

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.

|                    |           |           |                    |              |            |           |
|--------------------|-----------|-----------|--------------------|--------------|------------|-----------|
| 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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**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;

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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**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

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

Table of Contents**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 | Proposed           | Preemptive<br>right<br>exercise<br>period | Subscribed in:   |  | Balance of<br>shares not<br>subscribed |
|-------------------|--------------------|---|--|--|--|
|                   |                    |   | 1 <sup>st</sup><br>subsequent<br>apportionment<br>period | 2 <sup>nd</sup><br>subsequent<br>apportionment<br>period |  |
| Type              |                    |   |  |  |  |
| 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**

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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**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

Chief Finance and Investor Relations Officer

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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**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, 2<sup>nd</sup> 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 depository 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

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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**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                 |
| APPENDIX III  | Protocol of Merger and Justification                    |
| 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:

**Common shares in Cemig**

|  |   |
|--|---|
| <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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**Preferred shares in Cemig**

|  |   |
|--|---|
| <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 hetero 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, Controllership 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**

CNPJ 17.155.730/0001-64 NIRE 31300040127

**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:

| <b>Sole stockholder</b>                    | <b>Shares</b> | <b>%</b> |
|--|---------------|----------|
| Companhia Energética de Minas Gerais CEMIG | 448,340,822   | 100      |

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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**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:

**Mr. Flávio de Almeida Araújo** 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;

**Mr. Francisco do Couto** 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

**Mr. Leonardo George de Magalhães** 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.

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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.         | 2.         |
| Name:      | Name:      |
| CPF/MF:    | CPF/MF:    |
| ID/Issuer: | ID/Issuer: |

|                    |           |                    |              |            |           |
|--------------------|-----------|--------------------|--------------|------------|-----------|
| 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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**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

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 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**TELECOMUNICAÇÕES S.A. -  
CEMIGTELECOMBALANCE SHEET ON NOVEMBER 30, 2017 AND  
DECEMBER 31, 2016

CEMIG TELECOMUNICAÇÕES S.A. - CEMIGTELEC

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

(In reais)

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

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|             |                    |                    |             |                                  |                    |                   |
|-------------|--------------------|--------------------|-------------|----------------------------------|--------------------|-------------------|
|             | 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:**

**Long term assets**  
Securities held to maturity  
Accounts receivable from clients  
Taxes recoverable  
Deferred income tax and Social Contribution  
Other  
**Financial assets**  
**Investments**  
**Net PP&E**  
**Intangible**

**NON-CURRENT:**

Loans and debentures  
Provisions for contingencies  
Advances from clients  
Tax obligations  
Salary-related charges  
Ativas  
**Total, Non-current**

**TOTAL ASSETS**

**STOCKHOLDERS EQUITY:**

Share capital  
Equity valuation adjustments  
Retained losses  
**Total stockholders equity**

**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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34. SUBSEQUENT EVENTS

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|   | Note | 2016         | 2015         |
|---|------|--------------|--------------|
| <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)**

|   | Note | 2016          | 2015          |
|---|------|---------------|---------------|
| <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.

Table of Contents**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<br>Restated | 2014<br>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>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              |

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|   |     |              |              |              |
|---|-----|--------------|--------------|--------------|
| 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<br>capital | Capital<br>reserves | Profit<br>reserves | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>earnings | Total<br>interest<br>of<br>the<br>controlling<br>shareholders | Total<br>interest<br>of<br>the<br>non-controlling<br>shareholders | Total<br>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<br>of taxes                                 |                  |                     |                    | (44)  |                      | (44)  |   | (44)            |
| Equity gain on Other<br>comprehensive income in<br>jointly-controlled entity |                  |                     |                    | 3   |                      | 3   |   | 3               |
| <b>Total Comprehensive income<br/>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<br>in 2013 (R\$ 0.04 per share)                |                  |                     | (55)               |   |                      | (55)  |   | (55)            |
| Extraordinary dividends<br>(R\$ 2.23 per share)                              |                  |                     | (2,804)            |   |                      | (2,804)   |   | (2,804)         |
| Statutory dividends (R\$ 1.04<br>per share)                                  |                  |                     |                    |   | (1,364)              | (1,364)   |   | (1,364)         |
| Interest on Equity (R\$ 0.18 per<br>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<br>deemed cost of PP&E                          |                  |                     |                    | (70)  | 70                   |   |   |                 |
| <b>ATTRIBUTED TO<br/>INTEREST OF THE<br/>CONTROLLING<br/>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 adjustments | Retained earnings | Total interest of the controlling shareholder | Total interest of Non-controlling shareholder | 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          |
| <br>  |              |              |              |
| 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)      |
| <br>  |              |              |              |
| <b>NET CASH GENERATED BY OPERATING ACTIVITIES</b> | <b>1,213</b> | <b>3,008</b> | <b>3,734</b> |

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|  | <b>2016</b>  | <b>2015</b>    | <b>2014</b>    |
|--|--------------|----------------|----------------|
| <b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>             |              |                |                |
| Marketable securities                                    | 1,400        | (1,499)        | 116            |
| Financial assets   |              | (145)          | (80)           |
| Restricted cash  | (367)        | 1              | 1              |
| <b>Investments</b>                                       |              |                |                |
| 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 H 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 *Candongá*. 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            | Adjustment | 2015<br>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> |
| <b>Basic and diluted income per preferred share</b> | 1.96         | 1.96         |
| <b>Basic and diluted income per common share</b>    | 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<br>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<br>Minas Gerais         | 01/2001 | 08/2024 |
| Barreiro              | Belo Horizonte,<br>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<br/>expiry<br/>date</b> | <b>Installed<br/>capacity<br/>(MW)</b> | <b>Average<br/>physical<br/>offtake<br/>guarantee<br/>level<br/>( Assured<br/>Energy )<br/>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 Jaguara 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 Jaguara, 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/N°303/2014 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.

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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:

| Enterprise                      | Percentage interest | Nominal Present value |         | Amortization period |         | Updating index or |
|---------------------------------|---------------------|-----------------------|---------|---------------------|---------|-------------------|
|                                 |                     | in 2016               | in 2016 |                     |         |                   |
| 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:

| Enterprise            | Percentage interest | Amounts paid in 2016 | Present value of amounts to be paid in 12 months | Nominal value of amounts to be paid in 12 months |
|-----------------------|---------------------|----------------------|--|--|
|                       |                     |                      |  |  |
| 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>DISPOSITION</b> | <b>CONSUMPTION</b> | <b>COMMODITIES</b> |
| <b>REVENUE</b>   | 14.414             | 4.267               | 18.166             | 338                | 2.73               |
| <b>OPERATING EXPENSES</b>                                    | 916                |                     | 1.602              | 163                | 5                  |
| <b>OPERATING ASSETS</b>                                      | 2.217              | 54                  |                    |                    |                    |
| <b>OPERATING LIABILITIES AND JOINTLY-CONTROLLED ENTITIES</b> | 5.292              | 1.670               | 1.754              | 18                 |                    |
| <b>OPERATING INCOME</b>                                      | 5.875              | 1.113               | 10.597             | 125                | 1.18               |
| <b>OPERATING EXPENSES</b>                                    |                    |                     |                    |                    |                    |
| Depreciation and amortization                                | (3.071)            |                     | (5.260)            |                    |                    |
| Provision for doubtful accounts                              | (321)              |                     | (760)              |                    |                    |
| <b>OPERATING EXPENSES</b>                                    | (3.392)            |                     | (6.020)            |                    | (8)                |
| <b>OPERATING INCOME</b>                                      | (271)              | (111)               | (1.147)            | (23)               | (4)                |
| Share of profit shares                                       | (1)                |                     | (10)               | (1)                |                    |
| <b>OPERATING EXPENSES</b>                                    | (54)               | (23)                | (231)              |                    |                    |
| <b>OPERATING EXPENSES</b>                                    | (11)               | (3)                 | (42)               |                    |                    |
| <b>OPERATING EXPENSES</b>                                    | (129)              | (30)                | (674)              | (23)               | (3)                |
| <b>OPERATING EXPENSES</b>                                    | (202)              |                     | (525)              | (38)               | (5)                |
| <b>OPERATING EXPENSES</b>                                    | (88)               | (10)                | (544)              | (4)                |                    |
| <b>OPERATING EXPENSES</b>                                    |                    | (54)                | (1.102)            |                    | (3)                |
| <b>OPERATING EXPENSES</b>                                    | (57)               | (13)                | (395)              | 11                 |                    |
| <b>OPERATING EXPENSES</b>                                    | (813)              | (244)               | (4.670)            | (78)               | (10)               |
| <b>OPERATING EXPENSES</b>                                    | (4.205)            | (244)               | (10.690)           | (78)               | (1.04)             |
| <b>OPERATING EXPENSES</b>                                    | 1.670              | 869                 | (93)               | 47                 | 14                 |
| Share of net income of unconsolidated investees, net         | (448)              | 362                 | (180)              | (31)               |                    |
| Share of net income of investments                           | (763)              |                     |                    |                    |                    |
| <b>OPERATING EXPENSES</b>                                    | 190                | 7                   | 743                | 4                  | 1                  |
| <b>OPERATING EXPENSES</b>                                    | (1.320)            | (4)                 | (1.078)            | (9)                | (4)                |
| <b>OPERATING EXPENSES</b>                                    | (671)              | 1.234               | (608)              | 11                 | 10                 |
| Contribution tax   | (24)               | 5                   | 103                | (6)                |                    |
| <b>OPERATING EXPENSES</b>                                    | (695)              | 1.239               | (505)              | 5                  | 9                  |

| <b>INCOME</b>   |       |         |       |   |
|---|-------|---------|-------|---|
| <b>ded to profit or loss</b>  |       |         |       |   |
| Statement of obligations of the defined benefit plans, net of taxes                   | (92)  |         | (380) |   |
| Comprehensive income in jointly-controlled entities                                   |       |         |       |   |
| <b>to profit or loss</b>  |       |         |       |   |
| Gain (loss) in other comprehensive income in subsidiary and jointly-controlled entity |       |         |       |   |
| Adjustments to the Income statement arising from sale of Transchile                   |       | (39)    |       |   |
| <b>INCOME FOR THE YEAR</b>  | (92)  | (39)    | (380) |   |
| <b>Income for the year attributed to:</b>   |       |         |       |   |
|   | (787) | (1,200) | (885) | 5 |

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| <b>OPERATING SEGMENTS, 2015 (RESTATED)</b>  |                   |                     |                     |                   |                |                |
|---|-------------------|---------------------|---------------------|-------------------|----------------|----------------|
|   | <b>GENERATION</b> | <b>TRANSMISSION</b> | <b>DISTRIBUTION</b> | <b>INTEGRATED</b> | <b>GAS</b>     | <b>OTHER</b>   |
| <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>  |                   |                     |                     |                   |                |                |
| Available for resale  | (2,669)           |                     | (6,993)             |                   |                |                |
| of the national grid  | (297)             |                     | (814)               |                   |                |                |
| Available for 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)            |
| Liabilities   | (21)              | (10)                | (121)               |                   |                | (4)            |
|   | (95)              | (5)                 | (52)                |                   | (2)            |                |
|   | (143)             | (37)                | (697)               | (25)              | (15)           | (13)           |
| Depreciation and amortization   | (273)             |                     | (444)               | (49)              | (54)           | (15)           |
| Reversals   | (109)             | 2                   | (209)               | (1)               |                | (1,084)        |
|   |                   | (146)               | (1,044)             |                   | (62)           |                |
| Expenses, net   | (62)              | (16)                | (283)               | (20)              | (9)            | (42)           |
|   | <b>(951)</b>      | <b>(337)</b>        | <b>(3,945)</b>      | <b>(112)</b>      | <b>(185)</b>   | <b>(1,202)</b> |
| <b>OPERATING 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>Income 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> |
| Income 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> |
| Contribution taxes  | (836)             | (71)                | (256)               | (16)              | (23)           | 309            |
| <b>INCOME BEFORE TAXES 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>Items to be reclassified to profit or loss</b>                                   |                   |                     |                     |                   |                |                |
| Liabilities - restatement of obligations of the defined benefit plans, net of taxes | (84)              |                     | (170)               |                   |                | (106)          |
| Other comprehensive income in jointly-controlled entities                           |                   |                     |                     |                   |                | (1)            |
| <b>Items 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> |              |            |            |             |            |              |
| Shareholders                                  | 2,171        | 536        | 194        | (35)        | 117        | (821)        |
| Noncontrolling interest                       |              |            |            |             |            |              |

(\* ) 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 | MISSION         | DISTRIBUTION | DECOM        | GAS OTHER    |
| <b>ASSETS</b>   | <b>11,528</b>  | <b>3,882</b> | <b>15,064</b>   | <b>327</b>   | <b>2,549</b> | <b>2,007</b> |
| <b>THE SEGMENT</b>  | <b>2,995</b>   |              | <b>792</b>      | <b>29</b>    | <b>501</b>   | <b>19</b>    |
| <b>FINANCIAL ASSETS</b>   |                | <b>80</b>    |                 |              |              |              |
| <b>IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES</b>                        | <b>4,036</b>   | <b>2,315</b> | <b>1,199</b>    |              |              | <b>490</b>   |
|   | <b>7,339</b>   | <b>708</b>   | <b>11,296</b>   | <b>119</b>   | <b>340</b>   | <b>90</b>    |
| <b>LIABILITIES</b>  |                |              |                 |              |              |              |
| Inventory for resale  | (1,833)        |              | (5,747)         |              |              |              |
| Portion of the national grid  | (282)          |              | (573)           |              |              |              |
| Inventory for resale  |                |              |                 |              | (254)        |              |
|   | <b>(2,115)</b> |              | <b>(6,320)</b>  |              | <b>(254)</b> |              |
|   | (201)          | (105)        | (886)           | (13)         | (11)         | (36)         |
| Managers' profit shares   | (39)           | (16)         | (184)           | (1)          |              | (9)          |
| Provision for contingencies   | (34)           | (14)         | (153)           |              |              | (11)         |
|   | (295)          | (5)          | (80)            |              | (1)          |              |
| Depreciation  | (159)          | (39)         | (737)           | (23)         | (2)          | (23)         |
| Amortization  | (324)          |              | (428)           | (34)         | (4)          | (11)         |
| Impairment of water resources   | (127)          |              |                 |              |              |              |
| Provisions (reversals)  | (62)           | (26)         | (300)           |              |              | (193)        |
|   |                | (81)         | (861)           |              |              |              |
| Provisions, net   | (130)          | (34)         | (297)           | (27)         | (11)         | (29)         |
| <b>LIABILITIES</b>  | <b>(1,371)</b> | <b>(320)</b> | <b>(3,926)</b>  | <b>(98)</b>  | <b>(29)</b>  | <b>(312)</b> |
| <b>NET ASSETS AND EXPENSES</b>  | <b>(3,486)</b> | <b>(320)</b> | <b>(10,246)</b> | <b>(98)</b>  | <b>(283)</b> | <b>(312)</b> |
| <b>Income before Equity gains (losses) and Financial revenue (expenses)</b> | <b>3,853</b>   | <b>388</b>   | <b>1,050</b>    | <b>21</b>    | <b>57</b>    | <b>(222)</b> |
| Income of unconsolidated investees, net                                     | (386)          | 386          | 150             | (28)         | 47           | 41           |
| Loss of control of investee   |                |              |                 |              |              | 281          |
|   | 119            | 46           | 300             | 5            | 21           | 44           |
|   | (396)          | (291)        | (751)           | (3)          | (6)          | (247)        |
| <b>Income tax and social contribution taxes</b>                             | <b>3,190</b>   | <b>529</b>   | <b>749</b>      | <b>(5)</b>   | <b>119</b>   | <b>(103)</b> |
| Income tax contribution taxes   | (1,116)        | (44)         | (169)           | (7)          | (12)         | 6            |
| <b>INCOME BEFORE THE YEAR</b>   | <b>2,074</b>   | <b>485</b>   | <b>580</b>      | <b>(12)</b>  | <b>107</b>   | <b>(97)</b>  |
| <b>COMPREHENSIVE INCOME</b>   |                |              |                 |              |              |              |

|   |  |       |     |     |      |      |       |
|---|--|-------|-----|-----|------|------|-------|
| <b>to be reclassified to profit or loss</b>                                       |  |       |     |     |      |      |       |
| Liabilities restatement of obligations of the defined benefit plans, net of taxes |  |       |     |     |      | (36) | (8)   |
| on other comprehensive income in jointly-controlled entities                      |  |       |     |     |      |      | (7)   |
| <b>reclassified to profit or loss</b>   |  |       |     |     |      |      |       |
| on other comprehensive income in jointly-controlled entities                      |  |       |     |     |      |      | 10    |
| <b>NET INCOME FOR THE YEAR</b>  |  |       |     |     |      |      |       |
|   |  | 2,074 | 485 | 544 | (12) | 107  | (102) |
| <b>Comprehensive income for the year attributed to:</b>                           |  |       |     |     |      |      |       |
| Shareholders  |  | 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<br>not yet<br>due | Up to<br>90 days<br>past due | More than<br>90 days<br>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**

|                      | <b>2016</b> | <b>2015</b> |
|----------------------|-------------|-------------|
| <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:

|  | <b>2016</b>    | <b>2015</b>    |
|--|----------------|----------------|
| <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:

|  | <b>2016</b>  | <b>2015</b>   | <b>2014</b>    |
|--|--------------|---------------|----------------|
| 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 - Sudene</u>   |              |               |                |

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>                                      | 381          | 367          |
| <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>   |
|  | <b>1,887</b> | <b>1,813</b> |

(1) The escrow deposits relating to Pasep and Cofins taxes refer to the case challenging the constitutionality of inclusion of the ICMS tax, which *has been* charged, *within* the amount on which the Pasep and Cofins taxes are calculated. They have a corresponding provision in Taxes. See more details in Note 19.

(2) Administrative deposit in case seeking suspension of enforceability of the credit charged by the Minas Gerais State Government for a difference in the monetary updating on the Advance against Future Capital Increase (*Adiantamento contra Futuro Aumento de Capital*, or AFAC). See more details in Note 23.

### **13. ENERGY DEVELOPMENT ACCOUNT (CDE)**

#### **Reimbursement of tariff subsidy payments**

The subsidies applicable to tariffs charged to users of public electricity distribution service, which are reimbursed through payments of funds from the Energy Development Account (CDE).

In 2016, the amount appropriated as incoming subsidies was R\$ 792 (R\$ 801 in 2015 and R\$ 579 in 2014). Of the amount provisioned, the Company has R\$ 64 receivable (R\$ 72 in 2015). This is recognized in current assets.

#### **Payments from the Tariff Flag Funds Centralizing Account**

The Flag Account (*Conta Centralizadora de Recursos de Bandeiras Tarifárias* CCRBT or *Conta Bandeira* ) manages the funds collected from captive customers of utilities of the national grid holding electricity distribution concessions and permissions these were paid, on behalf of the CDE, directly to the Flag Account. The resulting funds are passed through by the Wholesale Trading Chamber (CCEE) to distribution agents, based on the differences between (i) realized costs of thermal generation and exposure to short-term market prices, and (ii) the amounts covered by the tariff.

In 2016 the amounts Paid by the Flag Account totaled R\$ 341 (R\$ 1,124 in 2015). This was recognized as a partial realization of the CVA receivable previously constituted.

**Table of Contents****14. FINANCIAL ASSETS AND LIABILITIES OF THE CONCESSION**

| <b>Financial assets of the concession</b>   | <b>2016</b>  | <b>2015</b>  |
|---|--------------|--------------|
| Assets related to infrastructure (a)  |              |              |
| Distribution concessions  | 215          | 137          |
| Transmission concessions  | 482          | 401          |
| Transmission Indemnity receivable   | 1,805        | 1,054        |
| Generation Indemnity receivable   | 547          | 546          |
| Generation Assets remunerated by tariff   |              | 46           |
| Concession Grant Fee Plants contracted at Auction 12/2015   | 2,254        |              |
|   | <b>5,303</b> | <b>2,184</b> |
| CVA (Portion A Variation Compensation Account) and Other financial components in tariff adjustments (b) | 398          | 1,350        |
| <b>Total</b>  | <b>5,701</b> | <b>3,534</b> |
| <b>Current assets</b>   | <b>730</b>   | <b>874</b>   |
| <b>Non-current assets</b>   | <b>4,971</b> | <b>2,660</b> |
| <b>Financial liabilities of the concession</b>  | <b>2016</b>  | <b>2015</b>  |
| CVA (Portion A Variation Compensation Account) and Other financial components in tariff adjustments (b) | 805          |              |
| <b>Current liabilities</b>  | 482          |              |
| <b>Non-current liabilities</b>  | 323          |              |

**a) Assets related to infrastructure**

The distribution of energy, transmission of energy and gas contracts of the Company and its subsidiaries are within the criteria for application of Technical Interpretation IFRIC 12, which governs accounting of concessions. These contracts refer to the investment made in infrastructure, which will be the subject of indemnity by the Concession-granting power, during the period and at the end of the concessions, as specified in the regulations of the electricity sector and in the concession contract signed between Cemig and its subsidiaries and the related concession-granting powers.

**Transmission Indemnity receivable**

The Company's transmission concession contracts are within the criteria for application of Technical Interpretation IFRIC 12, which deals with accounting of concessions, and refer to invested infrastructure that will be the subject of indemnity by the Concession-granting power during and at the end of their concession periods, as laid down in the regulations for the electricity sector, and in the concession contract.

Aneel Normative Resolution 589, of December 10, 2013, laid down the criteria for calculation of the New Replacement Value (*Valor Novo de Reposição*, or VNR) of the transmission facilities, for the purposes of indemnity.

On August 16, 2016 Aneel, through its Dispatch 2181, homologated the amount of R\$ 892, in currency of November 2012, for the portion of the reversible assets not yet amortized, for the purposes of indemnity to Cemig GT.

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On April 22, 2016 the Mining and Energy Ministry (MME) published its Ministerial Order 120, setting the deadline and method of payment of the remaining amount of the indemnity.

The Ministerial Order determined that the amounts homologated by Aneel should become part of the Regulatory Remuneration Asset Base (*Base de Remuneração Regulatória*, or BRR) and that the cost of capital should be added to the related Permitted Annual Revenues ( RAP ).

The portions of remuneration and depreciation not paid in the period from the extensions of the concessions up to the tariff-setting process of 2017 are to be updated by the IPCA index and remunerated at the real cost of own capital of the transmission segment of the industry as decided by Aneel in the methodologies for Periodic Tariff Reviews of Revenues for Existing Concession Holders, currently 10.44% per year, to be paid over eight years by reimbursement through the RAP.

The Ministerial Order still awaits certain decisions, and as a result Public Hearing 068/2016 was opened on October 14, 2016 to obtain input for improvement of the regulations for calculation of the cost of capital to be added to the RAP (Permitted Annual Revenue) of the transmission concession holders.

Considering that MME Ministerial Order 120 specifies that cost of capital is to comprise two portions – Remuneration; and Depreciation (QRR) – the Company, based on the best information available, made the necessary adjustments, arriving at the following values as indemnity:

|   |              |
|---|--------------|
| Regulatory Remuneration Base (BRR) – Dispatch 2181/2016   | 1,177        |
| Amount of the indemnity received so far   | (285)        |
| <b>Net value of the assets for purposes of indemnity</b>  | <b>892</b>   |
| Updating in accordance with MME Order 120/16 – IPCA index / Cost of own capital – Period Jan. 2013 to Dec. 2016 | 913          |
| <b>Total indemnity</b>  | <b>1,805</b> |

**Transmission – Assets remunerated by tariff**

For the new assets consisting of improvements and strengthening of facilities implemented by the transmission concession holders, Aneel calculates an additional portion of Permitted Annual Revenue (RAP) in accordance with a methodology specified in the Tariff Regulation Procedures (*Procedimentos de Regulação Tarifária*, or Proret).

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Under the Proret procedure, the revenue established in the Resolutions is payable to the transmission companies as from the date of start of commercial operation of the facilities. In the periods between reviews, the revenues associated with the improvements and strengthening of facilities are provisional. They are then definitively decided in the review immediately subsequent to the start of commercial operation of the facilities; this review then has effect backdated to the date of start of commercial operation.

**Distribution assets**

The Fifth Amendment to the Public Electricity Distribution Service Concession Agreements was signed on December 21, 2015, extending the concessions for a further 30 years, from January 1, 2016 to December 31, 2045. As a result, for determining Financial Assets, the new Amendment signed has been used as a reference, and the portion of Financial assets that will be used during the period of the new concession has been transferred to Intangible assets.

