financial statements.

**7. SECURITIES**

	<b>2016</b>	<b>2015</b>
<b>Cash investments</b>		
<b>Current</b>		
Bank certificates of deposit	46	1,717
Financial Notes – Banks	728	461
Treasury Financial Notes (LFTs)	193	88
Debentures	45	160
Other	2	1
	<b>1,014</b>	<b>2,427</b>
<b>Non-current</b>		
Bank certificates of deposit		43
Financial Notes – Banks	14	41

Other

17

<b>31</b>	<b>84</b>
<b>1,045</b>	<b>2,511</b>

Fixed-rate or floating-rate Bank certificates of deposit (Certificados de Depósito Bancário, or CDBs) are remunerated at a percentage of the rate for interbank deposits (Certificado de Depósito Interbancário, or CDI rate), which is published by the Custody and Settlement Chamber (Câmara de Custódia e Liquidação, or Cetip). This percentage ranges from 100.5% to 105.25% in 2016 (75% to 105% in 2015) depending on the transaction.

Bank Financial Bills (*Letras Financeiras*, or LFs) are fixed-rate fixed-income securities, issued by banks and remunerated at a percentage of the CDI rate published by Cetip. The remuneration rate on the LFs in Cemig's portfolio varies between 104.25% to 112.7% of the CDI rate in 2016 (105% to 116.7% of the CDI rate in 2015).

Treasury Financial Notes (LFTs) are fixed rate securities, the yield on which follows the daily variation of the Selic rate between the date of purchase and the date of purchase of the security.



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Debentures are medium and long term debt securities, which give their holders a right of credit against the issuing company. The debentures have remuneration rates varying between 104.25% to 113% of the CDI rate in 2016 (105.4% to 113% of the CDI rate in 2015).

Note 29 gives a classification of these securities. Cash investments in securities of related parties are shown in Note 28.

**8. CONSUMERS, TRADERS AND POWER TRANSPORT CONCESSION HOLDERS**

	Balances not yet due	Up to 90 days past due	More than 90 days past due	2016	2015
Invoiced supply	1,067	710	791	2,568	2,413
Supply not yet invoiced	920			920	1,125
Wholesale supply to other concession holders	390	20	13	423	99
CCEE (Electricity Trading Chamber)			1	1	516
Concession holders Transport of electricity	233	11	75	319	370
( ) Allowance for doubtful accounts			(660)	(660)	(625)
	<b>2,610</b>	<b>741</b>	<b>220</b>	<b>3,571</b>	<b>3,898</b>

<b>Current assets</b>	<b>3,425</b>	<b>3,765</b>
<b>Non-current assets</b>	<b>146</b>	<b>133</b>

The Company's exposure to credit risk related to Consumers and traders is given in Note 29.

The provision for the allowance for doubtful receivables is considered to be sufficient to cover any losses in the realization of these assets, and breaks down by type of consumer as follows:

	2016	2015
Residential	245	211
Industrial	133	136
Commercial, services and others	152	117
Rural	24	19
Public authorities	10	12
Public illumination	5	5
Public service	15	10
Charges for use of the network TUSD	68	112
Other	8	3
	<b>660</b>	<b>625</b>

Changes in the provision for doubtful receivables in 2016, 2015 and 2014 were as follows:

<b>Balance on December 31, 2013</b>	<b>585</b>
New provisions	127
Reversals	(62)
<b>Balance on December 31, 2014</b>	<b>650</b>
New provisions	175
Reversals	(200)
<b>Balance on December 31, 2015</b>	<b>625</b>
New provisions (reversals)	382
Written off	(347)
<b>Balance at December 31, 2016</b>	<b>660</b>

**Table of Contents****Advance sales of power supply**

Cemig GT made a transaction with a large client for an advance on sales of power supply, receiving the amount of R\$ 181 in advance, in relation to the quantity of supply contracted for the period January 1, 2017 to December 31, 2017.