**Generation Indemnity receivable**

In July 2015 termination dates for several of the plants operated by the Company was reached under Concession Contract 007/97. As from the termination of the concession, the Company held the indemnity rights of the assets not yet depreciated/amortized, as specified in the concession contract referred to. The accounting balances corresponding to these assets, including the Deemed Cost, were transferred from Fixed assets to Financial assets on the date of termination of the concession, and total R\$ 547.

| <b>Generating plant</b>               | <b>Concession expiration date</b> | <b>Installed capacity (MW)</b> | <b>Net balance of assets on Dec. 31, 2016 based on historic cost</b> | <b>Net balance of assets on Dec. 31, 2016 based on deemed cost</b> |
|---------------------------------------|-----------------------------------|--------------------------------|--|--|
| Três Marias Hydroelectric Plant       | July 2015                         | 396                            | 71   | 414  |
| Salto Grande Hydroelectric Plant      | July 2015                         | 102                            | 10   | 39   |
| Itutinga Hydroelectric Plant          | July 2015                         | 52                             | 4  | 7  |
| Camargos Hydroelectric Plant          | July 2015                         | 46                             | 8  | 23   |
| Piau Small Hydroelectric Plant        | July 2015                         | 18,01                          | 2  | 9  |
| Gafanhoto Small Hydroelectric Plant   | July 2015                         | 14                             | 1  | 10   |
| Peti Small Hydroelectric Plant        | July 2015                         | 9,4                            | 1  | 8  |
| Dona Rita Small Hydroelectric Plant   | Sep. 2013                         | 2,41                           | 1  | 1  |
| Tronqueiras Small Hydroelectric Plant | July 2015                         | 8,5                            | 2  | 12   |
| Joasal Small Hydroelectric Plant      | July 2015                         | 8,4                            | 1  | 8  |
| Martins Small Hydroelectric Plant     | July 2015                         | 7,7                            | 2  | 4  |
| Cajuru Small Hydroelectric Plant      | July 2015                         | 7,2                            | 4  | 4  |
| Paciência Small Hydroelectric Plant   | July 2015                         | 4,08                           | 1  | 4  |
| Marmelos Small Hydroelectric Plant    | July 2015                         | 4                              | 1  | 4  |
|                                       |                                   | 679,70                         | 109  | 547  |





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As specified in Aneel Normative Resolution 615/2014, the Valuation Opinions proposing the amounts of the indemnity of the assets were delivered to Aneel by December 31, 2015. Based on the discussions and valuations currently in progress, management believes that the amount recorded is the best estimate of indemnity taking into account the information available up to the reporting date of the accounting statements at December 31, 2016.

From the termination of the concession contract until January 4, 2016, the plants were operated by the Company under the Quota regime, with remuneration by a tariff only to cover costs of operation and maintenance of the assets. On January 5, 2016 the plants began to be operated in accordance with the terms of the Auction won by Cemig GT on November 25, 2015 ( Auction 12/2015 ) as described in more detail below:

**Concession Grant Fee Auction 12/2015**

Under Provisional Measure 579/2012, enacted as Law 12783/2013, the concessions of 14 plants of **Cemig GT** (*Cajuru, Camargos, Gafanhoto, Itutinga, Joasal, Marmelos, Martins, Paciência, Peti, Piau, Salto Grande, Três Marias, Tronqueiras* and *Volta Grande*), and those of the *Jaguara, São Simão* and *Miranda* plants were made subject to acceptance of predefined tariffs, and indemnity of the yet unamortized investments made for each plant. At the time, Cemig GT did not accept the terms for renewal.

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

The contract for these plants gives Cemig the concession for their commercial operation for the next 30 years, and requires that: in 2016 the whole of the output will be sold in the Regulated Market, under the Physical Guarantee Quota System (*Sistema de Cotas de Garantia Física*, or CGF); and in 2017, 70% of the output will be sold in the Regulated Market and 30% in the Free Market.

Cemig's offer for acquisition of grant of the 30-year concession for the 18 hydroelectric plants was R\$ 2,216. Of this fee, 65% was paid on January 4, 2016, and the remaining 35% (initially R\$ 776) was paid on July 1, 2016 (updated by the Selic rate to a total payment of R\$ 828). The contract was signed by Cemig GT on January 5, 2016.

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In June 2016, title to Concession Contracts 08 to 16/2016, relating to the Auction won by Cemig GT on November 25, 2015, was transferred to the related specific-purpose companies (SPCs), wholly-owned subsidiaries of Cemig GT, as follows:

|                                 | <b>Balances<br/>transferred on<br/>May 31, 2016</b> | <b>Monetary<br/>updating</b> | <b>Amounts<br/>received</b> | <b>Balance at<br/>Dec. 31, 2016</b> |
|---------------------------------|---|------------------------------|-----------------------------|-------------------------------------|
| Cemig Geração Três Marias S.A.  | 1,260   | 192                          | (169)                       | 1,283                               |
| Cemig Geração Salto Grande S.A. | 396   | 60                           | (53)                        | 403                                 |
| Cemig Geração Itutinga S.A.     | 148   | 25                           | (23)                        | 150                                 |
| Cemig Geração Camargos S.A.     | 110   | 18                           | (16)                        | 112                                 |
| Cemig Geração Sul S.A.          | 145   | 26                           | (24)                        | 147                                 |
| Cemig Geração Leste S.A.        | 98  | 19                           | (18)                        | 99                                  |
| Cemig Geração Oeste S.A.        | 59  | 12                           | (11)                        | 60                                  |
| <b>Total</b>                    | <b>2,216</b>  | <b>352</b>                   | <b>(314)</b>                | <b>2,254</b>                        |

The amount of the concession grant fee was recognized as a financial asset, due to the Company having the unconditional right to receive the amount paid, plus updating by the IPCA Index and remuneratory interest, during the period of the concession.

The changes in Financial assets of the concession related to infrastructure are as follows:

|  | <b>Transmission</b> | <b>Generation</b> | <b>Distribution</b> | <b>Gas</b> | <b>Total</b> |
|--|---------------------|-------------------|---------------------|------------|--------------|
| <b>Balance on December 31, 2013</b>  | <b>779</b>          |                   | <b>5,064</b>        |            | <b>5,843</b> |
| Additions  | 80                  |                   |                     |            | 80           |
| Written off  |                     |                   | (19)                |            | (19)         |
| Updating of indemnifiable value of assets  | 420                 |                   |                     |            | 420          |
| Asset acquired in business combination   |                     |                   |                     | 656        | 656          |
| Transfers  | (1)                 |                   | 844                 | (656)      | 187          |
| Amounts received   | (6)                 |                   |                     |            | (6)          |
| Adjustment to expectation of cash flow from the indemnifiable Financial asset of the distribution concession |                     |                   | 55                  |            | 55           |
| <b>Balance on December 31, 2014</b>  | <b>1,272</b>        |                   | <b>5,944</b>        |            | <b>7,216</b> |
| Additions  | 146                 |                   |                     |            | 146          |
| Written off  | (6)                 |                   | (31)                |            | (37)         |
|  |                     |                   | (7,162)             |            | (7,162)      |

Transfer from Financial assets to Intangible assets  
on renewal of concessions

|  |              |              |            |              |
|--|--------------|--------------|------------|--------------|
| Transfers  | (2)          |              | 808        | 806          |
| Generation Indemnity receivable  |              | 546          |            | 546          |
| Amounts received   | (10)         |              |            | (10)         |
| Adjustment to expectation of cash flow from the<br>indemnifiable Financial asset of the distribution<br>concession |              |              | 578        | 578          |
| Updating of indemnifiable value of assets  | 101          |              |            | 101          |
| <b>Balance on December 31, 2015</b>  | <b>1,501</b> | <b>546</b>   | <b>137</b> | <b>2,184</b> |
| Additions  | 54           | 1            |            | 55           |
| Addition Grant Fee Plants  |              | 2,216        |            | 2,216        |
| Written off  | (3)          | 0            |            | (3)          |
| Amounts received   | (16)         | (315)        |            | (331)        |
| Transfer from Financial to Intangible assets   |              |              | 71         | 71           |
| Updating of the Concession Grant Fee   |              | 352          |            | 352          |
| Adjustment to expectation of cash flow from the<br>indemnifiable Financial asset of the distribution<br>concession |              |              | 8          | 8            |
| Monetary updating  | 751          |              |            | 751          |
| <b>Balance at December 31, 2016</b>  | <b>2,287</b> | <b>2,800</b> | <b>216</b> | <b>5,303</b> |

**Table of Contents****b) CVA Account (Compensation of Portion A items) and Other Financial Components in tariff adjustments**

The Amendment that extended the period of the concession of Cemig D guarantees that, in the event of extinction of the concession, for any reason, the remaining balances (assets and liabilities) of any shortfall in payment or reimbursement through the tariff must also be included by the Concession-granting power in the total of the indemnity.

The balances on (i) the CVA Account, (ii) the account for Neutrality of Sector Charges, and (iii) *Other financial items* in the tariff calculation, refers to the positive and negative differences between the estimate of the Company's non-manageable costs and the payments actually made. The variations found are the subject of monetary updating based on the Selic rate and compensated in the subsequent tariff adjustments.

The balances of these financial assets and liabilities are shown below. Please note that in the Interim Accounting Information the balances of each line are presented at net value in assets or liabilities in accordance with the tariff adjustments homologated or to be homologated:

| <b>Balances at December 31, 2016</b>                                   | <b>Current</b> |                    | <b>Non-current</b> |                    | <b>Total assets</b> | <b>Total liabilities</b> |
|--|----------------|--------------------|--------------------|--------------------|---------------------|--------------------------|
|  | <b>Assets</b>  | <b>Liabilities</b> | <b>Assets</b>      | <b>Liabilities</b> |                     |                          |
| <b>Items of Portion A</b>  |                |                    |                    |                    |                     |                          |
| Quota for the Energy Development Account (CDE)                         | 203            | (145)              |                    | (100)              | 203                 | (245)                    |
| Tariff for use of transmission facilities of grid participants         | 7              |                    | 3                  |                    | 10                  |                          |
| Tariff for transport of electricity provided by Itaipu                 | 8              |                    | 2                  |                    | 10                  |                          |
| Program to encourage alternative sources of electricity <i>Proinfa</i> | 15             |                    | 2                  |                    | 17                  |                          |
| System Service Charges (ESS) and                                       |                |                    |                    |                    |                     |                          |
| Reserve Energy Charge (EER)  |                | (167)              |                    | (77)               |                     | (244)                    |
| Electricity purchased for resale                                       | 1,676          | (1,300)            | 370                | (402)              | 2,046               | (1,702)                  |
| <b>Other financial components</b>                                      |                |                    |                    |                    |                     |                          |
| Overcontracting of supply  |                | (137)              |                    | (23)               |                     | (160)                    |
| Neutrality of Portion A  | 79             | (46)               | 1                  | (33)               | 80                  | (79)                     |
| Other financial items  | 3              | (266)              |                    | (66)               | 3                   | (332)                    |
| Tariff Flag balances (1)   |                | (14)               |                    |                    |                     | (14)                     |
| <b>TOTAL</b>   | <b>1,991</b>   | <b>(2,075)</b>     | <b>378</b>         | <b>(701)</b>       | <b>2,369</b>        | <b>(2,776)</b>           |

(1) Billing arising from the Tariff Flag System not yet homologated by Aneel.



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| <b>Balances at December 31, 2015</b>                                   | <b>Current</b> |                    | <b>Non-current</b> |                    | <b>Total</b>  | <b>Total</b>       |
|--|----------------|--------------------|--------------------|--------------------|---------------|--------------------|
| <b>Items of Portion A</b>  | <b>Assets</b>  | <b>Liabilities</b> | <b>Assets</b>      | <b>Liabilities</b> | <b>assets</b> | <b>liabilities</b> |
| Quota for the Energy Development Account (CDE)                         | 249            |                    | 88                 |                    | 337           |                    |
| Tariff for use of transmission facilities of grid participants         | 42             |                    | 3                  |                    | 45            |                    |
| Tariff for transport of electricity from Itaipu                        | 8              |                    | 3                  |                    | 11            |                    |
| Program to encourage alternative sources of electricity <i>Proinfa</i> | 5              | (1)                | 2                  |                    | 7             | (1)                |
| System Service Charges (ESS) and Reserve Energy Charge (EER)           |                | (255)              |                    | (53)               |               | (308)              |
| Electricity purchased for resale                                       | 2,021          | (739)              | 572                | (204)              | 2,593         | (943)              |
| <b>Other financial components</b>                                      |                |                    |                    |                    |               |                    |
| Overcontracting of supply  |                | (408)              |                    | (122)              |               | (530)              |
| Neutrality of Portion A  | 88             | (2)                | 31                 |                    | 119           | (2)                |
| Other financial items  | 11             | (1)                | 170                |                    | 181           | (1)                |
| Tariff Flag amounts (1)  |                | (158)              |                    |                    |               | (158)              |
| <b>TOTAL</b>   | <b>2,424</b>   | <b>(1,564)</b>     | <b>869</b>         | <b>(379)</b>       | <b>3,293</b>  | <b>(1,943)</b>     |

(1) Billing arising from the Tariff Flag System not yet homologated by Aneel.

| <b>Balance</b> | <b>Amounts homologated by Aneel in the last tariff adjustment</b> | <b>Amounts to be homologated by Aneel in the next tariff adjustment</b> | <b>2016</b>  | <b>2015</b>  |
|----------------|---|---|--------------|--------------|
| Assets         | 1,444   | 925   | 2,369        | 3,293        |
| Liabilities    | (1,046)   | (1,730)   | (2,776)      | (1,943)      |
|                | <b>398</b>  | <b>(805)</b>  | <b>(407)</b> | <b>1,350</b> |

This table shows changes in balances of financial assets and liabilities in 2016, 2015 and 2014:

| <b>Balance on December 31, 2013</b> |       |
|-------------------------------------|-------|
| New financial assets constituted    | 1,107 |

|   |              |
|---|--------------|
| <b>Balance on December 31, 2014</b>   | <b>1,107</b> |
| (+) New financial assets constituted  | 2,285        |
| ( ) Amortization  | (581)        |
| ( ) Receipt of funds from the ACR Account and from the Centralizing Account for Funds from the Tariff Flag System CCRBT (1) | (1,529)      |
| (+) Updating Selic rate   | 68           |
| <b>Balance on December 31, 2015</b>   | <b>1,350</b> |
| ( ) Net constitution of financial assets  | (858)        |
| ( ) Amortization  | (597)        |
| ( ) Payments from the Tariff Flag Funds Centralizing Account (1)  | (341)        |
| ( ) Transfer (2)  | (165)        |
| (+) Updating Selic rate (3)   | 204          |
| <b>Balance at December 31, 2016</b>   | <b>(407)</b> |

(1) See more details in Note 13.

(2) The financial component constituted to be passed through to the tariff at the next tariff adjustment, arising from judgments (injunctions/provisional remedy) in legal actions challenging part of the amount of the CDE (Energy Development Account) charge, was reclassified to Credits owed by Eletrobras, and will be amortized with counterpart in deductions from the monthly CDE charges to be paid to Eletrobras, in accordance with a Dispatch issued by Aneel in 2016.

(3) Includes adjustment for homologation of the CVA by Aneel which took place in May 2016.

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This table gives a summary of the financial information on the affiliated companies and jointly-controlled enterprises. The information below reflects the percentage of the Company's equity interest in each item.

|   | <b>2016</b>  | <b>2015</b>  |
|---|--------------|--------------|
| Hidrelétrica Cachoeirão   | 50           | 42           |
| Guanhães Energia  |              | 19           |
| Hidrelétrica Pipoca   | 32           | 27           |
| Retiro Baixo  | 162          | 148          |
| Aliança Norte (Belo Monte plant through Norte Energia)                              | 527          | 354          |
| Madeira Energia (Santo Antônio plant through Madeira Energia)                       | 644          | 676          |
| FIP Melbourne (Santo Antônio plant through Madeira Energia)                         | 677          | 703          |
| Lightger  | 42           | 37           |
| Baguari Energia   | 162          | 187          |
| Renova  | 689          | 1,527        |
| Aliança Geração   | 1,319        | 1,327        |
| Central Eólica Praias de Parajuru   | 63           | 63           |
| Central Eólica Volta do Rio   | 81           | 85           |
| Central Eólica Praias de Morgado  | 60           | 62           |
| Amazônia Energia (Belo Monte plant through Norte Energia)                           | 781          | 495          |
| Usina Hidrelétrica Itaocara S.A.  | 3            |              |
| Light   | 1,070        | 1,188        |
| TAESA   | 1,583        | 2,242        |
| Ativas Data Center  | 18           |              |
| Epícares Empreendimentos e Participações Ltda                                       |              |              |
| Luce  | 344          |              |
| RME   | 339          |              |
| Companhia Transleste de Transmissão   | 22           | 18           |
| Companhia Transudeste de Transmissão  | 21           | 18           |
| Companhia Transirapé de Transmissão   | 24           | 19           |
| Transchile  |              | 108          |
| Companhia de Transmissão Centroeste de Minas  | 21           | 18           |
| Axxiom Soluções Tecnológicas  | 19           | 24           |
| Parati  |              | 358          |
| Total of investments  | <b>8,753</b> | <b>9,745</b> |
| Ativas Data Center – excess of liabilities over assets of jointly-controlled entity |              | (28)         |
| Guanhães – excess of liabilities over assets of jointly-controlled entity           |              | (59)         |
| <b>Total</b>  | <b>8,694</b> | <b>9,717</b> |



The Company's investees that are not consolidated are jointly-controlled entities, with the exception of the interest in the *Santo Antônio* power plant, and Ativas Data Center, which are affiliated companies in which the Company has significant influence. It was as from the fourth quarter of 2016 that Ativas Data Center became an investee in which Cemig has significant influence.

**a) Right to commercial operation of the regulated activity**

In the process of allocation of the acquisition price of the jointly-controlled subsidiaries, a valuation was made of the intangible assets relating to the right to operate the regulated activity. This asset is presented jointly with the historic value of the investments in the table above. These assets will be amortized over the remaining period of the concessions on the straight-line basis.

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|        | Dec. 31,<br>2013 | Additional | Amortization | Dec. 31,<br>2014 | Amortization | Dec. 31,<br>2015 | Additional | Amortization | Written off  | Dec. 31,<br>2016 |
|--------|------------------|------------|--------------|------------------|--------------|------------------|------------|--------------|--------------|------------------|
| Rosal  | 6                |            | (6)          |                  |              |                  |            |              |              |                  |
| TAESA  | 452              |            | (19)         | 433              | (18)         | 415              |            | (18)         | (109)        | 288              |
| Light  | 275              |            | (22)         | 253              | (22)         | 231              |            | (22)         |              | 209              |
| Gasmig | 24               | 203        | (7)          | 220              | (5)          | 215              |            | (8)          |              | 207              |
| LUCE   |                  |            |              |                  |              |                  | 50         | (1)          |              | 49               |
| RME    |                  |            |              |                  |              |                  | 49         | (1)          |              | 48               |
|        | <b>757</b>       | <b>203</b> | <b>(54)</b>  | <b>906</b>       | <b>(45)</b>  | <b>861</b>       | <b>99</b>  | <b>(50)</b>  | <b>(109)</b> | <b>801</b>       |

b) The movement of Investments in the jointly-controlled entities in 2016, 2015 and 2014, is as follows:

|  | Dec. 31,<br>2015 | Equity<br>method<br>(Statement<br>of income) | Gain<br>(loss)<br>by<br>equity<br>method<br>(Other<br>comprehensive<br>income) | Dividends | Injections<br>/<br>acquisitions | Sales | Incorporation | Other | Dec. 31,<br>2016 |
|--|------------------|--|--|-----------|---------------------------------|-------|---------------|-------|------------------|
| Companhia Transleste<br>de Transmissão             | 18               | 6  |  | (2)       |                                 |       |               |       | 22               |
| Companhia Transudeste<br>de Transmissão            | 18               | 4  |  | (1)       |                                 |       |               |       | 21               |
| Companhia Transirapé<br>de Transmissão             | 19               | 5  |  |           |                                 |       |               |       | 24               |
| Transchile   | 108              | 2  | (23)   |           |                                 | (87)  |               |       |                  |
| Companhia de<br>Transmissão Centroeste<br>de Minas | 18               | 5  |  | (2)       |                                 |       |               |       | 21               |
| Light  | 1,188            | (121)  | 3  |           |                                 |       |               |       | 1,070            |
| Axxiom Soluções<br>Tecnológicas                    | 24               | (5)  |  |           |                                 |       |               |       | 19               |
| Luce   |                  | (18)   | 1  | (57)      | 252                             |       | 166           |       | 344              |
| RME  |                  | (20)   |  | (58)      | 247                             |       | 169           | 1     | 339              |
| Hidrelétrica Cachoeirão                            | 42               | 10   |  | (2)       |                                 |       |               |       | 50               |
| Guanhães Energia (1)                               | 19               | (103)  |  |           | 25                              |       |               | 59    | 0                |
| Hidrelétrica Pipoca                                | 27               | 5  |  |           |                                 |       |               |       | 32               |
| Madeira Energia (Santo<br>Antônio Plant through    | 676              | (71)   |  |           | 39                              |       |               |       | 644              |

|   |              |              |          |              |              |              |              |              |
|---|--------------|--------------|----------|--------------|--------------|--------------|--------------|--------------|
| Madeira Energia)  |              |              |          |              |              |              |              |              |
| FIP Melbourne (Santo Antônio Plant through Madeira Energia) | 703          | (63)         |          | 40           |              | (3)          | 677          |              |
| LightGer  | 37           | 5            |          |              |              |              | 42           |              |
| Baguari Energia   | 187          | 41           | (14)     |              |              | (52)         | 162          |              |
| Central Eólica Praias de Parajuru                           | 63           |              |          |              |              |              | 63           |              |
| Central Eólica Volta do Rio                                 | 85           | (4)          |          |              |              |              | 81           |              |
| Central Eólica Praias de Morgado                            | 62           | (2)          |          |              |              |              | 60           |              |
| Amazônia Energia  |              |              |          |              |              |              |              |              |
| (Belo Monte Plant through Norte Energia)                    | 495          | (6)          |          | 292          |              |              | 781          |              |
| Ativas Data Center (2)                                      |              | (31)         |          | 99           |              | (50)         | 18           |              |
| Parati  | 358          | (24)         | 1        |              |              | (335)        |              |              |
| Taesa   | 2,242        | 342          | (382)    |              | (619)        |              | 1,583        |              |
| Renova (3)  | 1,527        | (372)        | 19       | 278          |              | (763)        | 689          |              |
| Usina Hidrelétrica  |              |              |          |              |              |              |              |              |
| Itaocara S.A.   |              |              |          | 3            |              |              | 3            |              |
| Aliança Geração   | 1,327        | 104          | (112)    |              |              |              | 1,319        |              |
| Aliança Norte (Belo Monte Plant through Norte Energia)      |              |              |          |              |              |              |              |              |
| Norte Energia)  | 354          | (7)          |          | 180          |              |              | 527          |              |
| Retiro Baixo  | 148          | 16           | (2)      |              |              |              | 162          |              |
| <b>Total of investments</b>                                 | <b>9,745</b> | <b>(302)</b> | <b>1</b> | <b>(632)</b> | <b>1,455</b> | <b>(706)</b> | <b>(808)</b> | <b>8,753</b> |
| Ativas Data Center  |              |              |          |              |              |              |              |              |
| Uncovered liabilities of jointly-controlled entity          | (28)         |              |          |              |              |              | (28)         |              |
| Guanhães Uncovered liabilities of jointly-controlled entity |              |              |          |              |              | (59)         | (59)         |              |
| <b>Total</b>  | <b>9,717</b> | <b>(302)</b> | <b>1</b> | <b>(632)</b> | <b>1,455</b> | <b>(706)</b> | <b>(867)</b> | <b>8,666</b> |

(1) Transfer to uncovered liabilities.

(2) The amount of R\$ 50 refers to the dilution of shareholding interest arising from subscription of share capital by a new shareholder.

(3) The amount of R\$ 763 refers to the impairment of intangible concession assets resulting from the financial difficulties of Renova.

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|   | 2014         | Equity<br>method<br>gain<br>(Statement<br>of<br>income) | Equity<br>method<br>gain<br>(Other<br>comprehensive<br>income) | Dividends    | Injections<br>/<br>acquisitions | Other      | 2015         |
|---|--------------|---|--|--------------|---------------------------------|------------|--------------|
| Companhia Transleste de Transmissão                           | 14           | 8   |  | (4)          |                                 |            | 18           |
| Companhia Transudeste de Transmissão                          | 13           | 5   |  |              |                                 |            | 18           |
| Companhia Transirapé de Transmissão                           | 13           | 6   |  |              |                                 |            | 19           |
| Transchile  | 67           | 5   | 36   |              |                                 |            | 108          |
| Companhia de Transmissão Centroeste de Minas                  | 22           | 2   |  | (6)          |                                 |            | 18           |
| Light   | 1,198        | (11)  | 2  | (1)          |                                 |            | 1,188        |
| Axxiom Soluções Tecnológicas                                  | 23           | 1   |  |              |                                 |            | 24           |
| Hidrelétrica Cachoeirão                                       | 34           | 8   |  |              |                                 |            | 42           |
| Guanhães Energia  | 69           | (49)  |  | (1)          |                                 |            | 19           |
| Hidrelétrica Pipoca   | 28           | 2   |  | (3)          |                                 |            | 27           |
| Madeira Energia (Santo Antônio plant through Madeira Energia) | 674          | 2   |  |              |                                 |            | 676          |
| FIP Melbourne (Santo Antônio plant through Madeira Energia)   | 708          | (5)   |  |              |                                 |            | 703          |
| Lightger  | 38           | (1)   |  |              |                                 |            | 37           |
| Baguari Energia   | 193          | 12  |  | (18)         |                                 |            | 187          |
| Central Eólica Praias de Parajuru                             | 62           | 2   |  | (1)          |                                 |            | 63           |
| Central Eólica Volta do Rio                                   | 84           | 2   |  | (1)          |                                 |            | 85           |
| Central Eólica Praias de Morgado                              | 62           |   |  |              |                                 |            | 62           |
| Amazônia Energia (Belo Monte Plant through Norte Energia)     | 395          | (19)  |  | (1)          | 120                             |            | 495          |
| Ativas Data Center  |              | (28)  |  |              |                                 | 28         |              |
| Epícares Empreendimentos (1)                                  | 92           | 1   |  | 1            |                                 | (94)       |              |
| Parati  | 372          | 3   |  | (17)         |                                 |            | 358          |
| Taesa   | 2,188        | 383   |  | (329)        |                                 |            | 2,242        |
| Renova  | 1,538        | (25)  | 15   | (1)          |                                 |            | 1,527        |
| Aliança Geração   | 3            | 107   |  | (93)         | 581                             | 729        | 1,327        |
| Aliança Norte (Belo Monte Plant through Norte Energia)        |              | (13)  |  |              | 367                             |            | 354          |
| Retiro Baixo  | 150          | (5)   |  |              | 3                               |            | 148          |
| <b>Total do Investimento</b>                                  | <b>8,040</b> | <b>393</b>  | <b>53</b>  | <b>(475)</b> | <b>1,071</b>                    | <b>663</b> | <b>9,745</b> |

Ativas Data Center – Uncovered liabilities of jointly-controlled entity (28) (28)

|       |              |            |           |              |              |            |              |
|-------|--------------|------------|-----------|--------------|--------------|------------|--------------|
| Total | <b>8,040</b> | <b>393</b> | <b>53</b> | <b>(475)</b> | <b>1,071</b> | <b>635</b> | <b>9,717</b> |
|-------|--------------|------------|-----------|--------------|--------------|------------|--------------|

(1) The amount of R\$ 94 refers to the assets subscribed to constitute Aliança Geração;

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|  | 2013         | Equity<br>method<br>gain<br>(Statement<br>of<br>income) | Equity<br>method<br>gain<br>(Other<br>comprehensive<br>income) | Dividends    | Injections<br>/<br>acquisitions | Other        | 2014         |
|--|--------------|---|--|--------------|---------------------------------|--------------|--------------|
| Gasmig (1)   | 577          | 47  |  | (55)         |                                 | (569)        |              |
| Companhia Transleste de Transmissão                                  | 29           | 2   |  | (17)         |                                 |              | 14           |
| Companhia Transudeste de Transmissão                                 | 14           | 1   |  | (2)          |                                 |              | 13           |
| Companhia Transirapé de Transmissão                                  | 14           |   |  | (1)          |                                 |              | 13           |
| Transchile   | 55           | 2   | 10   |              |                                 |              | 67           |
| Companhia de Transmissão Centroeste<br>de Minas                      | 18           | 5   |  | (1)          |                                 |              | 22           |
| Light  | 1,190        | 150   | (6)  | (136)        |                                 |              | 1,198        |
| Axxiom Soluções Tecnológicas   | 8            | (1)   |  |              | 16                              |              | 23           |
| Hidrelétrica Cachoeirão  | 34           | 8   |  | (8)          |                                 |              | 34           |
| Guanhães Energia   | 69           |   |  |              |                                 |              | 69           |
| Hidrelétrica Pipoca  | 24           | 5   |  | (1)          |                                 |              | 28           |
| Madeira Energia (Santo Antônio plant<br>through Madeira Energia) (2) | 643          | (398)   |  |              | 429                             |              | 674          |
| FIP Melbourne (Santo Antônio plant<br>through Madeira Energia) (2)   |              | 10  |  |              | 698                             |              | 708          |
| Lightger   | 39           |   |  | (1)          |                                 |              | 38           |
| Baguari Energia  | 199          | 8   |  | (14)         |                                 |              | 193          |
| Central Eólica Praias de Parajuru                                    | 61           | 2   |  | (1)          |                                 |              | 62           |
| Central Eólica Volta do Rio  | 78           | 6   |  |              |                                 |              | 84           |
| Central Eólica Praias de Morgado                                     | 61           | 2   |  | (1)          |                                 |              | 62           |
| Amazônia Energia (Belo Monte Plant<br>through Norte Energia)         | 311          | (17)  |  |              | 101                             |              | 395          |
| Ativas Data Center   | 4            | (26)  |  |              |                                 | 22           |              |
| Epícares Empreendimentos   | 103          | 3   |  | (14)         |                                 |              | 92           |
| Parati   | 380          | 41  | (1)  | (48)         |                                 |              | 372          |
| Taesa  | 2,250        | 376   |  | (438)        |                                 |              | 2,188        |
| Renova   |              | (12)  |  |              | 1,550                           |              | 1,538        |
| Aliança  |              |   |  |              | 3                               |              | 3            |
| Retiro Baixo   |              | (4)   |  |              | 154                             |              | 150          |
|  | <b>6,161</b> | <b>210</b>  | <b>3</b>   | <b>(738)</b> | <b>2,951</b>                    | <b>(547)</b> | <b>8,040</b> |

(1) Consolidation of Gasmig began as from October 2014, and as a result the value of the investment, of R\$ 569 was eliminated.

(2) Acquisition of 7.87% interest on Madeira Energia through FIP Melbourne for R\$697,796. Cemig also has a directly-held stockholding interest of 10.00% on Madeira Energia. Cemig made a capital increase of R\$429,367 in 2016.

Cemig GT enters into controlling block of Renova

In 2013 Cemig GT entered into an Investment Agreement with Renova Energia S.A. ( Renova ), RR Participações S.A. ( RR ), Light Energia S.A. ( Light Energia ) and Chipley SP Participações S.A. ( Chipley ), governing the entry of Cemig GT, directly or indirectly, into the control block of Renova through subscription of new common shares in Renova. As a result of this transaction, Cemig GT acquired 27.37% interest in Renova Energia S.A. for R\$1,550,071 in 2014, which result in recognition of the concession intangible asset of R\$855,354.

**Acquisition of equity interest**

In the process of allocation of the acquisition prices of investments, intangible assets were identified relating to the rights of commercial operation of the regulated activities, and these were supported by economic and financial valuation opinions.

These amounts, adjusted for tax effects, will be amortized, on the straight-line basis, over the remaining periods of the authorizations for operation of each facility.

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This table gives the principal information on the subsidiaries and jointly-controlled entities, not adjusted for the percentage represented by the Company's ownership interest:

| Company                       | Number of shares | 2016             |               |        | 2015             |               |        | 2014             |               |         |
|-------------------------------|------------------|------------------|---------------|--------|------------------|---------------|--------|------------------|---------------|---------|
|                               |                  | Cemig Interest % | Share capital | Equity | Cemig Interest % | Share capital | Equity | Cemig Interest % | Share capital | Equity  |
| Cemig Geração e Transmissão   | 2,896,785,358    | 100.00           | 1,838         | 4,583  | 100.00           | 1,838         | 4,684  | 100.00           | 1,700         | 3,487   |
| Hidrelétrica                  |                  |                  |               |        |                  |               |        |                  |               |         |
| Cachoeirão                    | 35,000,000       | 49.00            | 35            | 103    | 49.00            | 35            | 83     | 49.00            | 35            | 69,991  |
| Guanhães Energia Hidrelétrica | 137,608,000      | 49.00            | 186           |        | 49.00            | 138           | 38     | 49.00            | 138           | 137,608 |
| Pipoca                        | 41,360,000       | 49.00            | 41            | 65     | 49.00            | 41            | 54     | 49.00            | 41            | 58,789  |
| Retiro Baixo                  | 222,850,000      | 49.90            | 223           | 264    | 49.90            | 223           | 296    | 49.90            | 217           | 300     |
| Aliança Norte                 |                  |                  |               |        |                  |               |        |                  |               |         |
| (Usina de Belo Monte)         | 34,715,961,339   | 49.00            | 1,014         | 1,077  | 49.00            | 647           | 723    |                  |               |         |
| Madeira Energia               |                  |                  |               |        |                  |               |        |                  |               |         |
| (Usina de Santo Antônio)      | 9,730,201,137    | 18.13            | 10,152        | 6,419  | 18.05            | 9,762         | 7,642  | 17.76            | 9,456         | 7,782   |
| Lightger                      | 79,078,937       | 49.00            | 79            | 85     | 49.00            | 79            | 76     | 49.00            | 79            | 79      |
| Baguari Energia (1)           | 26,157,300,278   | 69.39            | 187           | 248    | 69.39            | 262           | 270    | 69.39            | 262           | 279     |
| Renova (2)                    | 360,815,313      | 34.15            | 2,856         | 1,956  | 27.37            | 2,526         | 5,581  | 27.37            | 2,568         | 5,620   |
| Aliança Geração               | 1,291,582,500    | 45.00            | 1,291         | 1,973  | 45.00            | 1,291         | 2,949  |                  |               |         |
| Central Eólica                |                  |                  |               |        |                  |               |        |                  |               |         |
| Praias de Parajuru            | 70,560,000       | 49.00            | 71            | 89     | 49.00            | 71            | 129    | 49.00            | 71            | 127     |
| Central Eólica                |                  |                  |               |        |                  |               |        |                  |               |         |
| Volta do Rio                  | 117,230,000      | 49.00            | 117           | 137    | 49.00            | 117           | 174    | 49.00            | 117           | 171     |
| Central Eólica                |                  |                  |               |        |                  |               |        |                  |               |         |
| Praias de Morgado             | 52,960,000       | 49.00            | 53            | 65     | 49.00            | 53            | 127    | 49.00            | 53            | 127     |
| Amazônia Energia (1)          |                  |                  |               |        |                  |               |        |                  |               |         |
| (Usina de Belo Monte)         | 1,039,491,023    | 74.50            | 1,116         | 1,048  | 74.50            | 723           | 665    | 74.50            | 563           | 529     |
| Usina Hidrelétrica            |                  |                  |               |        |                  |               |        |                  |               |         |
| Itaocara S.A.                 | 5,677,000        | 49.00            | 6             | 6      |                  |               |        |                  |               |         |
|                               | 2,359,113,452    | 100.00           | 2,362         | 2,500  | 100.00           | 2,362         | 2,696  | 100.00           | 2,262         | 2,482   |



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|                  |               |        |       |       |        |       |       |        |       |       |
|------------------|---------------|--------|-------|-------|--------|-------|-------|--------|-------|-------|
| Cemig            |               |        |       |       |        |       |       |        |       |       |
| Distribuição     |               |        |       |       |        |       |       |        |       |       |
| Light            | 203,934,060   | 26.06  | 2,226 | 3,354 | 26.06  | 2,226 | 4,558 | 26.06  | 2,226 | 4,602 |
| Cemig Telecom    | 397,683,385   | 100.00 | 242   | 192   | 100.00 | 225   | 169   | 100.00 | 225   | 225   |
| Rosal Energia    | 46,944,467    | 100.00 | 47    | 141   | 100.00 | 47    | 122   | 100.00 | 47    | 121   |
| Sá Carvalho      | 361,200,000   | 100.00 | 37    | 106   | 100.00 | 37    | 103   | 100.00 | 37    | 107   |
| Gasmig           | 409,255,483   | 99.57  | 665   | 1,426 | 99.57  | 665   | 1,408 | 99.57  | 665   | 1,437 |
| Horizontes       |               |        |       |       |        |       |       |        |       |       |
| Energia          | 39,257,563    | 100.00 | 39    | 52    | 100.00 | 64    | 71    | 100.00 | 64    | 70    |
| Usina Térmica    |               |        |       |       |        |       |       |        |       |       |
| Ipatinga         | 174,281       | 100.00 | 0     | 4     | 100.00 |       | 4     | 100.00 | 14    | 24    |
| Cemig PCH        | 35,952,000    | 100.00 | 36    | 92    | 100.00 | 36    | 85    | 100.00 | 31    | 67    |
| Cemig Capim      |               |        |       |       |        |       |       |        |       |       |
| Branco Energia   | 87,579,000    |        |       |       | 100.00 |       |       | 100.00 | 88    | 130   |
| LUCE             | 1,379,839,905 | 66.62  | 438   | 443   |        |       |       |        |       |       |
| RME              | 1,365,421,406 | 66.27  | 434   | 440   |        |       |       |        |       |       |
| Companhia        |               |        |       |       |        |       |       |        |       |       |
| Transleste de    |               |        |       |       |        |       |       |        |       |       |
| Transmissão      | 49,569,000    | 25.00  | 50    | 81    | 25.00  | 50    | 73    | 25.00  | 50    | 54    |
| UTE Barreiro     | 30,902,000    | 100.00 | 31    | 39    | 100.00 | 31    | 30    | 100.00 | 31    | 29    |
| Companhia        |               |        |       |       |        |       |       |        |       |       |
| Transudeste de   |               |        |       |       |        |       |       |        |       |       |
| Transmissão      | 30,000,000    | 24.00  | 30    | 85    | 24.00  | 30    | 73    | 24.00  | 30    | 53    |
| Empresa de       |               |        |       |       |        |       |       |        |       |       |
| Comercialização  |               |        |       |       |        |       |       |        |       |       |
| de Energia       |               |        |       |       |        |       |       |        |       |       |
| Elétrica         | 486,000       | 100.00 |       | 20    | 100.00 |       | 9     | 100.00 |       | 9     |
| Companhia        |               |        |       |       |        |       |       |        |       |       |
| Transirapé de    |               |        |       |       |        |       |       |        |       |       |
| Transmissão      | 22,340,490    | 24.50  | 22    | 98    | 24.50  | 22    | 79    | 24.50  | 22    | 56    |
| Transchile       |               |        |       |       | 49.00  | 237   | 221   | 49.00  | 161   | 135   |
| Efficientia      | 6,051,994     | 100.00 | 6     | 5     | 100.00 | 6     | 6     | 100.00 | 6     | 5     |
| Cemig            |               |        |       |       |        |       |       |        |       |       |
| Comercializadora |               |        |       |       |        |       |       |        |       |       |
| de Energia       |               |        |       |       |        |       |       |        |       |       |
| Incentivada      | 1,000,000     | 100.00 | 1     | 2     | 100.00 | 5     | 6     | 100.00 | 5     | 5     |
| Companhia de     |               |        |       |       |        |       |       |        |       |       |
| Transmissão      |               |        |       |       |        |       |       |        |       |       |
| Centroeste de    |               |        |       |       |        |       |       |        |       |       |
| Minas            | 28,000,000    | 51.00  | 28    | 42    | 51.00  | 28    | 34    | 51.00  | 28    | 41    |
| Cemig Trading    | 1,000,000     | 100.00 | 1     | 29    | 100.00 |       | 30    | 100.00 |       | 31    |
| Axxiom Soluções  |               |        |       |       |        |       |       |        |       |       |
| Tecnológicas     |               |        |       |       |        |       |       |        |       |       |
| Parati           | 17,200,000    | 49.00  | 47    | 39    | 49.00  | 47    | 49    | 49.00  | 17    | 48    |
| TAESA            | 1,432,910,602 |        |       |       | 25.00  | 1,433 | 1,431 | 25.00  | 1,433 | 1,481 |
| TAESA            | 1,033,496,721 | 31.54  | 3,042 | 4,308 | 43.36  | 3,042 | 5,171 | 43.36  | 3,042 | 5,045 |

(1) Control shared under a Shareholders Agreement.

(2) Due to the increase in the equity interest in Renova, there was a loss item of R\$2 million reflecting the fact that Renova reported a loss for the year 2016.



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On December 31, 2016, the current liabilities of some indirectly jointly-controlled entities were higher than their current assets, as follows:

**Guanhães Energia:** This was mainly due to issuance of the second series of the sixth commercial Note issue with short-term maturity. The management of Guanhães Energia has obtained funding from the financial market and from the shareholders, allocating it principally to management of its cash for working capital, investments and financial commitments.

**Light:** On December 31, 2016, Light had a negative working capital balance of R\$ 1,259 (R\$ 423 on December 31, 2015). The operational cash flow of Light has been improving during the year due to the tariff adjustments obtained during the year ended December 31, 2015, its operational performance in 2016, reduction of investments in 2016, and the improvement of the hydrological situation. Additionally, Light has been negotiating renewal of short-term loans and financings and lengthening of its debt profile, and also expects higher operational cash flow following the tariff review. Management believes that success in these steps will reverse the current scenario of negative net working capital. It can also be noted that Light has reported positive consolidated operational cash flow from operations of R\$ 1,118 in 2016 (and R\$ 979 in 2015 and R\$585 em 2014), which has enabled it to amortize loans, financings and debentures in the amount of R\$ 319 in the year ended December 31, 2016. (In 2015 it raised funding of R\$ 160.) Further, on March 14, 2017, Aneel approved the result of the fourth Periodic Tariff Review ( RTP ) of the subsidiary Light SESA, which resulted in an average increase of 10.45% in electricity bills from March 15, 2017, ensuring renewed economic and financial balance for the distribution company.

**Madeira Energia ( Mesa ):** The excess of current liabilities over current assets, equal to R\$ 1,611 in 2016 (R\$543 in 2015), arises mainly from the account lines Suppliers, Other liabilities, Loans and financings, and Contingency provisions. To deal with the situation of negative working capital, Mesa has the benefit of a favorable decision by Aneel to revert, in liabilities, the FID (Availability Factor) account, and release of funds from the debt servicing reserve account which will be replaced by a bank guarantee, with generation of operational cash flow and, if necessary, injections of funds to be made by the shareholders.

**Renova Energia:** In the year ended December 31, 2016, Renova Energia reported a loss of R\$ 1,101 in 2016 (R\$ 93 in 2015), and on that date its current liabilities exceeded its current assets by R\$ 3,211 in 2016 (R\$ 946 in 2015) (consolidated). Further, Renova Energia has reported negative operational cash flow. The main reasons for this scenario are: (i) transactions to purchase supply of electricity, to honor commitments related to the delays in wind farms coming into operation; (ii) significant investments that are being allocated in the construction of the Alto Sertão III wind farm complex; (iii) delay in release of the long-term financing agreement with the BNDES; (iv) certain long-term financings being reclassified as current due to some ratios in covenants not being achieved, and waivers from creditors not being obtained, in 2016; and (iv) losses arising from the transaction with Terraform.

The management of Renova Energia is taking a range of measures to rebalance its liquidity and cash flow structure. These actions include: sale of certain assets; reduction of the administrative and operational structure, reducing administrative costs; financial support from shareholders, contracting of a long-term financing with the Brazilian Development Bank (BNDES); postponement of certain projects, to balance cash flow; requests to creditors for waivers, which will make possible reclassification of the debt to non-current, ensuring liquidity. The Management of Renova Energia believes that with the success of these measures it will be possible to recover economic and financial equilibrium and the Company's liquidity.

Aliança Geração: This was mainly due to lending transactions with short maturities. Management of Aliança Geração has been taking steps to improve its financial structure and working capital.

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The following table provides summarized financial information of the Company's equity investees in 2016, 2015 and 2014:

| 2016  | Parati       | Transluz   | Transira   | Quatro    | Estancia   | Luce        | RME         | Light         | Taes         | Axxion      | Aliança | Norte        |
|---|--------------|------------|------------|-----------|------------|-------------|-------------|---------------|--------------|-------------|---------|--------------|
| <b>Assets</b>                               |              |            |            |           |            |             |             |               |              |             |         |              |
| Current                                     | 12           | 50         | 41         | 61        | 32         | 6           | 3           | 3,612         | 1,955        | 66          |         | 2            |
| Cash and cash equivalents                   | 8            | 3          | 2          | 20        | 4          |             |             | 668           | 102          | 9           |         | 2            |
| Non-current                                 | 1,327        | 123        | 122        | 1         | 78         | 437         | 437         | 10,718        | 6,456        | 13          |         | 1,075        |
| <b>Total assets</b>                         | <b>1,339</b> | <b>173</b> | <b>163</b> | <b>62</b> | <b>110</b> | <b>443</b>  | <b>440</b>  | <b>14,330</b> | <b>8,411</b> | <b>79</b>   |         | <b>1,077</b> |
| <b>Liabilities</b>                          |              |            |            |           |            |             |             |               |              |             |         |              |
| Current                                     |              | 28         | 33         | 5         | 22         |             |             | 4,871         | 1,074        | 32          |         |              |
| Suppliers                                   |              |            |            |           |            |             |             | 1,342         | 37           | 1           |         |              |
| Loans and financings                        |              |            |            |           |            |             |             |               |              |             |         |              |
| Current                                     |              | 18         | 19         | 3         | 19         |             |             | 15,568        | 9            | 10          |         |              |
| Non-current                                 |              | 63         | 32         | 15        | 3          |             |             | 6,105         | 3,029        | 8           |         |              |
| Equity                                      | 1,339        | 82         | 98         | 42        | 85         | 443         | 440         | 3,354         | 4,308        | 39          |         | 1,077        |
| <b>Total liabilities</b>                    | <b>1,339</b> | <b>173</b> | <b>163</b> | <b>62</b> | <b>110</b> | <b>443</b>  | <b>440</b>  | <b>14,330</b> | <b>8,411</b> | <b>79</b>   |         | <b>1,077</b> |
| <b>Statement of income</b>                  |              |            |            |           |            |             |             |               |              |             |         |              |
| Net sales revenue                           |              | 34         | 45         | 13        | 22         |             |             | 9,645         | 1,391        | 57          |         |              |
| Cost of sales                               |              | (2)        | (19)       | (2)       | (1)        |             |             | (8,042)       | (149)        | (64)        |         |              |
| Depreciation and amortization               |              |            |            | (1)       |            |             |             | (452)         | (1)          | (2)         |         |              |
| <b>Gross profit</b>                         |              | <b>32</b>  | <b>26</b>  | <b>11</b> | <b>21</b>  |             |             | <b>1,603</b>  | <b>1,242</b> | <b>(7)</b>  |         |              |
| General and administrative expenses (SG&A): | (6)          |            | (1)        |           | (1)        | (1)         | (1)         | (753)         | (107)        | (8)         |         | (2)          |
| Financial revenues                          | 4            | 2          | 1          | 4         | 1          |             | 1           | 148           | 58           | 1           |         |              |
| Financial expenses                          | (60)         | (11)       | (5)        | (3)       | (4)        | (41)        | (41)        | (1,281)       | (223)        |             |         | (7)          |
| <b>Operational profit</b>                   | <b>(62)</b>  | <b>23</b>  | <b>21</b>  | <b>12</b> | <b>17</b>  | <b>(42)</b> | <b>(41)</b> | <b>(283)</b>  | <b>970</b>   | <b>(14)</b> |         | <b>(9)</b>   |
| Income tax and the Social Contribution tax  |              | (2)        | (2)        | (1)       | (1)        |             |             | (30)          | (108)        | 5           |         |              |
| <b>Net profit for the year</b>              | <b>(62)</b>  | <b>21</b>  | <b>19</b>  | <b>11</b> | <b>16</b>  | <b>(42)</b> | <b>(41)</b> | <b>(313)</b>  | <b>862</b>   | <b>(9)</b>  |         | <b>(9)</b>   |

|   |      |    |    |    |    |      |      |       |     |     |     |
|---|------|----|----|----|----|------|------|-------|-----|-----|-----|
| <b>Other comprehensive income for the year</b>    |      |    |    |    |    |      |      |       |     |     |     |
| Net profit for the year                           | (62) | 21 | 19 | 11 | 16 | (42) | (41) | (313) | 862 | (9) | (9) |
| Gain (loss) on conversion of financial statements |      |    |    |    |    |      |      | (86)  |     |     |     |
| Actuarial gains (losses)                          |      |    |    |    |    |      |      |       |     |     |     |
| <b>Comprehensive income for the year</b>          | (62) | 21 | 19 | 11 | 16 | (42) | (41) | (399) | 862 | (9) | (9) |