**9. RECOVERABLE TAXES**

	2016	2015
<b>Current</b>		
ICMS tax recoverable	155	113
PIS and Pasep taxes	12	9
Cofins tax	58	44
Other	11	9
	<b>236</b>	<b>175</b>
<b>Non-current</b>		
ICMS tax recoverable	171	183
PIS and Pasep taxes	1	13
Cofins tax	5	60
Other	1	2
	<b>178</b>	<b>258</b>
	<b>414</b>	<b>433</b>

The credits of the PIS, Pasep, Cofins and ICMS taxes, recorded in Non-current assets, arise from acquisitions of property, plant and equipment and can be offset over 48 months. The transfer to Non-current was made in accordance with estimates by management of the amounts which will likely be realized up to December 2017.

**10. INCOME AND SOCIAL CONTRIBUTION TAXES****a) Income and social contribution taxes recoverable**

The balances of income and social contribution taxes refer to tax credits in corporate income tax returns of previous years and to advance payments in 2016, which will be offset against federal taxes payable for the year 2017. These are posted in Taxes and contributions.

	2016	2015
<b>Current</b>		
Income tax	436	226
Social Contribution tax	154	80
	<b>590</b>	<b>306</b>
<b>Non-current</b>		
Income tax	98	192
Social Contribution tax	14	14
	<b>112</b>	<b>206</b>
	<b>702</b>	<b>512</b>

**Table of Contents****b) Deferred income and social contribution taxes**

Cemig and its subsidiaries have tax credits for income tax, constituted at the rate of 25%, and the social contribution tax, constituted at the rate of 9%, as follows:

	2016	2015
<b>Deferred tax assets</b>		
Tax loss carryforwards	290	236
Provisions	1,027	713
Post-retirement liabilities	1,175	831
Allowance for doubtful receivables	229	210
Taxes payable – suspended liability (1)	202	200
Paid concession	8	9
Other	22	54
<b>Total</b>	<b>2,953</b>	<b>2,253</b>
<b>Deferred tax liabilities</b>		
Funding cost	(45)	(20)
Deemed cost	(268)	(280)
Adjustment to present value		
IRT		
Cost of acquisition of equity interests	(481)	(499)
Borrowing costs, capitalized	(149)	(108)
Taxes on revenues from unredeemed cash investments – Presumed Profit accounting method	(2)	(2)
Updating of indemnity value assets	(517)	(262)
Adjustment of expectation of cash flow from the indemnifiable Financial asset of distribution concession	(271)	(273)
Other	(5)	
<b>Total</b>	<b>(1,738)</b>	<b>(1,444)</b>
<b>Total, net</b>	<b>1,215</b>	<b>809</b>
<b>Total assets</b>	<b>1,797</b>	<b>1,498</b>
<b>Total liabilities</b>	<b>(582)</b>	<b>(689)</b>

(1) Refers to court escrow deposit of PIS, Pasep and Cofins taxes charged on amounts of ICMS tax.

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The changes in Deferred income and social contribution taxes were as follows:

<b>Balance on December 31, 2013</b>	<b>965</b>
Effects allocated to Statement of income	(83)
Deferred taxes recognized in business combination	(269)
Effects allocated to Statement of comprehensive income	22
<b>Balance on December 31, 2014</b>	<b>635</b>
Effects allocated to Statement of income	(12)
Effects allocated to Statement of comprehensive income	191
Realized	(5)
<b>Balance on December 31, 2015</b>	<b>a)</b>
Effects allocated to Statement of income	141
Effects allocated to Statement of comprehensive income	265
<b>Balance at December 31, 2016</b>	<b>1,215</b>

The Board of Directors, in a meeting held on April 11, 2017 approved a technical study prepared by the Financial Department, on the forecast for the Company's future profitability. This study was also submitted to examination by the Audit Board on April 11, 2017.