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| 2016                                       | Bagua Cachoeira Energia | Guanhães Energia | Madeira Energia | Pipoca        | Retiro Baixo | Renova     | Parajum      | Morgado    | Volta do Rio Light | Ge Energia | Amazônia   | Aliança Geração |              |
|--|-------------------------|------------------|-----------------|---------------|--------------|------------|--------------|------------|--------------------|------------|------------|-----------------|--------------|
| <b>Assets</b>                              |                         |                  |                 |               |              |            |              |            |                    |            |            |                 |              |
| Current                                    | 43                      | 45               | 16              | 1,520         | 20           | 30         | 136          | 38         | 24                 | 37         | 35         | 388             |              |
| Cash and cash equivalents                  | 40                      | 11               | 1               | 58            | 17           | 19         | 36           | 18         | 17                 | 27         | 32         | 147             |              |
| Non-current                                | 86                      | 220              | 65              | 23,557        | 98           | 377        | 5,765        | 128        | 142                | 245        | 152        | 1,048           | 2,512        |
| <b>Total assets</b>                        | <b>129</b>              | <b>265</b>       | <b>81</b>       | <b>25,077</b> | <b>118</b>   | <b>407</b> | <b>5,901</b> | <b>166</b> | <b>166</b>         | <b>282</b> | <b>187</b> | <b>1,048</b>    | <b>2,900</b> |
| <b>Liabilities</b>                         |                         |                  |                 |               |              |            |              |            |                    |            |            |                 |              |
| Current                                    | 9                       | 12               | 191             | 3,131         | 8            | 25         | 3,347        | 19         | 27                 | 37         | 16         | 592             |              |
| Suppliers                                  | 2                       | 6                |                 | 662           |              | 1          | 547          | 1          | 1                  | 1          | 6          | 101             |              |
| Non-current                                | 17                      | 5                | 11              | 15,527        | 45           | 118        | 598          | 58         | 74                 | 108        | 86         | 335             |              |
| Equity                                     | 103                     | 248              | (121)           | 6,419         | 65           | 264        | 1,956        | 89         | 65                 | 137        | 85         | 1,048           | 1,973        |
| <b>Total liabilities</b>                   | <b>129</b>              | <b>265</b>       | <b>81</b>       | <b>25,077</b> | <b>118</b>   | <b>407</b> | <b>5,901</b> | <b>166</b> | <b>166</b>         | <b>282</b> | <b>187</b> | <b>1,048</b>    | <b>2,900</b> |
| <b>Statement of income</b>                 |                         |                  |                 |               |              |            |              |            |                    |            |            |                 |              |
| Net sales revenue                          | 34                      | 65               |                 | 2,803         | 25           | 62         | 484          | 27         | 22                 | 29         | 36         | 804             |              |
| Cost of sales                              | (10)                    | (12)             |                 | (1,845)       | (6)          | (29)       | (454)        | (17)       | (17)               | (27)       | (17)       | (314)           |              |
| Depreciation and amortization              | (3)                     | (9)              |                 | (673)         | (3)          | (9)        | (93)         | (10)       | (10)               | (17)       | (11)       | (125)           |              |
| <b>Gross profit</b>                        | <b>24</b>               | <b>53</b>        |                 | <b>958</b>    | <b>19</b>    | <b>33</b>  | <b>30</b>    | <b>10</b>  | <b>5</b>           | <b>2</b>   | <b>19</b>  | <b>490</b>      |              |
| General and administrative expenses (SG&A) |                         | (1)              |                 | (146)         | (2)          |            | (41)         | (1)        | (1)                | (2)        | (1)        | (1)             | (58)         |
| Impairment of PP&E                         |                         |                  |                 |               |              |            | (281)        |            |                    |            |            |                 |              |
| Adjustment for losses on investment        |                         |                  |                 |               |              |            | (455)        |            |                    |            |            |                 |              |
| Financial revenues                         | 4                       | 15               |                 | 146           | 2            | 2          | 16           | 3          | 3                  | 5          | 3          | 46              |              |
| Financial expenses                         | (3)                     | (1)              | (208)           | (1,552)       | (6)          | (15)       | (424)        | (7)        | (10)               | (15)       | (10)       | (8)             | (58)         |

|   |     |     |       |       |     |     |         |     |     |      |     |     |       |
|---|-----|-----|-------|-------|-----|-----|---------|-----|-----|------|-----|-----|-------|
| <b>Operational profit</b>                         | 25  | 66  | (208) | (594) | 13  | 20  | (1,155) | 5   | (3) | (10) | 11  | (9) | 420   |
| Income tax and the Social Contribution tax        | (2) | (7) |       | (23)  | (2) | (3) | 54      | (2) | 1   | 3    | (3) |     | (127) |
| <b>Net profit for the year</b>                    | 23  | 59  | (208) | (617) | 11  | 17  | (1,101) | 3   | (2) | (7)  | 8   | (9) | 293   |
| <b>Comprehensive income for the year</b>          |     |     |       |       |     |     |         |     |     |      |     |     |       |
| Net profit for the year                           | 23  | 59  | (208) | (617) | 11  | 17  | (1,101) | 3   | (2) | (7)  | 8   | (9) | 293   |
| Gain (loss) on conversion of financial statements |     |     |       |       |     |     | (182)   |     |     |      |     |     |       |
| <b>Other comprehensive income for the year</b>    | 23  | 59  | (208) | (617) | 11  | 17  | (1,283) | 3   | (2) | (7)  | 8   | (9) | 293   |



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| 2015                                   | Parati       | Translândia | Transira   | Quatro    | Estados    | Transchile | Light         | Taesa        | Axiom     | Aliança Norte | Cachoeirão |
|--|--------------|-------------|------------|-----------|------------|------------|---------------|--------------|-----------|---------------|------------|
| <b>Assets</b>                          |              |             |            |           |            |            |               |              |           |               |            |
| Current                                | 59           | 47          | 34         | 58        | 32         | 39         | 3,976         | 2,082        | 74        | 1             | 28         |
| Cash and cash equivalents              | 46           | 8           | 6          | 16        | 6          | 36         | 447           | 132          | 7         | 1             | 23         |
| Non-current                            | 1,408        | 128         | 114        | 1         | 81         | 299        | 11,818        | 7,574        | 14        | 726           | 89         |
| <b>Total assets</b>                    | <b>1,467</b> | <b>175</b>  | <b>148</b> | <b>59</b> | <b>113</b> | <b>338</b> | <b>15,794</b> | <b>9,656</b> | <b>88</b> | <b>727</b>    | <b>117</b> |
| <b>Liabilities</b>                     |              |             |            |           |            |            |               |              |           |               |            |
| Current                                | 36           | 18          | 20         | 4         | 17         | 21         | 4,399         | 1,008        | 34        |               | 10         |
| Suppliers                              |              |             |            |           |            |            | 1,450         | 34           | 2         |               | 2          |
| Loans and financings current           |              | 6           | 3          | 2         |            | 10         | 1,629         | 628          | 5         |               |            |
| Non-current                            |              | 84          | 49         | 21        | 23         | 96         | 6,838         | 3,477        | 5         | 4             | 24         |
| Equity                                 | 1,431        | 73          | 79         | 34        | 73         | 221        | 4,557         | 5,171        | 49        | 723           | 83         |
| <b>Total liabilities</b>               | <b>1,467</b> | <b>175</b>  | <b>148</b> | <b>59</b> | <b>113</b> | <b>338</b> | <b>15,794</b> | <b>9,656</b> | <b>88</b> | <b>727</b>    | <b>117</b> |
| <b>Statement of Income</b>             |              |             |            |           |            |            |               |              |           |               |            |
| Net sales revenue                      |              | 33          | 34         | 14        | 22         | 28         | 1,222         | 1,973        | 66        |               | 30         |
| Cost of sales                          |              | (4)         | (13)       | (4)       | (2)        | (10)       | (460)         | (287)        | (59)      |               | (14)       |
| Depreciation and amortization          |              |             |            | (1)       |            | (9)        | (412)         | (15)         | (1)       |               | (3)        |
| <b>Gross profit</b>                    |              | <b>29</b>   | <b>21</b>  | <b>10</b> | <b>20</b>  | <b>18</b>  | <b>762</b>    | <b>1,686</b> | <b>7</b>  |               | <b>16</b>  |
| General and administrative expenses    |              |             |            |           |            |            | (91)          |              | (6)       |               |            |
| Net financial revenue (expenses)       | 11           | (9)         | (5)        | (3)       | (5)        | (6)        | (672)         | (562)        |           | (27)          | (1)        |
| Financial revenues                     | 48           | 2           | 1          | 2         | 1          |            | 1,371         | 769          | 1         |               | 2          |
| Financial expenses                     | (37)         | (11)        | (6)        | (5)       | (6)        | (6)        | (2,043)       | (1,331)      | (1)       | (27)          | (3)        |
| <b>Operating profit</b>                | <b>11</b>    | <b>20</b>   | <b>16</b>  | <b>7</b>  | <b>15</b>  | <b>12</b>  | <b>(1)</b>    | <b>1,124</b> | <b>1</b>  | <b>(27)</b>   | <b>15</b>  |
| Income tax and Social Contribution tax |              | (2)         | (1)        | (1)       | (1)        |            | (40)          | (241)        |           |               | (2)        |

|                                |           |           |           |          |           |           |             |            |          |             |           |
|--------------------------------|-----------|-----------|-----------|----------|-----------|-----------|-------------|------------|----------|-------------|-----------|
| <b>Net profit for the year</b> | <b>11</b> | <b>18</b> | <b>15</b> | <b>6</b> | <b>14</b> | <b>12</b> | <b>(41)</b> | <b>883</b> | <b>1</b> | <b>(27)</b> | <b>13</b> |
|--------------------------------|-----------|-----------|-----------|----------|-----------|-----------|-------------|------------|----------|-------------|-----------|

**Comprehensive income for the year**

|                         |    |    |    |   |    |    |      |     |   |      |    |
|-------------------------|----|----|----|---|----|----|------|-----|---|------|----|
| Net profit for the year | 11 | 18 | 15 | 6 | 14 | 12 | (41) | 883 | 1 | (27) | 13 |
| Actuarial gain (loss)   | 1  |    |    |   |    |    | 8    |     |   |      |    |

**Other comprehensive income for the year**

|  |           |           |           |          |           |           |             |            |          |             |           |
|--|-----------|-----------|-----------|----------|-----------|-----------|-------------|------------|----------|-------------|-----------|
|  | <b>12</b> | <b>18</b> | <b>15</b> | <b>6</b> | <b>14</b> | <b>12</b> | <b>(33)</b> | <b>883</b> | <b>1</b> | <b>(27)</b> | <b>13</b> |
|--|-----------|-----------|-----------|----------|-----------|-----------|-------------|------------|----------|-------------|-----------|

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| 2015                                   | Bagua<br>Energia | Guanhães<br>Energia | Madeira<br>Energia | Retiro<br>Pipoca | Baixo<br>Baixo | Renova<br>Renova | Parajuru<br>Parajuru | Morgado<br>Morgado | Volta<br>do<br>Rio | Light<br>Light | Amazônia<br>Energia | Aliança<br>Geração |
|--|------------------|---------------------|--------------------|------------------|----------------|------------------|----------------------|--------------------|--------------------|----------------|---------------------|--------------------|
| <b>Assets</b>                          |                  |                     |                    |                  |                |                  |                      |                    |                    |                |                     |                    |
| Current                                | 72               | 2                   | 1,608              | 13               | 10             | 551              | 21                   | 31                 | 46                 | 23             |                     | 243                |
| Cash and cash equivalents              | 9                | 1                   | 300                |                  | 1              | 66               | 12                   | 12                 | 20                 | 14             |                     | 70                 |
| Non-current                            | 220              | 248                 | 23,754             | 101              | 443            | 8,425            | 192                  | 209                | 290                | 161            | 666                 | 3,093              |
| <b>Total assets</b>                    | <b>292</b>       | <b>250</b>          | <b>25,362</b>      | <b>114</b>       | <b>453</b>     | <b>8,976</b>     | <b>213</b>           | <b>240</b>         | <b>336</b>         | <b>184</b>     | <b>666</b>          | <b>3,336</b>       |
| <b>Liabilities</b>                     |                  |                     |                    |                  |                |                  |                      |                    |                    |                |                     |                    |
| Current                                | 16               | 212                 | 2,151              | 10               | 25             | 1,497            | 18                   | 28                 | 36                 | 14             |                     | 113                |
| Suppliers                              | 6                |                     | 384                |                  | 6              | 570              |                      |                    | 1                  | 4              |                     | 36                 |
| Non-current                            | 6                |                     | 15,569             | 50               | 132            | 1,898            | 66                   | 85                 | 126                | 94             |                     | 274                |
| Equity                                 | 270              | 38                  | 7,642              | 54               | 296            | 5,581            | 129                  | 127                | 174                | 76             | 666                 | 2,949              |
| <b>Total liabilities</b>               | <b>292</b>       | <b>250</b>          | <b>25,362</b>      | <b>114</b>       | <b>453</b>     | <b>8,976</b>     | <b>213</b>           | <b>240</b>         | <b>336</b>         | <b>184</b>     | <b>666</b>          | <b>3,336</b>       |
| <b>Statement of Income</b>             |                  |                     |                    |                  |                |                  |                      |                    |                    |                |                     |                    |
| Net sales revenue                      | 59               |                     | 2,605              | 22               | 53             | 458              | 31                   | 34                 | 47                 | 32             |                     | 797                |
| Cost of sales                          | (46)             |                     | (1,103)            | (11)             | (40)           | (5)              | (16)                 | (18)               | (28)               | (25)           |                     | (442)              |
| Depreciation and amortization          | (9)              |                     | (471)              | (3)              | (9)            | (4)              | (10)                 | (10)               | (17)               | (10)           |                     | (69)               |
| <b>Gross profit</b>                    | <b>13</b>        |                     | <b>1,502</b>       | <b>11</b>        | <b>13</b>      | <b>453</b>       | <b>15</b>            | <b>16</b>          | <b>19</b>          | <b>7</b>       |                     | <b>355</b>         |
| General and administrative expenses    |                  | (86)                | (816)              | (2)              | (11)           |                  | (5)                  | (6)                | (2)                | (1)            | (2)                 | (69)               |
| Net financial revenue (expenses)       | 9                | (14)                | (967)              | (3)              | (13)           | (355)            | (5)                  | (8)                | (11)               | (7)            | (23)                | (18)               |
| Financial revenues                     | 10               |                     | 950                | 2                | 1              | 41               | 2                    | 2                  | 3                  | 2              |                     | 9                  |
| Financial expenses                     | (1)              | (14)                | (1,917)            | (5)              | (14)           | (396)            | (7)                  | (10)               | (14)               | (9)            | (23)                | (27)               |
| <b>Operating profit</b>                | <b>22</b>        | <b>(100)</b>        | <b>(281)</b>       | <b>6</b>         | <b>(11)</b>    | <b>98</b>        | <b>5</b>             | <b>2</b>           | <b>6</b>           | <b>(1)</b>     | <b>(25)</b>         | <b>268</b>         |
| Income tax and Social Contribution tax | (5)              |                     | 266                | (1)              | 1              | (191)            | (1)                  | (1)                | (2)                | (2)            |                     | (30)               |

|                                |           |              |             |          |             |             |          |          |          |            |             |            |
|--------------------------------|-----------|--------------|-------------|----------|-------------|-------------|----------|----------|----------|------------|-------------|------------|
| <b>Net profit for the year</b> | <b>17</b> | <b>(100)</b> | <b>(15)</b> | <b>5</b> | <b>(10)</b> | <b>(93)</b> | <b>4</b> | <b>1</b> | <b>4</b> | <b>(3)</b> | <b>(25)</b> | <b>238</b> |
|--------------------------------|-----------|--------------|-------------|----------|-------------|-------------|----------|----------|----------|------------|-------------|------------|

**Comprehensive income for the year**

|                         |    |       |      |   |      |      |   |   |   |     |      |     |
|-------------------------|----|-------|------|---|------|------|---|---|---|-----|------|-----|
| Net profit for the year | 17 | (100) | (15) | 5 | (10) | (93) | 4 | 1 | 4 | (3) | (25) | 238 |
|-------------------------|----|-------|------|---|------|------|---|---|---|-----|------|-----|

|   |  |  |  |  |  |    |  |  |  |  |  |  |
|---|--|--|--|--|--|----|--|--|--|--|--|--|
| Gain (loss) on conversion of financial statements |  |  |  |  |  | 54 |  |  |  |  |  |  |
|---|--|--|--|--|--|----|--|--|--|--|--|--|

**Other comprehensive income for the year**

|  |           |              |             |          |             |             |          |          |          |            |             |            |
|--|-----------|--------------|-------------|----------|-------------|-------------|----------|----------|----------|------------|-------------|------------|
|  | <b>17</b> | <b>(100)</b> | <b>(15)</b> | <b>5</b> | <b>(10)</b> | <b>(39)</b> | <b>4</b> | <b>1</b> | <b>4</b> | <b>(3)</b> | <b>(25)</b> | <b>238</b> |
|--|-----------|--------------|-------------|----------|-------------|-------------|----------|----------|----------|------------|-------------|------------|

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| <b>2014</b>                            | <b>Parati</b> | <b>Transluz</b> | <b>Transira</b> | <b>Quatro</b> | <b>Estansul</b> | <b>Estansul</b> | <b>Estansul</b> | <b>Light</b> | <b>Taes</b> | <b>Axiom</b> | <b>Ativas</b> | <b>Epicas</b> |
|--|---------------|-----------------|-----------------|---------------|-----------------|-----------------|-----------------|--------------|-------------|--------------|---------------|---------------|
| <b>Assets</b>                          |               |                 |                 |               |                 |                 |                 |              |             |              |               |               |
| Current                                | 125           | 47              | 35              | 67            | 30              | 24              | 2,466           | 2,292        | 70          | 40           | 31            |               |
| Cash and cash equivalents              | 42            | 7               | 7               | 19            | 4               | 22              | 506             | 329          | 9           | 16           | 14            |               |
| Non-current                            | 1,390         | 121             | 101             |               | 80              | 208             | 12,141          | 7,197        | 13          | 71           | 157           |               |
| <b>Total assets</b>                    | <b>1,515</b>  | <b>168</b>      | <b>136</b>      | <b>67</b>     | <b>110</b>      | <b>232</b>      | <b>14,607</b>   | <b>9,489</b> | <b>83</b>   | <b>111</b>   | <b>188</b>    |               |
| <b>Liabilities</b>                     |               |                 |                 |               |                 |                 |                 |              |             |              |               |               |
| Current                                | 34            | 6               | 16              | 8             | 12              | 15              | 2,963           | 940          | 26          | 59           | 1             |               |
| Suppliers                              |               |                 | 3               |               |                 |                 | 1,945           | 53           | 2           | 5            |               |               |
| Loans and financings current           |               |                 |                 |               |                 |                 | 580             | 723          |             |              |               |               |
| Non-current                            |               | 108             | 64              | 18            | 45              | 82              | 7,042           | 3,504        | 9           | 79           | 2             |               |
| Equity                                 | 1,481         | 54              | 56              | 41            | 53              | 135             | 4,602           | 5,045        | 48          | (27)         | 185           |               |
| <b>Total liabilities</b>               | <b>1,515</b>  | <b>168</b>      | <b>136</b>      | <b>67</b>     | <b>110</b>      | <b>232</b>      | <b>14,607</b>   | <b>9,489</b> | <b>83</b>   | <b>111</b>   | <b>188</b>    |               |
| <b>Statement of Income</b>             |               |                 |                 |               |                 |                 |                 |              |             |              |               |               |
| Net sales revenue                      |               | 30              | 52              | 14            | 20              | 20              | 9,223           | 1,924        | 57          | 26           | 41            |               |
| Cost of sales                          |               | (4)             | (34)            | (4)           | (2)             | (13)            | (7,798)         | (295)        | (54)        | (29)         | (15)          |               |
| Depreciation and amortization          |               |                 |                 |               |                 | (5)             | (415)           | (3)          | 1           | 7            | 8             |               |
| <b>Gross profit</b>                    |               | <b>26</b>       | <b>18</b>       | <b>10</b>     | <b>18</b>       | <b>7</b>        | <b>1,425</b>    | <b>1,629</b> | <b>3</b>    | <b>(3)</b>   | <b>26</b>     |               |
| General and administrative expenses    |               | (6)             |                 |               |                 |                 | (163)           | (29)         |             | (10)         | (12)          |               |
| Net financial revenue (expenses)       | 143           | (5)             | (4)             |               | (5)             | (3)             | (325)           | (469)        | (1)         | (14)         | 1             |               |
| Financial revenues                     | 143           | 1               | 1               | 2             | 1               |                 | 577             | 276          | 1           | 2            | 1             |               |
| Financial expenses                     |               | (6)             | (5)             | (2)           | (6)             | (3)             | (902)           | (745)        | (2)         | (16)         |               |               |
| <b>Operating profit</b>                | <b>137</b>    | <b>21</b>       | <b>14</b>       | <b>10</b>     | <b>13</b>       | <b>4</b>        | <b>937</b>      | <b>1,131</b> | <b>2</b>    | <b>(27)</b>  | <b>15</b>     |               |
| Income tax and Social Contribution tax |               | (2)             | (13)            | (12)          | (1)             | (9)             | (1)             | (273)        | (239)       |              |               | (2)           |
| <b>Net profit for the year</b>         | <b>135</b>    | <b>8</b>        | <b>2</b>        | <b>9</b>      | <b>4</b>        | <b>3</b>        | <b>664</b>      | <b>892</b>   | <b>2</b>    | <b>(27)</b>  | <b>13</b>     |               |

**Comprehensive  
income for the year**

|                            |     |   |   |   |   |    |      |     |   |      |    |
|----------------------------|-----|---|---|---|---|----|------|-----|---|------|----|
| Net profit for the year    | 135 | 8 | 2 | 9 | 4 | 3  | 664  | 892 | 2 | (27) | 13 |
| Gain (loss) on translation |     |   |   |   |   | 19 |      |     |   |      |    |
| Actuarial gains (losses)   |     |   |   |   |   |    | (17) |     |   |      |    |

**Other  
comprehensive  
income for the year**

|  |     |   |   |   |   |    |     |     |   |      |    |
|--|-----|---|---|---|---|----|-----|-----|---|------|----|
|  | 135 | 8 | 2 | 9 | 4 | 22 | 647 | 892 | 2 | (27) | 13 |
|--|-----|---|---|---|---|----|-----|-----|---|------|----|

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| <b>2014</b>                            | <b>Baguaçu</b>   | <b>Guanhães</b> | <b>Madeira</b> | <b>Retiro</b>  | <b>Volta</b> | <b>Amazônia</b> |                 |                |            |              |                |             |  |
|--|------------------|-----------------|----------------|----------------|--------------|-----------------|-----------------|----------------|------------|--------------|----------------|-------------|--|
|  | <b>Cachoeira</b> | <b>Energia</b>  | <b>Energia</b> | <b>Pipoca</b>  | <b>Baixo</b> | <b>Renova</b>   | <b>Parajuru</b> | <b>Morgado</b> | <b>Rio</b> | <b>Light</b> | <b>Energia</b> |             |  |
| <b>Assets</b>                          |                  |                 |                |                |              |                 |                 |                |            |              |                |             |  |
| Current                                | 23               | 96              | 34             | 1,477          | 19           | 12              | 847             | 15             | 27         | 41           | 21             |             |  |
| Cash and cash equivalents              | 19               | 15              | 27             | 241            | 13           | 3               | 596             | 4              | 4          | 4            | 16             |             |  |
| Non-current                            | 91               | 228             | 511            | 22,151         | 104          | 453             | 8,402           | 204            | 223        | 304          | 170            | 529         |  |
| <b>Total assets</b>                    | <b>114</b>       | <b>324</b>      | <b>545</b>     | <b>23,628</b>  | <b>123</b>   | <b>465</b>      | <b>9,249</b>    | <b>219</b>     | <b>250</b> | <b>345</b>   | <b>191</b>     | <b>529</b>  |  |
| <b>Liabilities</b>                     |                  |                 |                |                |              |                 |                 |                |            |              |                |             |  |
| Current                                | 14               | 39              | 407            | 1,961          | 7            | 20              | 656             | 17             | 22         | 26           | 10             |             |  |
| Suppliers                              | 2                | 9               | 1              | 1,282          |              |                 | 130             | 2              | 2          | 2            | 1              |             |  |
| Loans and financings current           |                  |                 |                | 406            |              |                 |                 |                |            |              |                |             |  |
| Non-current                            | 30               | 6               |                | 13,885         | 57           | 145             | 2,973           | 75             | 101        | 148          | 102            |             |  |
| Equity                                 | 70               | 279             | 138            | 7,782          | 59           | 300             | 5,620           | 127            | 127        | 171          | 79             | 529         |  |
| <b>Total liabilities</b>               | <b>114</b>       | <b>324</b>      | <b>545</b>     | <b>23,628</b>  | <b>123</b>   | <b>465</b>      | <b>9,249</b>    | <b>219</b>     | <b>250</b> | <b>345</b>   | <b>191</b>     | <b>529</b>  |  |
| <b>Statement of Income</b>             |                  |                 |                |                |              |                 |                 |                |            |              |                |             |  |
| Net sales revenue                      | 30               | 56              |                | 1,858          | 25           | 55              | 163             | 27             | 35         | 55           | 32             |             |  |
| Cost of sales                          | (10)             | (46)            |                | (3,194)        | (9)          | (29)            | (141)           | (13)           | (16)       | (25)         | (24)           |             |  |
| Depreciation and amortization          | (3)              | (9)             |                | (296)          | (3)          | (3)             | (31)            | (9)            | (10)       | (17)         | (11)           |             |  |
| <b>Gross profit</b>                    | <b>20</b>        | <b>10</b>       |                | <b>(1,336)</b> | <b>16</b>    | <b>26</b>       | <b>22</b>       | <b>14</b>      | <b>19</b>  | <b>30</b>    | <b>8</b>       |             |  |
| General and administrative expenses    | (1)              |                 |                | (202)          | (1)          | (4)             | (14)            | (4)            | (5)        | (5)          |                | (23)        |  |
| Net financial revenue (expenses)       | (1)              | 8               |                | (602)          | (3)          | (26)            | (45)            | (5)            | (8)        | (11)         | (6)            |             |  |
| Financial revenues                     | 2                | 9               |                | 57             | 1            | 1               | 24              | 1              | 1          | 1            | 2              |             |  |
| Financial expenses                     | (3)              | (1)             |                | (659)          | (4)          | (27)            | (69)            | (6)            | (9)        | (12)         | (8)            |             |  |
| <b>Operating profit</b>                | <b>18</b>        | <b>18</b>       |                | <b>(2,140)</b> | <b>12</b>    | <b>(4)</b>      | <b>(37)</b>     | <b>5</b>       | <b>6</b>   | <b>14</b>    | <b>2</b>       | <b>(23)</b> |  |
| Income tax and Social Contribution tax | (2)              | (6)             |                | 5              | (1)          | (2)             | (6)             | (1)            | (1)        | (1)          | (2)            |             |  |

|                                |    |    |         |    |     |      |   |   |    |      |
|--------------------------------|----|----|---------|----|-----|------|---|---|----|------|
| <b>Net profit for the year</b> | 16 | 12 | (2.135) | 11 | (6) | (43) | 4 | 5 | 13 | (23) |
|--------------------------------|----|----|---------|----|-----|------|---|---|----|------|

**Comprehensive income for the year**

|                         |    |    |         |    |     |      |   |   |    |      |
|-------------------------|----|----|---------|----|-----|------|---|---|----|------|
| Net profit for the year | 16 | 12 | (2.135) | 11 | (6) | (43) | 4 | 5 | 13 | (23) |
|-------------------------|----|----|---------|----|-----|------|---|---|----|------|

**Other comprehensive income for the year**

|  |    |    |         |    |     |      |   |   |    |      |
|--|----|----|---------|----|-----|------|---|---|----|------|
|  | 16 | 12 | (2.135) | 11 | (6) | (43) | 4 | 5 | 13 | (23) |
|--|----|----|---------|----|-----|------|---|---|----|------|



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**Investments in jointly controlled entities and affiliated companies**

**Investment in the Santo Antônio Hydroelectric Plant, through Madeira Energia S.A. (Mesa) and FIP Melbourne**

The Company has direct and indirect investments in Madeira Energia S.A. (which holds an investment in Santo Antônio Energia S.A.), of R\$ 1,321 on December 31, 2016 (R\$1,379 in 2015).

Madeira Energia S.A. ( Mesa ) and its subsidiary Santo Antônio Energia S.A. ( Saesa ) are incurring establishment costs related to the construction of the Santo Antônio Hydroelectric Plant. The property, plant and equipment asset constituted by these expenditures totaled R\$ 22,440 (consolidated) on December 31, 2016, and this amount, according to financial projections prepared by its management, is to be absorbed by future revenues generated as from January, 2017, when all the generator rotors of that entity came into operation.

Investigations and other legal measures are in progress, conducted by the Federal Public Attorneys Office, which involve other indirect shareholders of Madeira Energia S.A. and certain executives of those other indirect shareholders.

*Arbitration proceedings*

In 2014, SAAG Investimentos S.A. (SAAG) and Cemig GT opened arbitration proceedings, *in camera*, in the Market Arbitration Chamber, challenging the following: (a) the increase approved in the capital of Mesa of approximately R\$ 750 partially destined to payment of the claims by the Santo Antonio Construction Consortium ( CCSA ), based on absence of investigative quantification of the amounts supposedly owed, and absence of prior approval by the Board of Directors, as required by the bylaws and Shareholders Agreement of Mesa; and also on the existence of credits owed to Mesa by CCSA, able to be offset, in an amount greater than the claims; and (b) the adjustment for impairment carried out by the Executive Board of Mesa, in the amount of R\$ 750, relating to certain credits owed to Mesa by CCSA, on the grounds that these credits, under an express contractual provision, are owed in their entirety. Posting of this impairment contributed to Mesa s situation of negative Net working capital on December 31, 2016, as described above.

The shareholders SAAG and Cemig GT successfully filed an action for provisional remedy for exercise of the right of first refusal to subscribe the additional portion of the capital of Mesa, in the amount of R\$ 175, that was approved in the Extraordinary General Meeting of Stockholders of Mesa held on October 21, 2014. The judgment also suspended all the effects of the decisions as they relate to SAAG and Cemig GT and to their interests in Mesa, including in relation to the dilution and the penalties specified in the shareholders Agreement of Mesa.

In 2016 the arbitration judgment given by the Market Arbitration Chamber recognized in full the right of Cemig and SAAG, and ordered annulment of the acts being impugned. SAAG and CEMIG are in the process of adopting measures to implement the decision referred to.

**Investment in the Belo Monte Plant through Amazônia Energia S.A. and Aliança Norte**

Amazônia Energia and Aliança Norte are shareholders 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.

Through the jointly-controlled entities referred to above, Cemig GT owns an indirect equity interest in Nesa of 11.74%.

Nesa will still require significant funds for costs of organization, development and pre-operational costs for completion of the plant. According to estimates and forecasts these costs will be repaid by the revenues from future operations.

On April 7, 2015, Nesa was awarded interim judgment ordering Aneel to abstain, until hearing of the application for an injunction made in the origin case, from applying to Appellant any penalties or sanctions in relation to the Belo Monte Hydroelectric Plant not coming into operation on the date established in the original timetable for the project, including those specified in an Aneel Normative Resolution and in the Concession Contract for the Belo Monte Hydroelectric Plant . The amount of the estimated loss in Belo Monte up to December 31, 2016 is R\$ 74.

Based on this injunction, all records and the accounting provisions inherent to compliance with the requirements of the concession contract were suspended, but Aliança Norte Energia continues to purchase electricity on the spot market to avoid any future penalties.

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Investigations and other legal measures are in progress, conducted by the Federal Public Attorneys Office, which involve other shareholders of Norte Energia S.A. and certain executives of those other shareholders.

Any changes in the existing scenario will have their impacts reflected in the financial statements.

**Summary of the conclusions of the independent investigation**

Centrais Elétricas Brasileiras S.A. ( Eletrobras ) owns an equity interest of 49.98% in Nesa, and has contracted a specialized law office to carry out an independent internal investigation for the purpose of finding any irregularities that may have taken place in projects in which it has an equity interest, including NESA. The motive for this procedure was investigations that were being carried out by the Public Attorneys Office on irregularities involving some of the contractors and suppliers in investments where Eletrobras was a shareholder, including the company Nesa.

The final reports of the independent internal investigation include certain findings with estimated impacts on the financial statements of Nesa. It was found that certain contracts with some contractors and suppliers of the *Belo Monte* Hydroelectric Plant contain impacts estimated at 1% of the price of a contract, and other estimates of certain fixed amounts, to include bribes and activities of manipulation of bids considered to be of an unlawful nature.

Based on the conclusions and results identified in the independent internal investigation, the management of NESA referred to IAS 16 *Assets and Equipment*, and concluded that the amount of R\$ 183, attributable to possible overinvoicing, bribes and/or fraudulent bids or activities considered to be of an unlawful nature should not have been included in the historic cost of its assets, because such amounts would not have been necessary to establish the assets at the location and in the condition necessary for their functioning.

The management of Nesa also concluded that it was impracticable to attempt precisely to identify the periods of the prior financial statements in which the excess of capitalized costs might have occurred, due to the fact that the information made available by the independent internal investigation does not individually specify the contracts, payments and reporting periods in which these excesses could have occurred. It is also emphasized that the alleged undue payments were not made by Nesa, but by contractors and suppliers of the Belo Monte hydroelectric plant, which also impeded identification of the precise amounts and period of the payments.

Thus, Nesa applied the procedure specified in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, making adjustments for the estimated amounts of the excesses of capitalized costs, in a total of R\$ 183, referring to illegal payments in the financial statements at December 31, 2015, due to the impracticability of identifying the adjustments for each previous period affected.

As a result of the adjustment made by NESA, on December 31, 2015 Cemig recognized an adjustment in the amount of R\$ 23, in *Investments* with counterpart in the account *Gain (loss) in subsidiaries by the equity method*. Of this total, R\$ 21 arises from the adjustment made by Cemig GT, and R\$ 2 arises from the adjustment made by Light S.A., in accordance with the specifications of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

**Investment in Guanhães Energia S.A. Adjustment for impairment**

Based on analysis of the cash flow expected for the investment, Guanhães Energia made an adjustment for impairment of value in the amount of R\$ 139. The effect of this in the accounts of Cemig GT was an expense of R\$ 68, corresponding to its 49% interest in Guanhães, and this was recognized in the statement of income by the equity method, on December 31, 2016.

*Investment in Renova*

*Option contract*

On September 18, 2015 a contract was signed giving Renova the option to sell to SunEdison, on or after March 31, 2016, up to 7,000,000 shares in TerraForm Global, which Renova had received under the agreement governing the first phase of the transaction for sale and exchange of assets.

The exercise price of this option was set at R\$ 50.48 or US\$15.00 at the exchange rate of the day, at SunEdison's choice. The contract also gave SunEdison an option to buy the same 7 million shares in TerraForm Global on the same terms.

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Renova also reported that it had notified SunEdison and TerraForm Global of its intention to exercise its option to sell 7 million shares in TerraForm Global owned by Renova, as specified by contract and publicly stated in a Material Announcement published by Renova on September 18, 2015.

In April 2016 there was a restructuring of the Company's capital, which altered Cemig GT's equity interest in the company.

On April 21, 2016, SunEdison applied for Chapter 11 protection in the United States.

On June 1, 2016, the period for payment of the option by SunEdison expired.

Renova priced the option using the Black-Scholes-Merton mathematical model, the future expectation for the exchange rate, and credit risk.

In the first half of 2016 Renova recognized a loss of R\$ 111, for the variation in the price of the option, taking credit risk into account. In addition it recognized a loss of R\$ 63 relating to the extinction of the option, and opened arbitration proceedings seeking, among other items, indemnity for losses.

The figures above refer to the full impact on the financial statements of Renova. The effect for Cemig was proportional to its 34.15% interest in the investee, valued by the equity method at R\$ 60.

*Investment in TerraForm – pricing of the shares*

Renova Energia has investments in Class A shares (GLBL) in TerraForm (the TERG Shares), recorded as financial assets available for sale. Renova Energia adopts this designation because the nature of the investment is not included in any of the other categories of financial instrument (loans, accounts receivable, investments held to maturity, or financial assets at fair value through profit or loss). The asset is classified, in Renova Energia, as a non-current asset under the line *Investments* and is recorded at fair value, based on the market price on a stock exchange (Nasdaq). Under the policy of Renova Energia, gains and losses arising from variation in stock prices are posted directly in Equity under Other comprehensive income. Considering the volatility of the prices of the TERG Shares, Renova Energia evaluates, quarterly, whether there is objective evidence of impairment of these financial assets, that is to say, the management of Renova Energia evaluates whether the fall in the market value of the TERG Shares should be considered significant or prolonged. This evaluation calls for a judgment based on a Renova Energia policy, prepared according to practices used in the Brazilian and international markets, and consists of analysis, instrument by instrument, based on quantitative and qualitative information available in the market as from the moment that an instrument shows a fall in its market value of 20% or more (a Significant Fall) or a fall smaller than a Significant Fall, but greater than 5% of its market value in comparison with its acquisition cost for more than 12 months (a Prolonged Fall). If a Significant Fall or a Prolonged Fall in the market value of the instrument is found, the corresponding accumulated portion previously classified in Other comprehensive income will be posted in the Profit and loss account as an impairment.

Impairments, previously recognized in the Profit and loss account, are not reversed through the profit and loss account. Any increase in fair value after an impairment is recognized in Other comprehensive income.

In 2016 the negative adjustments in the fair values that took place in the first and fourth quarter in the amount of R\$ 281 (impact in Cemig: R\$ 96) were recognized in the income statement; and the positive adjustment of R\$ 99 (impact for Cemig: R\$ 34), referring to the second and third quarters, was recognized in Other comprehensive income in Renova Energia.

*Rescission of share purchase agreement*

On April 1, 2016 Renova Energia S.A. ( Renova ) informed its shareholders and the market in general that the share purchase agreement for sale to TerraForm Global, Inc. of the assets of the Espra Project ( the Espra Contract ) owned by Renova had been canceled. Thus the assets of the Espra project, comprising three small hydroelectric plants (SHPs), which placed generation contracts under the Proinfa regime, with aggregate installed capacity of 41.8 MW, remain in the Company as part of Renova s portfolio of operational assets. As a result of the cancellation, TerraForm Global paid Renova a penalty payment of R\$ 36 on April 1, 2016 (effect in Cemig: R\$ 12).

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The Espra Contract was included in the first phase of the transaction with TerraForm Global and SunEdison, Inc. ( SunEdison ), announced on July 15, 2015.

*Adjustment for impairment*

Renova carried out studies to value the balance of PP&E assets in relation to the generation of economic benefits expected from those assets at December 31, 2016, and made an adjustment for impairment of assets in the amount of R\$ 264 (impact on Cemig R\$ 90), This was recognized in a specific account line in the statement of income for 2016. This result arose from projection of cash flow of these assets, discounted, at December 31, 2016.

Cemig had reported in its financial statements the net amount of R\$ 763 for goodwill on the concessions, calculated at the time of the injections of capital into Renova. As a result of the studies on impairment related to discounted cash flow of the investee, management of Cemig GT judged it to be necessary to make a full adjustment of the amount referred to, in the statement of income for 2016.

**Investment in Light through Parati, RME and Lepsa**

*Corporate reorganization of Parati*

In 2016 the shareholders decided to put in place a series of measures to simplify the stockholding structure of the Parati group, as follows:

Extinction of Redentor Energia S.A., through reverse absorption by Rio Minas Energia Participações S.A. ( RME );

Total split of Parati, with absorption by RME and Luce Empreendimentos e Participações S.A. ( LEPSA ) of the separated assets and liabilities;

Extinction of Parati, through reverse absorption by RME and LEPSA;

In November 2016, RME and LEPSA declared an aggregate total of R\$ 463 in dividends, using retained earnings reserves from prior years. In the same month both companies called for an aggregate capital subscription of R\$ 446, which was paid up exclusively by Cemig.

As a result of these alterations, Cemig had the following stockholdings:

In RME: 50.00% of the common shares and 50.00% of the preferred shares, representing 66.27 of the total share capital.

In Lepsa: 50.00% of the common shares and 50.00% of the preferred shares, representing 66.62 of the total share capital.

*Exercise of put option*

On September 6, 2016 Cemig received from Banco BTG Pactual ( BTG Pactual ) Notice of Intention to Exercise a Put Option, informing irrevocable exercise of BTG Pactual's right to sell to Cemig 153,634,195 preferred shares held by Pactual in Parati ( Shares subject of the Put Option ).

In October 2016, due to the extinction of Parati, the Put Option was divided between RME and Lepsa in the proportion of 50% each, with all the conditions of the original Put Option being maintained, except the items modified in the amendments, including alteration to their bylaws.

On November 30, 2016, Cemig paid R\$ 222 for the portion of BTG Pactual in RME and LEPSA, under exercise of the first window of the put.

Further details of the put option are given below in this Note.



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### Disposal of shares in Taesa owned by Cemig

On September 29, 2016, Taesa published announcement of commencement of a secondary public offering with restricted placement efforts, for placement of certificates of deposit of nominal, book-entry shares without par value, each representing one common and two preferred nominal, book-entry shares without par value, free and unencumbered by any lien or charge ( Units ), issued by Taesa and owned by Fundo de Investimentos em Participações Coliseu (FIP Coliseu), and Cemig.

The offering comprised secondary public distribution, with restricted placement efforts, of 65,702,230 Units owned by the Vendor shareholders, at the price of R\$ 19.65 per Unit, resulting in a total amount of R\$ 1,291. The offering transaction was settled on October 24, 2016.

Since this was a public offering with restricted efforts exclusively for secondary distribution, there was no inflow of funds to Taesa. The Vendor shareholders received all of the proceeds from the sale of the Units net of the costs of the offering, i.e. a total of R\$ 1,276, and of this total R\$ 791 was received by Cemig, representing a gross gain of R\$ 181. Cemig recognized this in its Income Statement in October 2016.

### Investment Agreement for subscription of capital in Ativas

On August 25, 2016, Cemig Telecom S.A., a wholly-owned subsidiary of Cemig, signed an investment agreement with Sonda Procwork Outsourcing Informática Ltda., a member of the Chilean group Sonda S.A., for subscription of capital in Ativas Data Center, in partnership with Ativas Participações S.A., a company controlled by the Asamar Group.

Sonda is the leading company providing IT services in Latin America, with a presence in 10 countries, and 17,000 employees.

On October 19, 2016, after the conditions precedent specified in the Investment Agreement had been complied with, the transaction was completed.

Sonda, through providing cash of R\$ 114, became the holder of a 60% equity interest in Ativas, with Cemig Telecom holding 19.6%, and Ativas Participações holding 20.4% of the company's total capital. This represented a gain of R\$ 25 in the financial statements of Cemig Telecom.

### Disposal of interest related to Transchile

On September 12, 2016, Cemig signed an agreement for sale of the whole of its stockholding interest relating to Transchile Charrúa Transmisión S.A. corresponding to 49% of the share capital to Ferrovial Transco Chile SpA., a company controlled by Ferrovial S.A., for US\$57. On October 6, 2016, all of the shares in Transchile Charrúa Transmisión S.A. held by Cemig, corresponding to 49% (forty nine percent) of the total capital, were transferred to Ferrovial Transco Chile SpA., a company controlled by Ferrovial S.A., and the sale completed in the amount of R\$180, representing a gross gain of R\$ 94.

### **Put options**

In the calculation of the fair value of the option based on the BSM model, the following variables are taken into account: exercise price of the option; closing price of the underlying asset on December 31, 2016; the risk-free interest rate; the volatility of the price of the underlying asset; and the time to maturity of the option.

Analytically, calculation of the exercise price of the options, the risk-free interest rate and the time to maturity is primarily deterministic, so that the main divergence in the put options is in the measurement of the closing price and the volatility of the underlying asset.

*Put options for shares in Parati*

Cemig granted to *Fundo de Participações Redentor*, which is a shareholder of Parati, an option to sell the totality of the shares which that fund holds in Parati, exercisable in May 2016. The exercise price of the option is calculated from the sum of the value of the amounts injected by the Fund into Parati, plus the running expenses of the fund, less Interest on Equity, and dividends, distributed by Parati.

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The exercise price is subject to monetary updating by the CDI (Interbank CD) Rate plus financial remuneration at 0.9% per year.

The Equity Fund owns common and preferred shares in Light, and at present exercises joint control, with the Company, over the activities of that company. This being so, this option has been considered to be a derivative instrument which should be accounted at fair value through profit or loss.

For the purposes of determination of the method to be used in measuring the fair value of this option, the Company, up to the first quarter of 2016, observed the daily trading volume of the shares of Light, and also the fact that such option, if exercised by the Fund, will require the sale to the Company, in a single transaction, of shares in Light in a quantity higher than the daily exchange trading averages. Thus, the Company had adopted the discounted cash flow method for measurement of the fair values of the shares. Up to March 31, 2016, the fair value of this option was calculated on the basis of the estimated exercise price on the day of exercise of the option, less the fair value of the shares that are the subject of the put option, also estimated for the date of exercise, brought to present value at the effective rate of 7.5% p.a. (discounting inflation effects). As a result of the changes in the shareholders Agreement of Parati in the second quarter of 2016, described below, with consequences for the conditions and periods for exercise of the put option, the Company then began to use the Black-Scholes-Merton method for measurement of the fair value of the options.

In the second quarter of 2016 Amendments were signed to the shareholders Agreement of Parati. The principal changes arising from these amendments are as follows:

- 1) The maturity of the Put Option granted in 2011 by Cemig in favor of the unit holders of FIP Redentor, initially specified to be May 31, 2016, was postponed, to two separate exercise dates:
  - a) First option exercise window: The intention to exercise may be stated by any direct shareholder/s who decide to do so, independently of the exercise of the Put Option by the other direct shareholders, up to September 23, 2016, inclusive, and shall cover only preferred shares in Parati, up to a limit of 153,634,195 shares, representing 14.30% of the total shares in Parati held by the other direct shareholders. Cemig had to make payment by November 30, 2016.
  - b) Second payment window: The intention to exercise may be stated by any direct shareholder/s who decide to do so, independently of the exercise of the Put Option by the other direct shareholders, up to September 23, 2017, inclusive, and may cover the totality of the shares in Parati, being independent of any exercise, or not, of the Put Option in the first payment window. Cemig must make payment by November 30, 2017.
- 2) The Put Option may now be exercised not only by FIP Redentor, but also by the direct shareholders of Parati, including but not limited to the unit holders of FIP Redentor, and/or their affiliates, who shall become holders of a Put Option and/or of the rights arising therefrom, under which each one of the direct

shareholders shall individually have the right to sell any shares in Parati that they own.

- 3) Conditions were included for bringing forward the date of exercise of the put option: in the event of any occurrence resulting in bringing forward of the option referred to, any direct shareholder may present to Cemig a notice of bringing forward of the option, at which moment the option shall be considered exercised by all the direct shareholders, over the totality of their shares.
  
- 4) As guarantee for the full payment of the Put Option, on May 31, 2016 Cemig offered to the holders of the put option 55,234,637 common shares and 110,469,274 preferred shares that Cemig directly holds in Transmissora Aliança de Energia S.A. (Taesa), and as further guarantee, 53,152,298 shares that Cemig directly holds in Light.

*Amount of the Company's exposure*

The change in the value of the options – the difference between the estimated fair value for the assets and the corresponding exercise price, has been as follows:

|                        | <b>Dec. 31, 2016</b> | <b>Dec. 31, 2015</b> | <b>Dec. 31, 2014</b> |
|------------------------|----------------------|----------------------|----------------------|
| <b>Initial balance</b> | <b>1,245</b>         | <b>166</b>           |                      |
| Additions              | 55                   | 1,079                | 166                  |
| Reductions             | (150)                |                      |                      |
| <b>Final balance</b>   | <b>1,150</b>         | <b>1,245</b>         | <b>166</b>           |

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In the calculation of the fair value of the option based on the Black-Scholes-Merton analysis, the following variables are taken into account: exercise price of the option; closing price of the stock of Light on December 31, 2016 (as a reference for the value of the indirect equity interest held by the direct stockholders of RME and Lepsa in Light); the risk-free interest rate; the volatility of the price of the underlying asset; and the time to maturity of the option.