Under the current Brazilian tax legislation deductible temporary differences and accumulated tax losses do not expire by limitation of time. Deferred tax assets have been recognized in relation to these items, because it is probable that the future taxable profits will be available for the Company to be able to use for the benefits of these items.

According to the individual estimates of the Company and its subsidiaries, the future taxable profits enable the Deferred tax asset existing on December 31, 2016 to be realized, as follows:

2017	394
2018	387
2019	437
2020	404
2021	598
2022-2024	490
2025-2026	243
	2,953



**Table of Contents****c) Reconciliation of the expense on income and social contribution taxes**

This table reconciles the nominal expense on income tax (rate 25%) and the Social Contribution tax (rate 9%) with the actual expense, presented in the Statement of income:

	2016	2015	2014
Profit before income tax and Social Contribution tax	367	3,362	4,479
Income tax and Social Contribution tax nominal expense	(125)	(1,143)	(1,523)
Tax effects applicable to:			
Gain (loss) in subsidiaries by equity method (net of Interest on Equity)	(132)	105	25
Interest on Equity	129	68	78
Gain on formation of Aliança Geração		87	
Deduction of amortized intangible concession assets capital gain, Taesa	20		
Non-deductible contributions and donations	(4)	(7)	(13)
Tax incentives	3	43	66
Tax credits not recognized	5	(1)	(1)
Difference between Presumed Profit and Real Profit	126	25	8
Non-deductible penalties	(16)	(10)	(5)
Excess on reactive power and demand levels	(12)	(11)	(12)
Write-down for part of allowance for doubtful debtors	(22)	(32)	
Other	(5)	(17)	35
<b>Income tax and Social Contribution effective gain (expense)</b>	<b>(33)</b>	<b>(893)</b>	<b>(1,342)</b>
<b>Effective rate</b>	<b>8.99%</b>	<b>26.56%</b>	<b>29.96%</b>
<b>Current tax</b>	<b>(174)</b>	<b>(881)</b>	<b>(1,259)</b>
<b>Deferred tax</b>	<b>141</b>	<b>(12)</b>	<b>(83)</b>
<u>Tax incentives</u> Sudene			

The federal tax authority (*Receita Federal*) recognized the right to a reduction of 75% in income tax, including the part paid at the additional rate, calculated based on the operating profit made in the region under the aegis of Sudene (the Development Authority for the Northeast), for 10 years from 2014. The incentive amounts recorded in the Income statement were: R\$ 7 in 2016, R\$ 21 in 2015 and R\$ 25 in 2014. These items were all subsequently transferred to the Tax Incentive Reserve.

**11. RESTRICTED CASH**

The total recorded as Restricted cash, R\$ 367, refers mainly to the amount deposited with Banco Santander, in accordance with the shareholders' agreement of RME and Luce, as guarantee for settlement of the put options. The contract for the account with the depositary bank is in effect until December 15, 2017.



## **12. ESCROW DEPOSITS**

These payments are mainly for legal actions relating to employment-law contingencies and tax obligations.

The most important escrow deposits for tax obligations refer to the Pasep and Cofins taxes in actions seeking to exclude the ICMS tax itself from the calculation base of the Pasep and Cofins taxes.

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	<b>2016</b>	<b>2015</b>
<b>Employment law cases</b>	<b>381</b>	<b>367</b>
<b>Tax issues</b>		
Income tax on Interest on Equity	15	15
Pasep and Cofins tax (1)	746	751
ICMS credits on PP&E	37	36
Donations and legacy tax (ITCD)	46	34
Urban property tax (IPTU)	80	68
Finsocial tax	37	23
Other	202	185
	<b>1,163</b>	<b>1,112</b>
<b>Other</b>		
Monetary updating on AFAC from Minas Gerais State Government (2)	239	239
Regulatory	60	57
Third party	13	10
Consumer relations	6	4
Court embargo	8	12
Other	17	12
	<b>343</b>	<b>334</b>