RME and Lepsa are non-operational holding companies, whose primary purpose is management of their direct equity interest in Light. Consequently, the revenues of these holding companies arise from their interests in the earnings of Light and, residually, from the financial revenue obtained from investment of the amounts available in the cash position. Further, considering that: (i) distribution of the whole of the profit for the period is in the interest of the shareholders of both companies; and (ii) the operational profit, the total of financial revenue (expenses) and changes in the reserve accounts of RME and Lepsa are immaterial for the purposes of calculation of the put option; it becomes clear that the only uncertainty in the flow of these companies is associated with the uncertainty of Light itself, and as a result of this consideration the shares of both companies are valued as if they were direct equity interests in Light itself. Thus, the underlying asset of the options is Light S.A., and the closing price of the underlying asset is the price found for one share of Light on the last business day of the 2016 business year, multiplied by the number of equivalent shares of indirect ownership of the holders of the Parati Put option in Light. The volatility is calculated using a conditional volatility model based on the continuously capitalized series of returns of Light S.A.

The Company has made an analysis of the sensitivity of the exercise price of the option, varying the risk-free interest rate and the volatility, keeping the other variables of the model unchanged. In this context, scenarios for the risk-free interest rate at 6.6% p.a. and 16.4% p.a., and for volatility between 15% and 63.2% p.a., were used, resulting in estimates of minimum and maximum price for the put option of R\$ 1,126 and R\$ 1,260, respectively.

**Put options for Units in FIP Melbourne and FIP Malbec**

In the calculation of the fair value of the option based on the BSM model, the following variables are taken into account: exercise price of the option; closing price of the underlying asset on December 31, 2016; the risk-free interest rate; the volatility of the price of the underlying asset; and the time to maturity of the option.

Cemig GT and the private pension plan entities participating in the investment structure of SAAG (comprising FIP Melbourne, Parma Participações S.A. and FIP Malbec jointly, the Investment Structure ) signed put option contracts for units in the entities that comprise the Investment Structure ( the Put Options ), which the private pension plan entities may exercise in the eighty fourth month after June 2014. The exercise price of the put options correspond to the amount invested by each private pension plan in the Investment Structure, updated *pro rata temporis*, by the Expanded National Consumer Price (IPCA) index published by the IBGE, plus interest at 7% per year, less such dividends and Interest on Equity as shall have been paid by SAAG to the pension plan entities. This option has been considered to be a derivative instrument which should be accounted at fair value through profit or loss.

In the fourth quarter of 2016 the Company altered the methodology used in measuring the fair value of the put option of SAAG, and adopted the BSM model, replacing the model of discounted cash flow less the exercise price of the option. This change is in line with best market practices, since the Black-Scholes-Merton method not only calculates the difference between the exercise price of the option and the share price, brought to present value, but also incorporates an important random component that weights these amounts.

We work on the assumption that the future expenditures of FIP Malbec and FIP Melbourne are insignificant, so that the options are valued as if they were direct equity interests in Mesa. However, neither SAAG nor Mesa are traded on a securities exchange, so that some adaptations are necessary for calculation of the price of the asset and its volatility for application of the BSM model. The closing price of the share of Mesa on December 31, 2016 is ascertained on the basis of Free cash flow to equity holders (FCFE), expressed by equivalence of the indirect equity interests held by the FIPs. Volatility, in turn, is measured as an average of historic volatility (based on the hypothesis that the series of the difference of continuously capitalized returns follows a normal distribution) of comparable companies in the electricity generation sector that are traded on the Bovespa.

Based on the studies made, a liability of R\$ 196 is recorded in the Company's consolidated financial statements, for the difference between the exercise price and the estimated fair value of the assets.

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The changes in the value of the options are as follows:

|                          | Dec. 31, 2016 | Dec. 31, 2015 | Dec. 31, 2014 |
|--------------------------|---------------|---------------|---------------|
| <b>Initial balance</b>   | <b>148</b>    | <b>29</b>     |               |
| Adjustment to fair value | 48            | 119           | 29            |
| <b>Final balance</b>     | <b>196</b>    | <b>148</b>    | <b>29</b>     |

The Company has made an analysis of the sensitivity of the exercise price of the option, varying the risk-free interest rate and the volatility, keeping the other variables of the model unchanged. In this context, scenarios for the risk-free interest rate at 6.6% p.a. to 16.4% p.a., and for volatility between 15% and 63.2% p.a., were used, resulting in estimates of minimum and maximum price for the put option of R\$ 126 and R\$ 321, respectively.

**Sonda options**

As part of the process of shareholding restructuring, CemigTelecom and Sonda signed a Purchase Option Agreement (issued by CemigTelecom) and a Sale Option Agreement (issued by Sonda).

These resulted in CemigTelecom simultaneously having a right (put option) and an obligation (call option). The exercise price of the put option will be equivalent to fifteen times the adjusted net profit of Ativas in the business year prior to the exercise date. The exercise price of the call option will be equivalent to sixteen times the adjusted net profit of Ativas in the business year prior to the exercise date. Both options, if exercised, result in the sale of the shares in Ativas currently owned by the Company, and the exercise of one of the options results in nullity of the other. The options may be exercised as from January 1, 2021.

The put and call options in Ativas ( the Ativas Options ) were measured at fair value and posted at their net value, i.e. the difference between the fair values of the two options on the reporting date of the financial statements for the business year 2016. Depending on the value of the options, the net value of the Ativas Options may be an asset or a liability of the Company.

The measurement has been made using the Black-Scholes-Merton (BSM) model. In the calculation of the fair value of the Ativas Options based on the BSM model, the following variables are taken into account: closing price of the underlying asset on December 31, 2016; the risk-free interest rate; the volatility of the price of the underlying asset; the time to maturity of the option; and the exercise prices on the exercise date.

The closing price of the underlying asset was based on the value of the transaction in shares of Ativas by Sonda, which took place on October 19, 2016. The calculation of the risk-free interest rate was based on yields of National Treasury Bills. The time to maturity was calculated assuming exercise date on March 31, 2021. Considering that the exercise prices of the options are contingent upon the future financial accounting results of Ativas, the estimate of the exercise prices on the date of maturity was based on statistical analyses and on information of comparable listed companies.

The net effect of the calculation of the call and put options in shares of Ativas amounted to a credit amount of R\$ 5 in the income statement for 2016.





**Table of Contents****Formation of Aliança Geração de Energia**

For the formation of Aliança Geração de Energia, the Company transferred, in 2015, to Aliança, its interests in the electricity generation consortia, and the interests of the subsidiary Capim Branco Energia S.A., as shown below:

|  | <b>Dec. 31, 2015</b> |
|--|----------------------|
| <b>Assets</b>  |                      |
| Aimorés Hydroelectric Plant Consortium                     | 404                  |
| Funil Hydroelectric Plant Consortium                       | 124                  |
| Igarapava Hydroelectric Plant Consortium                   | 37                   |
| Porto Estrela Hydroelectric Plant Consortium               | 34                   |
|  | <b>599</b>           |
| <b>Liabilities</b>   |                      |
| Porto Estrela Paid Concession current                      | (16)                 |
| Porto Estrela Paid Concession non-current                  | (134)                |
|  | <b>(150)</b>         |
| <b>Net value of assets and liabilities of Cemig GT</b>     | <b>450</b>           |
| <b>Net value of assets and liabilities of Capim Branco</b> | <b>131</b>           |
|  | <b>581</b>           |

Cemig GT recognized in its financial statements the gain relating to the valuation at fair value of the investment in Aliança, excluding the effects of valuation of fair value of the company's own assets that were subscribed as capital in Aliança.

This table shows the effects of the transaction in the Company's financial statements at December 31, 2015:

|   | <b>Cemig</b> | <b>Vale</b> | <b>Total</b> |
|---|--------------|-------------|--------------|
| Fair value of the assets transferred to Aliança   | 1,867        | 2,331       | 4,198        |
| Book value of the assets transferred to Aliança   | 581          | 1,277       | 1,858        |
| Equity interest of the companies in Aliança   |              | 1           | 1            |
| Stake held by Cemig, valued at fair value   | 1,889        |             |              |
| Book value of the assets subscribed (Note 14)   | (581)        |             |              |
| Goodwill premium businesses subscribed as capital of Aliança (100%)                                   | 1,308        |             |              |
| Portion of goodwill premium not recognized, relating to the equity interest held by the Company (45%) | (579)        |             |              |
| Gain on the transaction to be reported in the Statement of income for 2015 (55% of the premium)       | 729          |             |              |



**Table of Contents****Additional equity interest in Gasmig**

In October 2014, Cemig concluded the acquisition under its share purchase agreement with Petróleo Brasileiro S.A. (Petrobras) for acquisition of the 40% interest held by its subsidiary Gaspetro in Companhia de Gás de Minas Gerais (Gasmig), which had been approved by the Boards of Directors of both Cemig and Petrobras. The amount paid was R\$ 570,976, being the result of R\$ 600,000 specified in the share purchase agreement, updated by the IGP-M index, less the dividends paid between the base date and the closing of the agreement.

**Business combination carried out in stages – additional effects**

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

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

As specified in IFRS 3 (Business combinations), it was necessary for the Company to value its previous interest in Gasmig at fair value, recognizing the difference in the profit and loss account for the period.

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

|   | <b>Fair value of the<br/>original interest (59.60%)</b> |
|---|---|
| Fair value of Gasmig on the date of acquisition of control                                    | 1,427   |
| Cemig's original interest, of 59.57%, valued at fair value on the acquisition date            | 850   |
| Book value  | 569   |
| Gain recorded in 2014   | 281   |
| <b>Generation companies constituted – Lot D of Auction 12/2015 won by the company in 2015</b> |   |

As described in more detail in Note 14, as a result of Cemig GT having won Lot D of Auction 12/2015 – an award of concessions for 18 plants – in June 2016 the Company transferred ownership of the concessions of these plants to 7 new specific-purpose generation companies, wholly-owned subsidiaries of Cemig GT, which began to be consolidated in the second quarter of 2016.

**Table of Contents****16. PROPERTY, PLANT AND EQUIPMENT**

|                                    | 2016          |                          |              | 2015          |                          |              |
|------------------------------------|---------------|--------------------------|--------------|---------------|--------------------------|--------------|
|                                    | Historic cost | Accumulated depreciation | Net value    | Historic cost | Accumulated depreciation | Net value    |
| <b>In service</b>                  |               |                          |              |               |                          |              |
| Land                               | 287           | (8)                      | 279          | 287           | (8)                      | 279          |
| Reservoirs, dams and water courses | 5,347         | (3,586)                  | 1,761        | 4,867         | (3,037)                  | 1,830        |
| Buildings, works and improvements  | 1,789         | (1,371)                  | 418          | 1,577         | (1,140)                  | 437          |
| Machinery and equipment            | 4,518         | (3,347)                  | 1,171        | 3,862         | (2,670)                  | 1,192        |
| Vehicles                           | 29            | (25)                     | 4            | 29            | (21)                     | 8            |
| Furniture and utensils             | 16            | (12)                     | 4            | 15            | (11)                     | 4            |
|                                    | 11,986        | (8,349)                  | 3,637        | 10,637        | (6,887)                  | 3,750        |
| <b>Under construction</b>          | 138           |                          | 138          | 190           |                          | 190          |
| <b>Net PP&amp;E</b>                | <b>12,124</b> | <b>(8,349)</b>           | <b>3,775</b> | <b>10,827</b> | <b>(6,887)</b>           | <b>3,940</b> |

This table shows the movement in property, plant and equipment:

|  | Transfers    |            |             |              |                 |              |
|--|--------------|------------|-------------|--------------|-----------------|--------------|
|  | 2015         | Addition   | Written off | Depreciation | Capitalizations | 2016         |
| <b>In service</b>                        |              |            |             |              |                 |              |
| Land                                     | 279          |            |             |              |                 | 279          |
| Reservoirs, dams and watercourses        | 1,830        |            |             | (99)         | 30              | 1,761        |
| Buildings, works and improvements        | 437          |            | (1)         | (23)         | 5               | 418          |
| Machinery and equipment                  | 1,192        |            | (42)        | (110)        | 132             | 1,172        |
| Vehicles                                 | 8            |            |             | (2)          | (2)             | 4            |
| Furniture and utensils                   | 4            |            |             |              | (1)             | 3            |
|  | 3,750        |            | (43)        | (234)        | 164             | 3,637        |
| <b>Under construction</b>                | 190          | 120        | (13)        |              | (159)           | 138          |
| <b>Net property, plant and equipment</b> | <b>3,940</b> | <b>120</b> | <b>(56)</b> | <b>(234)</b> | <b>5</b>        | <b>3,775</b> |

2014 Addition Write-offs

Depreciation

2015

|                                    |              |            | <b>Transfer of assets to Aliança Geração de Energia</b> | <b>Indemnity receivable</b> |              | <b>Transfers to Other long term assets</b> | <b>Transfers / capitalizations</b> |          |              |
|------------------------------------|--------------|------------|---|-----------------------------|--------------|--|------------------------------------|----------|--------------|
| <b>In service</b>                  |              |            |   |                             |              |  |                                    |          |              |
| Land                               | 372          |            | (12)  | (41)                        | (16)         | (3)  | (17)                               | (4)      | 279          |
| Reservoirs, dams and water courses | 2,261        |            |   | (163)                       | (46)         | (127)                                      | (102)                              | 7        | 1,830        |
| Buildings, works and improvements  | 609          |            | (1)   | (116)                       | (17)         | (32)                                       | (13)                               | 7        | 437          |
| Machinery and equipment            | 2,053        |            | (3)   | (308)                       | (466)        | (149)                                      | (69)                               | 134      | 1,192        |
| Vehicles                           | 9            |            |   |                             |              | (3)  |                                    | 2        | 8            |
| Furniture and utensils             | 5            |            |   |                             |              |  |                                    | (1)      | 4            |
|                                    | 5,309        |            | (16)  | (628)                       | (545)        | (314)                                      | (201)                              | 145      | 3,750        |
| <b>Under construction</b>          | 235          | 126        | (4)   | (3)                         | (1)          | (1)  | (22)                               | (140)    | 190          |
| <b>Net PP&amp;E</b>                | <b>5,544</b> | <b>126</b> | <b>(20)</b>   | <b>(631)</b>                | <b>(546)</b> | <b>(315)</b>                               | <b>(223)</b>                       | <b>5</b> | <b>3,940</b> |

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|                                    | 2013         | Additions  | Write-offs  | Depreciation | Transfers<br>/<br>capitalizations | 2014         |
|------------------------------------|--------------|------------|-------------|--------------|-----------------------------------|--------------|
| <b>In service</b>                  |              |            |             |              |                                   |              |
| Land                               | 377          |            |             | (5)          |                                   | 372          |
| Reservoirs, dams and water courses | 2,395        |            |             | (134)        |                                   | 2,261        |
| Buildings, works and improvements  | 712          |            | (1)         | (25)         | (77)                              | 609          |
| Machinery and equipment            | 2,079        |            | (6)         | (177)        | 157                               | 2,053        |
| Vehicles                           | 12           |            |             | (3)          |                                   | 9            |
| Furniture and utensils             | 2            |            |             |              | 3                                 | 5            |
|                                    | 5,577        |            | (7)         | (344)        | 83                                | 5,309        |
| <b>Under construction</b>          | 240          | 122        | (49)        |              | (78)                              | 235          |
| <b>Net PP&amp;E</b>                | <b>5,817</b> | <b>122</b> | <b>(56)</b> | <b>(344)</b> | <b>5</b>                          | <b>5,544</b> |

The average annual depreciation rate is 3.51%. The average annual depreciation rates, by activity, are:

| Hydroelectric generation | Thermal generation | Management and other | Telecoms |
|--------------------------|--------------------|----------------------|----------|
| 3.30%                    | 3.85%              | 10.04%               | 4.61%    |

The Company has not identified evidence of impairment of its Property, plant and equipment assets. The generation concession contracts provide that at the end of each concession the Concession-granting power shall determine the amount to be indemnified to the Company. Management believes that the indemnity of these assets will be greater than the amount of: their historic cost after depreciation over their useful lives.

Under the Brazilian regulatory framework Aneel, the regulator, is responsible for establishing the useful economic life of the generation and transmission assets in the electricity sector, and for periodically reviewing the estimates. The rates established by Aneel are used in the processes of reviewing tariff rates and calculating of the indemnity due at the end of the concession period, and are recognized as a reasonable estimate of the useful life of the assets of the concession. Thus, these rates were used as the basis for depreciation of the Company's property, plant, and equipment assets.

The depreciation of the items of property, plant and equipment assets is calculated on the total of property, plant and equipment in service, by the straight-line method, using the rates determined by Aneel for the assets related to electricity activities, and reflects the estimated useful life of the assets. The residual value of the assets is the remaining balance of the assets at the end of the concession. As established in the contract signed between the Company and the Nation, at the end of the concession the assets will revert to the Nation, which in turn will indemnify the Company for those assets that have not yet been totally depreciated. In cases where there is no indemnity, or there is uncertainty related to the indemnity, at the end of the concession, such as thermal generation, and hydroelectric generation as an independent power producer, no residual value is recognized, and the depreciation rates are adjusted

so that all the assets are depreciated within the concession.

The company transferred to Financial assets the remaining accounting balances of the plants at July 2015 which will be the subject of indemnity by the concession-granting power. For more information please see Note 14.

**Table of Contents****Consortia**

The Company is a partner in an electricity generation consortium for the *Queimado* plant, for which no separate company with independent legal existence was formed to manage the object of the concession, the controls being kept in Fixed assets and Intangible assets. The Company's portion in the consortium is recorded and controlled individually in the respective categories of PP&E and Intangible assets. This table shows the accumulated investments in the consortium, in which Companhia Energética de Brasília has an interest of 17.50%:

|                                 | Stake in<br>energy<br>generated, % | Average annual<br>depreciation<br>rate, % | 2016       | 2015       |
|---------------------------------|------------------------------------|---|------------|------------|
| <b>In service</b>               |                                    |   |            |            |
| Porto Estrela plant             | 33.33%                             | 3.68                                      |            |            |
| Igarapava plant                 | 14.50%                             | 2.5                                       |            |            |
| Funil plant                     | 49.00%                             | 4.21                                      |            |            |
| Queimado plant                  | 82.50%                             | 4   | 217        | 212        |
| Aimorés plant                   | 49.00%                             | 3.75                                      |            |            |
| Capim Branco Energia Consortium | 21.05%                             | 3.75                                      |            |            |
| Accumulated depreciation        |                                    |   | (90)       | (74)       |
|                                 |                                    |   | 127        | 138        |
| <b>Under construction</b>       |                                    |   |            |            |
| Queimado plant                  | 82.50%                             |   |            | 4          |
| Porto Estrela plant             | 33.33%                             |   |            |            |
| Capim Branco Energia Consortium | 21.05%                             |   |            |            |
|                                 |                                    |   |            | 4          |
| <b>Total, consortia</b>         |                                    |   | <b>127</b> | <b>142</b> |

**17. INTANGIBLE ASSETS****Assets of the concession**

In accordance with Interpretation IFRIC 12 – Service Concession Arrangements, the portion of the distribution infrastructure that will be amortized during the concession, comprising the distribution assets, net of the interests held by consumers ( Special Obligations ), is reported in Intangible assets.

Under the Brazilian regulatory framework Aneel is responsible for setting the economic useful life of the distribution assets of the electricity sector, periodically establishing a review in the valuation of these assets. The rates established by Aneel are used in the processes of reviewing tariff rates and calculating of the indemnity due at the end of the concession period, and are recognized as a reasonable estimate of the useful life of the assets of the concession. These



rates, therefore, were used as a basis for valuation and amortization of intangible assets.

The intangible assets Temporary easements, Paid concessions, Right of commercial operation of concessions, and Others, are amortized on the straight-line basis and the rates used are those set by Aneel. The Company has not identified any indications of impairment of its intangible assets, which have defined useful lives.

**Table of Contents****a) Composition of the balance at December 31, 2016 and 2015**

|                              | 2016          |                          |                | 2015          |                          |                |
|------------------------------|---------------|--------------------------|----------------|---------------|--------------------------|----------------|
|                              | Historic cost | Accumulated amortization | Residual value | Historic cost | Accumulated amortization | Residual value |
| <b>In service</b>            |               |                          |                |               |                          |                |
| Useful life defined          |               |                          |                |               |                          |                |
| Temporary easements          | 12            | (2)                      | 10             | 11            | (1)                      | 10             |
| Paid concession              | 19            | (10)                     | 9              | 19            | (10)                     | 9              |
| Assets of concession         | 16,288        | (7,040)                  | 9,248          | 15,607        | (6,642)                  | 8,965          |
| Other                        | 77            | (59)                     | 18             | 71            | (55)                     | 16             |
|                              | 16,396        | (7,111)                  | 9,285          | 15,708        | (6,708)                  | 9,000          |
| <b>Under construction</b>    | 1,535         |                          | 1,535          | 1,275         |                          | 1,275          |
| <b>Net intangible assets</b> | <b>17,931</b> | <b>(7,111)</b>           | <b>10,820</b>  | <b>16,983</b> | <b>(6,708)</b>           | <b>10,275</b>  |

**b) Changes in Intangible assets**

|                              | Balance at Dec. 31, 2015 | Additions    | Special obligations write-down (1) | Write-offs  | Amortization | Transfer    | Balance at Dec. 31, 2016 |
|------------------------------|--------------------------|--------------|------------------------------------|-------------|--------------|-------------|--------------------------|
| <b>In service</b>            |                          |              |                                    |             |              |             |                          |
| Useful life defined          |                          |              |                                    |             |              |             |                          |
| Temporary easements          | 10                       |              |                                    |             |              |             | 10                       |
| Paid concession              | 9                        |              |                                    |             |              |             | 9                        |
| Assets of concession         | 8,967                    | 6            | 98                                 | (32)        | (595)        | 804         | 9,248                    |
| Other                        | 14                       |              |                                    |             | (4)          | 8           | 18                       |
|                              | <b>9,000</b>             | <b>6</b>     | <b>98</b>                          | <b>(32)</b> | <b>(599)</b> | <b>812</b>  | <b>9,285</b>             |
| <b>Under construction</b>    | 1,275                    | 1,157        |                                    | (8)         |              | (889)       | 1,535                    |
| <b>Net intangible assets</b> |                          |              |                                    |             |              |             |                          |
| <b>Consolidated</b>          | <b>10,275</b>            | <b>1,163</b> | <b>98</b>                          | <b>(40)</b> | <b>(599)</b> | <b>(77)</b> | <b>10,820</b>            |

(1) This write-down of a Special Obligation arises from signature of a Debt Recognition Contract by Eletrobras, in the amount of R\$ 98,236, for restitution of amounts calculated in the final settlement of Financing and Subsidy Contracts for the *Luz Para Todos* ( Light for Everyone ) program, with funds from the CDE account, and return of funds related to the Global Reversion Reserve (RGI).

|                              | Balance<br>at Dec.<br>31, 2014 | Transfer<br>of<br>assets<br>to Aliança<br>Geração<br>de Energia<br>renewed | Indemnity<br>plants<br>not<br>renewed | Write-offs  | Amortization | Transfer<br>from<br>Financial<br>to<br>Intangible<br>on<br>renewal<br>of<br>concessions | (*)<br>Transfers | Balance<br>at Dec.<br>31, 2015 |
|------------------------------|--------------------------------|--|---------------------------------------|-------------|--------------|---|------------------|--------------------------------|
| <b>In service</b>            |                                |  |                                       |             |              |   |                  |                                |
| Useful life defined          |                                |  |                                       |             |              |   |                  |                                |
| Temporary easements          | 12                             |  | (1)                                   |             |              |   |                  | 11                             |
| Paid concession              | 24                             |  | (13)                                  |             | (2)          |   |                  | 9                              |
| Assets of concession         | 2,223                          | 8  |                                       | (21)        | (512)        | 7,162   | 107              | 8,967                          |
| Other                        | 17                             |  |                                       |             | (5)          |   | 1                | 13                             |
|                              | 2,276                          | 8  | (14)                                  | (21)        | (519)        | 7,162   | 108              | 9,000                          |
| <b>Under construction</b>    | <b>1,103</b>                   | <b>1,108</b>   |                                       | <b>(17)</b> |              |   | <b>(919)</b>     | <b>1,275</b>                   |
| <b>Net intangible assets</b> |                                |  |                                       |             |              |   |                  |                                |
| <b>Consolidated</b>          | <b>3,379</b>                   | <b>1,116</b>   | <b>(14)</b>                           | <b>(38)</b> | <b>(519)</b> | <b>7,162</b>  | <b>(811)</b>     | <b>10,275</b>                  |

(\*) See comments in Note 13.

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|   | <b>Balance<br/>at Dec.<br/>31, 2013</b> | <b>Adjustment<br/>due to<br/>business<br/>combination</b> | <b>Additions</b> | <b>Write-offs</b> | <b>Amortization</b> | <b>Transfers</b> | <b>Balance<br/>at Dec.<br/>31, 2014</b> |
|---|---|---|------------------|-------------------|---------------------|------------------|---|
| <b>In service</b>                             |   |   |                  |                   |                     |                  |   |
| Useful life defined                           |   |   |                  |                   |                     |                  |   |
| Temporary easements                           | 12                                      |   |                  |                   |                     |                  | 12                                      |
| Paid concession                               | 27                                      |   |                  |                   | (3)                 |                  | 24                                      |
| Assets of concession                          | 866                                     | 1,073   |                  |                   | (448)               | 732              | 2,223                                   |
| Other   | 25                                      |   |                  |                   | (6)                 | (2)              | 17                                      |
|   | 930                                     | 1,073   |                  |                   | (457)               | 730              | 2,276                                   |
| <b>Under construction</b>                     | <b>1,074</b>                            | <b>109</b>  | <b>868</b>       | <b>(25)</b>       |                     | <b>(923)</b>     | <b>1,103</b>                            |
| <b>Net intangible assets<br/>Consolidated</b> | <b>2,004</b>                            | <b>1,182</b>  | <b>868</b>       | <b>(25)</b>       | <b>(457)</b>        | <b>(193)</b>     | <b>3,379</b>                            |

The annual average amortization rate is 3.51%. The average rates of annual amortization, by activity, set by the legislation for the sector, are:

| <b>Hydroelectric generation</b> | <b>Thermal generation</b> | <b>Distribution</b> | <b>Management and<br/>other</b> | <b>Telecoms</b> |
|---------------------------------|---------------------------|---------------------|---------------------------------|-----------------|
| 20.00%                          | 19.35%                    | 3.85%               | 23.29%                          | 11.56%          |

The Company has not identified indications of impairment of its intangible assets, which have defined useful lives. The Company has no intangible assets with non-defined useful life. The amount of additions, R\$ 1,163, includes R\$ 142 (R\$ 159 in 2015, and R\$ 70 in 2014) under the heading Capitalized Financial Costs, as presented in Note 20.

**18. SUPPLIERS**

|  | <b>2016</b>  | <b>2015</b>  |
|--|--------------|--------------|
| Electricity on spot market - CCEE      | 168          | 308          |
| Charges for use of electricity network | 78           | 81           |
| Electricity purchased for resale       | 677          | 647          |
| Itaipu Binacional                      | 207          | 315          |
| Gas purchased for resale               | 462          | 236          |
| Materials and services                 | 348          | 314          |
|  | <b>1,940</b> | <b>1,901</b> |



**Table of Contents****19. TAXES, INCOME TAX AND SOCIAL CONTRIBUTION TAX****a) Taxes payable**

The non-current Pasep and Cofins obligations refer to the legal proceedings challenging the constitutionality of inclusion of the ICMS tax, which *has been* charged, *within* the amount on which the Pasep and Cofins taxes are calculated; and seeking authorization to offset the amounts paid over the last ten years. The Company and its subsidiaries Cemig D (Distribution) and Cemig GT (Generation and Transmission) obtained interim relief from the court allowing them not to make the payment, and authorizing payment through court deposits (starting in 2008), and maintained this procedure until July 2011. After that date, while continuing to challenge the basis of the calculation in court, they opted to pay the taxes monthly. Additionally, in July 2015 the Company began to make provision for Pasep and Cofins taxes on updating of Financial assets, in accordance with tax legislation coming into force on that date.

|                    | <b>2016</b>  | <b>2015</b>  |
|--------------------|--------------|--------------|
| <b>Current</b>     |              |              |
| ICMS               | 502          | 462          |
| Cofins             | 128          | 157          |
| Pasep              | 28           | 33           |
| INSS               | 25           | 22           |
| Other              | 111          | 66           |
|                    | <b>794</b>   | <b>740</b>   |
| <b>Non-current</b> |              |              |
| Cofins             | 595          | 609          |
| Pasep              | 129          | 131          |
|                    | <b>724</b>   | <b>740</b>   |
|                    | <b>1,518</b> | <b>1,480</b> |

**b) Income tax and Social Contribution tax:**

|                         | <b>2016</b> | <b>2015</b> |
|-------------------------|-------------|-------------|
| <b>Current</b>          |             |             |
| Income tax              | 19          | 8           |
| Social Contribution tax | 8           | 3           |
|                         | <b>27</b>   | <b>11</b>   |



**Table of Contents****20. LOANS, FINANCINGS AND DEBENTURES**

| Financing source                   | Principal maturity | Annual financing cost % | Currency       | 2016         |              |              | 2015         |
|------------------------------------|--------------------|-------------------------|----------------|--------------|--------------|--------------|--------------|
|                                    |                    |                         |                | Current      | Non-current  | Total        | Total        |
| <b>FOREIGN CURRENCY</b>            |                    |                         |                |              |              |              |              |
| Banco do Brasil bonds (1)          | Various            | 2024                    | Various        | US\$         |              |              | 33           |
| KFW                                |                    | 2016                    | 4.50           | EURO         |              |              | 3            |
| KFW                                |                    | 2024                    | 1.78           | EURO         | 4            | 3            | 7            |
| <b>Debt in foreign currency</b>    |                    |                         |                | <b>5</b>     | <b>25</b>    | <b>30</b>    | <b>47</b>    |
| <b>Brazilian currency</b>          |                    |                         |                |              |              |              |              |
| Banco do Brasil                    |                    | 2017                    | 108.33% of CDI | R\$          | 72           |              | 72           |
| Banco do Brasil                    |                    | 2017                    | 108.00% of CDI | R\$          | 151          |              | 151          |
| Banco do Brasil                    |                    | 2016                    | 104.10% of CDI | R\$          | 285          | 270          | 555          |
| Banco do Brasil (6)                |                    | 2016                    | 104.25% of CDI | R\$          |              |              | 804          |
| Banco do Brasil                    |                    | 2017                    | 111.00% of CDI | R\$          | 50           |              | 50           |
| Banco do Brasil                    |                    | 2020                    | 114.00% of CDI | R\$          | 8            | 494          | 502          |
| Banco do Brasil                    |                    | 2018                    | 132.90% of CDI | R\$          | 291          | 292          | 583          |
| Brazilian Development Bank (BNDES) |                    | 2026                    | TJLP+2.34      | R\$          | 8            | 66           | 74           |
| Brazilian Development Bank (BNDES) |                    | 2026                    | TJLP+2.48      | R\$          |              |              | 11           |
| CEF                                |                    | 2018                    | 119.00% of CDI | R\$          | 100          | 9            | 109          |
| CEF                                |                    | 2020                    | 132.14% of CDI | R\$          | 65           | 616          | 681          |
|                                    |                    |                         | Ufir, RGR +    |              |              |              |              |
| Eletrobras                         |                    | 2023                    | 6.00 to 8.00   | R\$          | 19           | 49           | 68           |
| Large consumers                    |                    | 2018                    | Various        | R\$          | 4            | 2            | 6            |
|                                    |                    |                         | TJLP + 5 and   |              |              |              |              |
| Finep                              |                    | 2018                    | TJLP + 2.5     | R\$          | 3            | 3            | 6            |
| Promissory Notes \$ Issue (3)      |                    | 2016                    | 111.70 of CDI  | R\$          |              |              | 1,889        |
| Promissory Notes \$ Issue (2)      |                    | 2016                    | 120.00 of CDI  | R\$          |              |              | 1,441        |
| Promissory Notes 7th Issue (2)     |                    | 2017                    | 128.00% of CDI | R\$          | 667          |              | 667          |
| BASA                               |                    | 2018                    | CDI+1.9        | R\$          | 2            | 120          | 122          |
| Sonda (4)                          |                    | 2021                    | 110% of CDI    | R\$          | 46           | 37           | 83           |
| Promissory Notes \$ Issue (4)      |                    | 2015                    | 110.40% of CDI | R\$          |              |              | 23           |
| <b>Debt in Brazilian currency</b>  |                    |                         |                | <b>1,771</b> | <b>1,958</b> | <b>3,729</b> | <b>6,874</b> |



| <b>Total of loans and financings</b>                         |      |                     |     | <b>1,776</b> | <b>1,983</b>  | <b>3,759</b>  | <b>6,921</b>  |
|--|------|---------------------|-----|--------------|---------------|---------------|---------------|
| Debentures, 2 <sup>nd</sup> Issue (3)                        | 2017 | IPCA + 7.96         | R\$ | 235          |               | 235           | 441           |
| Debentures <sup>19</sup> Issue, 1 <sup>st</sup> Series (2)   | 2017 | CDI + 0.90          | R\$ | 543          |               | 543           | 540           |
| Debentures <sup>19</sup> Issue, 3 <sup>rd</sup> Series (2)   | 2022 | IPCA + 6.20         | R\$ | 50           | 933           | 983           | 923           |
| Debentures <sup>19</sup> Issue, 2 <sup>nd</sup> Series (2)   | 2019 | IPCA + 6.00         | R\$ | 15           | 278           | 293           | 275           |
| Debentures <sup>19</sup> Issue, 2 <sup>nd</sup> Series (3)   | 2021 | IPCA + 4.70         | R\$ | 59           | 1,436         | 1,495         | 1,403         |
| Debentures <sup>19</sup> Issue, 3 <sup>rd</sup> Series (3)   | 2025 | IPCA + 5.10         | R\$ | 38           | 857           | 895           | 839           |
| Debentures <sup>19</sup> Issue, 1 <sup>st</sup> Series (3)   | 2018 | CDI + 0.69          | R\$ | 53           | 411           | 464           | 462           |
| Debentures   | 2018 | CDI+1.60            | R\$ | 553          | 485           | 1,038         | 1,037         |
| Debentures   | 2020 | IPCA+8.07           | R\$ | 1            | 30            | 31            | 29            |
| Debentures <sup>7</sup> Issue, 1 <sup>st</sup> Series (2)    | 2021 | 140.0% of CDI       | R\$ | (7)          | 2,204         | 2,197         |               |
| Debentures, 4 <sup>th</sup> Issue (3)                        | 2018 | CDI + 4.05%         | R\$ | 805          | 793           | 1,598         |               |
| Debentures <sup>4</sup> Issue, 2 <sup>nd</sup> Series (2)    | 2016 | CDI+0.85            | R\$ |              |               |               | 501           |
| Debentures <sup>5</sup> Issue, 1 <sup>st</sup> Series (2)    | 2018 | CDI+1.70            | R\$ | 711          | 700           | 1,411         | 1,412         |
| Debentures (5)   | 2016 | TJLP+3.12           | R\$ |              |               |               | 41            |
| Debentures (5)   | 2018 | CDI + 1.60          | R\$ | 1            | 100           | 101           | 103           |
| Debentures (5)   | 2018 | CDI+0.74            | R\$ | 33           | 34            | 67            | 100           |
|  |      | TJLP+7.82 (75%) and |     |              |               |               |               |
| Debentures (5)   | 2022 | Selic+1.82(25%)     | R\$ | 20           | 114           | 134           | 125           |
| Cemig Telecom <sup>1</sup> Issue, 1 <sup>st</sup> Series (4) | 2018 | TJLP+2.62           | R\$ |              |               |               | 8             |
| Cemig Telecom <sup>1</sup> Issue, 2 <sup>nd</sup> Series (4) | 2018 | TJLP+3.32           | R\$ |              |               |               | 3             |
| Cemig Telecom <sup>1</sup> Issue, 3 <sup>rd</sup> Series (4) | 2018 | TJLP+1.72           | R\$ |              |               |               | 2             |
| Cemig Telecom <sup>1</sup> Issue, 4 <sup>th</sup> Series (4) | 2018 | TJLP+2.62           | R\$ |              |               |               | 2             |
| ( ) FIC Pampulha: Securities of subsidiary companies (7)     |      |                     |     | (49)         | (16)          | (65)          |               |
| <b>Total debentures</b>                                      |      |                     |     | <b>3,061</b> | <b>8,359</b>  | <b>11,420</b> | <b>8,246</b>  |
| <b>Overall total Consolidated</b>                            |      |                     |     | <b>4,837</b> | <b>10,342</b> | <b>15,179</b> | <b>15,167</b> |

(1) Interest rates vary from 2.00 to 8.00% p.a. Six-month Libor plus spread of 0.81% to 0.88% p.a.

(2) Cemig GT (Cemig Geração e Transmissão).

- (3) Cemig D (Cemig Distribuição).
- (4) Cemig Telecom.
- (5) Gasmig.
- (6) On April 22, 2016 Cemig D signed amendments to two Bank Credit Notes issued in favor of Banco do Brasil, for a total of R\$ 600 million, to roll over existing debt. The interest rate is 128.00% of the CDI rate, p.a., and the funds will be paid in four six-monthly installments with the last maturity in April 2018.
- (7) FIC Pampulha has financial investments in securities issued by subsidiaries of the Company. For more information, and characteristics of the fund, see Note 28.

**Table of Contents****Guarantees**

The guarantees of the debtor balance on loans and financings, on December 31, 2016, were as follows:

|                               | <b>2016</b>   |
|-------------------------------|---------------|
| Promissory Notes and Sureties | 11,023        |
| Receivables                   | 3,840         |
| Without guarantee             | 316           |
| <b>TOTAL</b>                  | <b>15,179</b> |

The consolidated composition of loans, financings and debentures, by currency and indexor, with the respective amortization, is as follows:

|                             | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>2023</b> | <b>After<br/>2024</b> | <b>Total</b> |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------|--------------|
| <b>Currency</b>             |             |             |             |             |             |             |             |                       |              |
| US dollar                   | 1           |             |             |             |             |             |             | 22                    | 23           |
| Euro                        | 4           | 3           |             |             |             |             |             |                       | 7            |
| <b>Total by currency</b>    | 5           | 3           |             |             |             |             |             | 22                    | 30           |
| <b>Indexors</b>             |             |             |             |             |             |             |             |                       |              |
| IPCA index (1)              | 399         | 139         | 628         | 797         | 796         | 531         | 214         | 429                   | 3,933        |
| UFIR / RGR (2)              | 19          | 17          | 13          | 11          | 3           | 4           | 2           |                       | 69           |
| CDI Rate (Bank CD rate) (3) | 4,379       | 3,685       | 1,155       | 954         | 755         |             |             |                       | 10,928       |
| URTJ / TJLP (4)             | 31          | 34          | 31          | 32          | 32          | 26          | 8           | 19                    | 213          |
| IGP DI (5)                  | 2           | 1           | 1           |             |             |             |             |                       | 4            |
| TR Rate (6)                 | 2           |             |             |             |             |             |             |                       | 2            |
| <b>Total by indexor</b>     | 4,832       | 3,876       | 1,828       | 1,794       | 1,586       | 561         | 224         | 448                   | 15,149       |
| <b>Overall total</b>        | 4,837       | 3,879       | 1,828       | 1,794       | 1,586       | 561         | 224         | 470                   | 15,179       |

(1) Expanded National Consumer Price (IPCA) Index.

(2) Fiscal Reference Unit (UFIR / RGR).

(3) Interbank Rate for Certificates of Deposit.

(4) URTJ: Interest rate reference unit.

(5) IGP-DI ( General Domestic Availability Price Index ).

(6) TR Reference Interest Rate

The principal currencies and indexors used for monetary updating of loans and financings had the following variations:

| <b>Currency</b> | <b>2016 (%)</b> | <b>2015 (%)</b> | <b>Indexor</b> | <b>2016 (%)</b> | <b>2015 (%)</b> |
|-----------------|-----------------|-----------------|----------------|-----------------|-----------------|
| US dollar       | (16.54)         | 47.01           | IPCA           | 6.29            | 10.67           |
| Euro            | (19.10)         | 31.71           | CDI            | 14.06           | 13.23           |

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The changes in loans, financings and debentures were as follows:

|  |               |
|--|---------------|
| <b>Balance on December 31, 2013</b>                  | <b>9,457</b>  |
| Loans and financings obtained                        | 4,562         |
| Funding costs  |               |
| Financings obtained net of funding costs             | 4,562         |
| Liabilities assumed in business combinations(*)      | 392           |
| Monetary and exchange rate variation                 | 266           |
| Financial charges provisioned                        | 1,007         |
| Financial charges paid                               | (781)         |
| Amortization of financings                           | (1,394)       |
| <b>Balance on December 31, 2014</b>                  | <b>13,509</b> |
| Loans and financings obtained                        | 5,817         |
| Funding costs  | (78)          |
| Financings obtained net of funding costs             | 5,739         |
| Monetary and exchange rate variation                 | 400           |
| Financial charges provisioned                        | 1,545         |
| Financial charges paid                               | (1,331)       |
| Amortization of financings                           | (4,695)       |
| <b>Balance on December 31, 2015</b>                  | <b>15,167</b> |
| Loans and financings obtained                        | 5,878         |
| Funding costs  | (141)         |
| Financings obtained net of funding costs             | 5,737         |
| Monetary and exchange rate variation                 | 231           |
| Borrowing costs provisioned                          | 2,070         |
| Borrowing costs paid                                 | (2,369)       |
| Amortization of financings                           | (5,592)       |
| ( ) FIC Pampulha: Securities of subsidiary companies | (65)          |
| <b>Balance at December 31, 2016</b>                  | <b>15,179</b> |

(\*) Balance arising from consolidation of Gasmig starting in October 2014.

**Borrowing costs, capitalized**

The Company transferred to Intangible assets the costs of loans and financings linked to works, as follows:

|  | <b>2016</b>  | <b>2015</b>  | <b>2014</b> |
|--|--------------|--------------|-------------|
| Costs of loans and financings                    | 2,070        | 1,545        | 1,007       |
| Financial costs transferred to Intangible assets | (142)        | (159)        | (70)        |
| <b>Net effect in Profit or loss</b>              | <b>1,928</b> | <b>1,386</b> | <b>937</b>  |

The value of the charges capitalized, R\$ 142 (R\$ 159 in 2015 and R\$70 in 2014), has been excluded from the Statement of Cash Flow, and from the additions to the Cash flow in investment activities, because it does not represent an outflow of cash for acquisition of the related asset.

The average rate of capitalization of the loans and financings whose costs were transferred to works was 18.02% (15.25% in 2015 and 11.62% in 2014).

**Table of Contents****Funding raised**

This table gives the consolidated totals of funds raised in 2016:

| <b>2016</b>                                     | <b>Principal maturity</b> | <b>Annual financial cost, %</b> | <b>Amount raised</b> |
|---|---------------------------|---------------------------------|----------------------|
| <b>Brazilian currency</b>                       |                           |                                 |                      |
| Caixa Econômica Federal Cemig D                 | 2020                      | 132.14% of CDI                  | 674                  |
| Debentures (Cemig D)                            | 2018                      | CDI + 4.05%                     | 1,575                |
| KfW (Cemig GT)                                  | 2018                      | 1.78%                           | 2                    |
| Promissory Notes Cemig GT 7th Issue             | 2017                      | 128% of CDI                     | 606                  |
| Debentures 4th Issue, 7th Series (Gasmig)       | 2020                      | TJLP                            | 24                   |
| Debentures: 7th Issue (CEMIG GT)                | 2021                      | 140% of CDI                     | 2,195                |
| Banco do Brasil                                 | 2018                      | 132.90% of CDI                  | 580                  |
| Sonda (Cemig Telecom)                           | 2021                      | 110% of CDI                     | 81                   |
| <b>Financings obtained net of funding costs</b> |                           |                                 | <b>5,737</b>         |

| <b>2015</b>                                | <b>Principal maturity</b> | <b>Annual financial cost, %</b>          | <b>Amount raised</b> |
|--|---------------------------|--|----------------------|
| <b>Brazilian currency</b>                  |                           |  |                      |
| Banco do Brasil (Cemig GT)                 | 2015                      | 106.90% of CDI                           | 593                  |
| Debentures 6th Issue 1st Series (Cemig GT) | 2018                      | CDI + 1.60%                              | 967                  |
| Debentures 6th Issue 2nd Series (Cemig GT) | 2020                      | IPCA + 8.07%                             | 27                   |
| Promissory Notes 6th Issue (Cemig GT)      | 2016                      | 120% of CDI                              | 1,407                |
| Banco da Amazônia (Cemig GT)               | 2018                      | CDI + 1.90%                              | 118                  |
| Caixa Econômica Federal (Cemig D)          | 2018                      | 119% of CDI                              | 200                  |
| Promissory Notes 8th Issue (Cemig D)       | 2016                      | 111.70% of CDI                           | 1,685                |
| Banco do Brasil (Cemig D)                  | 2020                      | 114% of CDI                              | 487                  |
| Banco do Brasil (Cemig D)                  | 2017                      | 111% of CDI                              | 98                   |
| Debentures 4th Issue (Gasmig)              | 2022                      | TJLP + 7.82 (75%) and Selic + 1.82 (25%) | 34                   |
| Debentures 5th Issue (Gasmig)              | 2018                      | CDI + 1.60%                              | 100                  |
| Itaú Unibanco/Banco BBM (Cemig Telecom)    | 2016                      | 120% of CDI                              | 23                   |
| <b>Total funding</b>                       |                           |  | <b>5,739</b>         |

| <b>2014</b>             | <b>Principal maturity</b> | <b>Annual financial cost, %</b> | <b>Amount raised</b> |
|-------------------------|---------------------------|---------------------------------|----------------------|
| <b>Foreign currency</b> |                           |                                 |                      |
| KfW (GT)                | 2024                      | 1.78%                           | 10                   |
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|  |                         |      |                         |              |
|--|-------------------------|------|-------------------------|--------------|
| <b>Total in foreign currency</b>       |                         |      |                         | <b>10</b>    |
| <b>Brazilian currency</b>              |                         |      |                         |              |
| Debentures                             | 4th Issue (GT)          | 2016 | CDI + 0.85%             | 505          |
| Promissory Notes                       | 5th Issue (GT)          | 2015 | 106.85% of the CDI Rate | 1,400        |
| Debentures                             | 5th Issue (GT)          | 2018 | CDI + 1.70%             | 1,400        |
| Finep (GT)                             |                         | 2018 | TJLP + 2.5%             | 3            |
| Brazilian Development Bank (BNDES) (D) |                         | 2020 | TJLP + 2.48%            | 14           |
| Promissory Notes                       | 7th Issue (D)           | 2015 | 105.00% of the CDI Rate | 1,210        |
| Promissory notes                       | 8th Issue Cemig Telecom | 2015 | 110.4% of the CDI Rate  | 20           |
| <b>Total in Brazilian currency</b>     |                         |      |                         | <b>4,552</b> |
| <b>Total raised</b>                    |                         |      |                         | <b>4,562</b> |



**Table of Contents****7th Issue of Commercial Promissory Notes**

On July 1, 2016 Cemig GT concluded its seventh issue of Commercial Promissory Notes, totaling R\$ 620.. The proceeds were allocated to payment of the second portion of the Concession Grant Fee for the hydroelectric plants in Lot D of Aneel Auction 12/2015, and to strengthen the Company's working capital. The notes have maturity at 360 days, on June 26, 2017, and pay remuneratory interest of 128% of the accumulated variation resulting from the average one-day interbank *over extra grupo* DI rate, which will be paid on the maturity date. This issue has a surety guarantee from the holding company, Cemig.

**Issue of Bank Credit Note**

On October 24, 2016 Cemig GT issued a Bank Credit Note in favor of Banco do Brasil, in the total amount of R\$ 600, for the purpose of payment and/or amortization of transactions entered into with Banco do Brasil itself. This loan has an annual interest rate of 132.90% of the CDI rate, and will be paid in four half-yearly installments, with the last maturity in October 2018.

**7th debenture issue**

On December 29, 2016, Cemig Geração e Transmissão S.A. made its seventh issue of non-convertible debentures, for a total of R\$ 2,240, after funding costs, in a single series, with maturity at five years. This issue has guarantees of real assets and an additional surety guarantee. Interest will be paid monthly, with no grace period, at 140% of the CDI rate, up to the 23<sup>rd</sup> month. Starting at the 24<sup>th</sup> month, principal and interest will be paid, with final maturity on December 29, 2021. The proceeds were used for payment of Cemig GT's sixth issue of promissory notes, and also for replenishment of the Company's cash position.

**Debentures**

The debentures issued by the Company are not convertible into shares, and have the following characteristics:

| Issuer  | Guarantee | Annual cost (%) | Maturity | 2016  | 2015  |
|---|-----------|-----------------|----------|-------|-------|
| Cemig GT 1 <sup>st</sup> Issue 1 <sup>st</sup> Series | None      | IPCA + 7.68     | 2015     |       |       |
| Cemig GT 2 <sup>nd</sup> Issue 1 <sup>st</sup> Series | Unsecured | CDI + 0.90      | 2017     | 543   | 540   |
| Cemig GT 3 <sup>rd</sup> Issue 3 <sup>rd</sup> Series | Unsecured | IPCA + 6.20     | 2022     | 983   | 923   |
| Cemig GT 4 <sup>th</sup> Issue 2 <sup>nd</sup> Series | Unsecured | IPCA + 6.00     | 2019     | 293   | 275   |
| Cemig GT 5 <sup>th</sup> Issue                        | Unsecured | CDI + 0.85      | 2016     |       | 501   |
| Cemig GT 6 <sup>th</sup> Issue                        | Unsecured | CDI*1.70        | 2018     | 1,411 | 1,412 |
| Cemig D 7 <sup>th</sup> Issue 1 <sup>st</sup> Series  | Surety    | CDI + 0.69      | 2018     | 464   | 462   |
| Cemig D 8 <sup>th</sup> Issue 2 <sup>nd</sup> Series  | Surety    | IPCA + 4.70     | 2021     | 1,495 | 1,403 |
| Cemig D 9 <sup>th</sup> Issue 3 <sup>rd</sup> Series  | Surety    | IPCA + 5.10     | 2025     | 895   | 839   |
| Debentures  | Surety    | CDI+1.6         | 2018     | 1,038 | 1,037 |
| Debentures  | Surety    | IPCA+8.07       | 2020     | 31    | 29    |
| Cemig D 10 <sup>th</sup> Issue                        | None      | IPCA + 7.96     | 2017     | 235   | 441   |
| Cemig D 11 <sup>th</sup> Issue                        | Surety    | CDI + 4.05%     | 2018     | 1,598 |       |

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|                 |   |                       |  |      |        |       |
|-----------------|---|-----------------------|--|------|--------|-------|
| Debentures      | 7th Issue, 1st Series                           |                       |  |      |        |       |
| (2)             |   | Receivables (Revenue) | 140.0% of CDI                          | 2021 | 2,197  |       |
| Gasmig          |   | Unsecured             | TJLP+3.12                              | 2016 |        | 41    |
| GASMIG          |   | Unsecured             | CDI + 1.60                             | 2018 | 101    | 103   |
| Gasmig          |   | Unsecured             | CDI+0.62                               | 2015 |        |       |
| Gasmig          |   | Unsecured             | CDI+0.74                               | 2018 | 67     | 100   |
| Gasmig          |   | Unsecured             | TJLP+7.82 (75%) and<br>Selic+1.82(25%) | 2022 | 134    | 125   |
| Cemig Telecom   | 1st Issue, 1st Series                           |                       |  |      |        |       |
| (4)             |   | Receivables (Revenue) | TJLP+2.62                              | 2018 |        | 8     |
| Cemig Telecom   | 1st Issue, 2nd Series                           |                       |  |      |        |       |
| (4)             |   | Receivables (Revenue) | TJLP+3.32                              | 2018 |        | 3     |
| Cemig Telecom   | 1st Issue, 3rd Series                           |                       |  |      |        |       |
| (4)             |   | Receivables (Revenue) | TJLP+1.72                              | 2018 |        | 2     |
| Cemig Telecom   | 1st Issue, 4th Series                           |                       |  |      |        |       |
| (4)             |   | Receivables (Revenue) | TJLP+2.62                              | 2018 |        | 2     |
| Cemig Telecom   | 1st Issue, 5th Series                           |                       |  |      |        |       |
| (4)             |   | Receivables (Revenue) | TJLP+3.32                              | 2018 |        |       |
| Cemig Telecom   | 1st Issue, 6th Series                           |                       |  |      |        |       |
| (4)             |   | Receivables (Revenue) | TJLP+1.72                              | 2018 |        |       |
| <b>Subtotal</b> |   |                       |  |      | 11,485 | 8,246 |
| (-)             | FIC Pampulha-Títulos de<br>empresas controladas |                       |  |      | (65)   |       |
| <b>TOTAL</b>    |   |                       |  |      | 11,420 | 8,246 |

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For the debentures issued by the Company, there are no agreements for renegotiation, nor debentures held in treasury. There is an early maturity cross-default clause in the event of non-payment of any pecuniary obligation with individual or aggregate value, by Cemig GT or its parent company, Cemig, greater than R\$ 50.

**Restrictive covenants**

The Company has contracts with covenants linked to financial indices, as follows:

| <b>Transaction</b>                              | <b>Ratio</b>   | <b>Ratio requirement Issuer</b> | <b>Ratio requirement Cemig (Guarantor)</b>  | <b>Timing requirement</b>           |
|---|--|---------------------------------|---|-------------------------------------|
| BNDES Financing<br>Cemig GT (1)                 | Equity of Guarantor /<br>Total assets of<br>Guarantor      |                                 | 30% or more<br>Less than or =   | Annual                              |
| Banco do Brasil Credit<br>Note Cemig GT (2)     | Net debt of Surety /<br>Ebitda of Surety                   |                                 | 6.00 in 2016<br>5.26 in 2017<br>5.00 in 2018  | Quarterly,<br>from<br>December 2016 |
| 7 <sup>th</sup> Debenture Issue<br>Cemig GT (3) | Net debt /<br>(Ebitda + Dividends<br>received)             | Less than or =                  | Less than or =<br>5.5 in 2017<br>5.0 in 2018<br>4.5 in 2019<br>3.0 in 2020<br>2.5 in 2021 | Half-yearly,<br>from June 2017      |
| Gasmig Debentures (4)                           | Total debt / Total<br>assets<br>Ebitda / Debt<br>servicing | Less than 0.6                   | 1.30 or more  | Annual                              |

- (1) If the Company does not succeed in achieving the required ratio, it will have six months from the end of the business year in which the ratio was found, to: (i) constitute real guarantees which in the assessment of the BNDES represent 130.00% of the value of the debtor balance of the contract; or (ii) present an interim balance sheet, audited by an auditor accredited by the CVM, that indicates the return to the index required.
- (2) Bank Credit Note issued in favor of Banco do Brasil in October 2016, for R\$ 600. If additional or more restrictive financial covenants are agreed with other creditors, they will automatically be incorporated into the Bank Credit Note.
- (3) 7th Issue of Debentures by Cemig GT, in December 2016, of R\$ 2,240.
- (4) If it does not succeed in achieving the required ratio, Gasmig will have 120 days from the date of a communication in writing from BNDESPar or BNDES to constitute guarantees that are acceptable to the debenture holders for the total amount of the debt, obeying the rules of the National Monetary Council, unless in that period the required ratios have been re-established. Cross-default: Certain contractually specified situations can cause early maturity of other debts.

On December 31, 2016 all the restrictive covenants relating to financial ratios of the Company were complied with.

## 21. REGULATORY CHARGES

|  | 2016       | 2015       |
|--|------------|------------|
| <b>Assets</b>  |            |            |
| Global Reversion Reserve (RGR) (1)                     | 48         |            |
|  | 48         |            |
| <b>Liabilities</b>                                     |            |            |
| Global Reversion Reserve RGR                           | 35         | 48         |
| Energy Development Account CDE                         | 189        | 280        |
| Eletrobrás Compulsory loan                             | 0          | 1          |
| Aneel inspection charge                                | 3          | 3          |
| Energy Efficiency                                      | 288        | 207        |
| Research and Development                               | 234        | 160        |
| Energy System Expansion Research                       | 3          | 2          |
| National Scientific and Technological Development Fund | 5          | 3          |
| Proinfra Alternative Energy Program                    | 8          | 7          |
| Royalties for use of water resources                   | 23         |            |
| Emergency capacity charge                              | 31         | 31         |
| Consumer charges Tariff Flag amounts                   | 17         | 1          |
|  | <b>836</b> | <b>743</b> |
| <b>Current assets</b>                                  | <b>48</b>  |            |
| <b>Current liabilities</b>                             | <b>381</b> | <b>517</b> |
| <b>Non-current liabilities</b>                         | <b>455</b> | <b>226</b> |

- (1) Cemig GT requested from Aneel a review of the amounts paid for the RGR Contribution in previous years, due to the basis of calculation used at the time for calculation of that charge. Cemig GT recognized the right to recover the amount of R\$ 119, to be offset against RGR payable, only after the conclusion, in 2016, of a judgment by Aneel, as per Aneel Technical Note 162/2016, which accepted Cemig GT's request.

**Table of Contents****22. POST-RETIREMENT LIABILITIES****Forluz Pension plan (a Supplementary retirement pension plan)**

Cemig is a sponsor of Forluz *Forluminas Social Security Foundation*, a non-profit legal entity whose object is to provide its associates and participants and their dependents with a financial income to complement retirement and pension, in accordance with the Forluz pension plan that they are subscribed in.

Forluz makes the following supplementary pension benefit plans available to its participants:

**The Mixed Benefits Plan ( Plan B )**: This plan operates as a defined-contribution plan during the fund accumulation phase for retirement benefits for normal time of service, and as a defined-benefit plan for disability or death of participants still in active employment, and for receipt of benefits for time of contribution. The Sponsors match the basic monthly contributions of the participants. This is the only plan open for joining by new participants.

**Pension Benefits Balances Plan ( Plan A )**: This plan includes all currently employed and assisted participants who opted to migrate from the Company's previously sponsored defined benefit plan, and are entitled to a benefit proportional to those balances. For participants who are still working, this benefit has been deferred to the retirement date.

Cemig, Cemig GT and Cemig D also maintain, independently of the plans made available by Forluz, payments of part of the life insurance premium for the retirees, and contribute to a health plan and a dental plan for the active employees, retired employees and dependents, administered by Cemig Saúde.

**Amortization of the actuarial obligations and recognition in the financial statements**

In this Note the Company states its obligations and expenses incurred for purposes of the Retirement Plan, Health Plan, Dental Plan and the Life Insurance Plan in accordance with the standards specified by the IAS 19 *Employee Benefits*, and an independent actuarial opinion issued as of December 31, 2016.

The Company has recognized an obligation for past actuarial deficits relating to the pension fund in the amount of R\$ 787 on December 31, 2016 (R\$ 812 on December 31, 2015). This amount has been recognized as an obligation payable by Cemig, its subsidiaries and jointly-controlled entities, and is being amortized by June 2024, through monthly installments calculated by the system of constant installments (known as the Price table), and adjusted by the IPCA (Expanded National Consumer Price) inflation index (published by the Brazilian Geography and Statistics Institute - IBGE) plus 6% per year. Because the Company is required to pay this debt even if Forluz has a surplus, the Company decided to record the debt in full, and record the effects of monetary updating and interest in Financial revenue (expenses) in the Statement of income.

**Independent Actuarial Information**

The consolidated actuarial information is as follows:

| <b>2016</b>   | <b>Pension plans and<br/>retirement<br/>supplement<br/>plans</b> | <b>Health<br/>Plan</b> | <b>Dental<br/>Plan</b> | <b>Life<br/>insurance</b> | <b>Total</b> |
|---|--|------------------------|------------------------|---------------------------|--------------|
| Present value of funded obligations                           | 9,743  | 1,711                  | 38                     | 814                       | 12,306       |
| Fair value of plan assets                                     | (8,128)  |                        |                        |                           | (8,128)      |
| <b>Initial net liabilities</b>                                | <b>1,615</b>   | <b>1,711</b>           | <b>38</b>              | <b>814</b>                | <b>4,178</b> |
| Adjustment to asset ceiling                                   | 64   |                        |                        |                           | 64           |
| <b>Net liabilities in the statement of financial position</b> | <b>1,679</b>   | <b>1,711</b>           | <b>38</b>              | <b>814</b>                | <b>4,242</b> |

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|   | <b>Pension plans and<br/>retirement<br/>supplement</b> |                        |                        |                           |              |
|---|--|------------------------|------------------------|---------------------------|--------------|
| <b>2015</b>   | <b>plans</b>   | <b>Health<br/>Plan</b> | <b>Dental<br/>Plan</b> | <b>Life<br/>insurance</b> | <b>Total</b> |
| Present value of funded obligations                       | 8,049  | 1,323                  | 30                     | 554                       | 9,956        |
| Fair value of plan assets                                 | (6,703)  |                        |                        |                           | (6,703)      |
| <b>Net liabilities in statement of financial position</b> | <b>1,346</b>   | <b>1,323</b>           | <b>30</b>              | <b>554</b>                | <b>3,253</b> |

The changes in the present value of the defined benefit obligation are as follows:

|   | <b>Pension plans and<br/>retirement<br/>supplement</b> |                        |                        |                           |              |
|---|--|------------------------|------------------------|---------------------------|--------------|
|   | <b>plans</b>   | <b>Health<br/>Plan</b> | <b>Dental<br/>Plan</b> | <b>Life<br/>insurance</b> | <b>Total</b> |
| <b>Defined-benefit obligation on December 31,2013</b> | <b>7,352</b>   | <b>1,012</b>           | <b>28</b>              | <b>600</b>                | <b>8,992</b> |
| Cost of current service                               | 6  | 6                      |                        | 4                         | 16           |
| Interest on the actuarial obligation                  | 869  | 125                    | 4                      | 73                        | 1,071        |
| Actuarial losses (gains) recognized                   |  |                        |                        |                           |              |
| Due to changes in financial assumptions               | 241  | 38                     | 1                      | 33                        | 313          |
| Due to adjustments based on experience                | 329  | 12                     | 1                      | (19)                      | 323          |
|   | 570  | 50                     | 2                      | 14                        | 636          |
| Benefits paid   | (673)  | (73)                   | (2)                    | (11)                      | (759)        |
| <b>Defined-benefit obligation on December 31,2014</b> | <b>8,124</b>   | <b>1,120</b>           | <b>32</b>              | <b>680</b>                | <b>9,956</b> |
| Cost of current service                               | 6  | 7                      | 1                      | 3                         | 17           |
| Interest on the actuarial obligation                  | 934  | 135                    | 3                      | 81                        | 1,153        |
| Actuarial losses (gains) recognized                   |  |                        |                        |                           |              |
| Due to changes in demographic assumptions             | 8  | 43                     | 1                      | (71)                      | (19)         |
| Due to changes in financial assumptions               | (822)  | 128                    | (1)                    | (122)                     | (817)        |
| Due to adjustments based on experience                | 533  | (33)                   | (4)                    | 69                        | 565          |
|   | (281)  | 138                    | (4)                    | (124)                     | (271)        |
| Plan amendment Past service                           |  |                        |                        | (74)                      | (74)         |
| Benefits paid   | (734)  | (77)                   | (2)                    | (12)                      | (825)        |
| <b>Defined-benefit obligation on December 31,2015</b> | <b>8,049</b>   | <b>1,323</b>           | <b>30</b>              | <b>554</b>                | <b>9,956</b> |
| Cost of current service                               | 5  | 9                      | 0                      | 3                         | 17           |
| Interest on the actuarial obligation                  | 1,013  | 174                    | 4                      | 72                        | 1,263        |
| Actuarial losses (gains) recognized                   | 0  | 0                      | 0                      | 0                         | 0            |
| Due to changes in demographic assumptions             | (1)  | 0                      | 0                      | 0                         | (1)          |

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|  |              |              |           |            |               |
|--|--------------|--------------|-----------|------------|---------------|
| Due to changes in financial assumptions                | 1,253        | 391          | 9         | 175        | 1,828         |
| Due to adjustments based on experience                 | 231          | (87)         | (3)       | 21         | 162           |
|  | 1,483        | 304          | 6         | 196        | 1,989         |
| Benefits paid  | (807)        | (99)         | (2)       | (11)       | (919)         |
| <b>Defined-benefit obligation on December 31, 2016</b> | <b>9,743</b> | <b>1,711</b> | <b>38</b> | <b>814</b> | <b>12,306</b> |



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Changes in the fair values of the plan assets were as follows:

|  | <b>Pension plans and<br/>retirement<br/>supplement<br/>plans</b> |
|--|--|
| <b>Fair value at December 31, 2013</b> | <b>7,728</b>   |
| Real return on the investments         | 889  |
| Contributions from the Employer        | 107  |
| Benefits paid                          | (673)  |
| <b>Fair value at December 31, 2014</b> | <b>8,051</b>   |
| Real return on the investments         | (730)  |
| Contributions from the Employer        | 116  |
| Benefits paid                          | (734)  |
| <b>Fair value at December 31, 2015</b> | <b>6,703</b>   |
| Real return on the investments         | 2,105  |
| Contributions from the Employer        | 127  |
| Benefits paid                          | (807)  |
| <b>Fair value at December 31, 2016</b> | <b>8,128</b>   |

The amounts recognized in the 2016, 2015 and 2014 Statement of income are as follows:

|   | <b>Pension plans and<br/>retirement<br/>supplement<br/>plans</b> | <b>Health<br/>Plan</b> | <b>Dental<br/>Plan</b> | <b>Life<br/>insurance</b> | <b>Total</b> |
|---|--|------------------------|------------------------|---------------------------|--------------|
| <b>2016</b>   |  |                        |                        |                           |              |
| Cost of current service   | 5  | 9                      |                        | 3                         | 17           |
| Interest on the actuarial obligation                                | 1,014  | 173                    | 4                      | 72                        | 1,263        |
| Expected return on the assets of the Plan                           | (833)  |                        |                        |                           | (833)        |
| <b>Total expense in 2016 according to actuarial<br/>calculation</b> | <b>186</b>   | <b>182</b>             | <b>4</b>               | <b>75</b>                 | <b>447</b>   |

| <b>2015</b>                               | <b>Pension plans and retirement supplement plans</b> |                    |                    |                       | <b>Total</b> |
|---|--|--------------------|--------------------|-----------------------|--------------|
|   |  | <b>Health Plan</b> | <b>Dental Plan</b> | <b>Life insurance</b> |              |
| Cost of current service                   | 6  | 7                  | 1                  | 3                     | 17           |
| Interest on the actuarial obligation      | 934  | 135                | 3                  | 81                    | 1,153        |
| Expected return on the assets of the Plan | (933)  |                    |                    |                       | (933)        |
| Past service cost                         |  |                    |                    | (74)                  | (74)         |
| <b>Expense as per actuarial opinion</b>   | <b>7</b>   | <b>142</b>         | <b>4</b>           | <b>10</b>             | <b>163</b>   |
| Adjustment relating to debt to Forluz     | 122  |                    |                    |                       | 122          |
| <b>Expense in 2015</b>                    | <b>129</b>   | <b>142</b>         | <b>4</b>           | <b>10</b>             | <b>285</b>   |

| <b>2014</b>                               | <b>Pension plans and retirement supplement plans</b> |                    |                    |                       | <b>Total</b> |
|---|--|--------------------|--------------------|-----------------------|--------------|
|   |  | <b>Health Plan</b> | <b>Dental Plan</b> | <b>Life insurance</b> |              |
| Cost of current service                   | 6  | 6                  |                    | 4                     | 16           |
| Interest on the actuarial obligation      | 869  | 125                | 4                  | 73                    | 1,071        |
| Expected return on the assets of the Plan | (922)  |                    |                    |                       | (922)        |
| <b>Expense as per actuarial opinion</b>   | <b>(47)</b>  | <b>131</b>         | <b>4</b>           | <b>77</b>             | <b>165</b>   |
| Adjustment to the asset ceiling           | 47   |                    |                    |                       | 47           |
| Adjustment relating to debt to Forluz     | 99   |                    |                    |                       | 99           |
| <b>Expense in 2014</b>                    | <b>99</b>  | <b>131</b>         | <b>4</b>           | <b>77</b>             | <b>311</b>   |

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The company made changes to its life insurance, coming into effect on 2015, which result in changes to the maximum limit of the capital insured. This change resulted in a reduction of R\$ 74 in the post-retirement liabilities, with counterpart in the Statement of income for 2015.

Changes in net liabilities:

|   | <b>Pension plans and<br/>retirement<br/>supplement<br/>plans</b> | <b>Health<br/>Plan</b> | <b>Dental<br/>Plan</b> | <b>Life<br/>insurance</b> | <b>Total</b> |
|---|--|------------------------|------------------------|---------------------------|--------------|
| <b>Net liabilities on December 31. 2013</b> | <b>808</b>   | <b>1,012</b>           | <b>29</b>              | <b>600</b>                | <b>2,449</b> |
| Expense Recognized in Statement of income   | 99   | 131                    | 4                      | 77                        | 311          |
| Contributions paid                          | (109)  | (73)                   | (2)                    | (11)                      | (195)        |
| Actuarial losses (gains)                    |  | 50                     | 2                      | 14                        | 66           |
| <b>Net liabilities on December 31. 2014</b> | <b>798</b>   | <b>1,120</b>           | <b>33</b>              | <b>680</b>                | <b>2,631</b> |
| Expense Recognized in Statement of income   | 129  | 142                    | 4                      | 84                        | 359          |
| Contributions paid                          | (116)  | (77)                   | (3)                    | (12)                      | (208)        |
| Plan amendment Past service                 |  |                        |                        | (74)                      | (74)         |
| Actuarial losses (gains)                    | 535  | 138                    | (4)                    | (124)                     | 545          |
| <b>Net liabilities on December 31. 2015</b> | <b>1,346</b>   | <b>1,323</b>           | <b>30</b>              | <b>554</b>                | <b>3,253</b> |
| Expense recognized in Income statement      | 187  | 182                    | 4                      | 75                        | 448          |
| Contributions paid                          | (128)  | (99)                   | (2)                    | (11)                      | (240)        |
| Actuarial losses (gains) ( * )              | 274  | 305                    | 6                      | 196                       | 781          |
| <b>Net liabilities on December 31, 2016</b> | <b>1,679</b>   | <b>1,711</b>           | <b>38</b>              | <b>814</b>                | <b>4,242</b> |
|   |  |                        | <b>2016</b>            | <b>2015</b>               | <b>2014</b>  |
| <b>Current liabilities</b>                  |  |                        | 199                    | 167                       | 153          |
| <b>Non-current liabilities</b>              |  |                        | 4,043                  | 3,086                     | 2,478        |

(\*) Recognized directly in Equity

In 2016, 2015 and 2014, the expenses related to the debt agreed upon with Forluz were registered in Financial revenue (expenses), because they represent interest and monetary updating. The other expenses on the pension fund and on health, dental, and life insurance plans are recorded in the Other operating expenses line.

The independent actuary's estimate for the expense amount to be recognized for the 2017 business year is as follows:

|   | <b>Pension plans and<br/>retirement<br/>supplement<br/>plans</b> | <b>Health<br/>Plan</b> | <b>Dental<br/>Plan</b> | <b>Life<br/>insurance</b> | <b>Total</b> |
|---|--|------------------------|------------------------|---------------------------|--------------|
| Cost of current service                         | 4  | 11                     |                        | 4                         | 19           |
| Interest on the actuarial obligation            | 980  | 178                    | 4                      | 85                        | 1,247        |
| Expected return on the assets of the Plan       | (810)  |                        |                        |                           | (810)        |
| <b>Expense in 2017 as per actuarial opinion</b> | <b>174</b>   | <b>189</b>             | <b>4</b>               | <b>89</b>                 | <b>456</b>   |

The expectation for payment of benefits for the 2017 business year is as follows:

|                                  | <b>Pension plans and<br/>retirement<br/>supplement<br/>plans</b> | <b>Health<br/>Plan</b> | <b>Dental<br/>Plan</b> | <b>Life<br/>insurance</b> | <b>Total</b> |
|----------------------------------|--|------------------------|------------------------|---------------------------|--------------|
| Estimate of payments of benefits | 843  | 104                    | 2                      | 11                        | 960          |

The Company and its subsidiaries have the expectation of making contributions of R\$ 133 to the pension fund in 2017 for amortization of the agreed debt, and R\$ 107 to the Defined Contribution Plan (recorded directly in the Statement of income for the year).

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The average periods of maturity of the obligations under the benefit plans, in years, are as follows:

| <b>Pension and retirement supplement plans</b> | <b>Health Plan</b> | <b>Dental Plan</b> | <b>Life insurance</b> |
|--|--------------------|--------------------|-----------------------|
| <b>Plan A</b>                                  | <b>Plan B</b>      |                    |                       |
| 9.58   | 11.83              | 13.38              | 11.83                 |

The principal categories of assets of the plan, as a percentage of the total of the plan's assets, are as follows:

|                               | <b>2016</b>    | <b>2015</b>    |
|-------------------------------|----------------|----------------|
| Shares of Brazilian companies | 3.84%          | 6.90%          |
| Fixed income securities       | 74.96%         | 66.38%         |
| Real estate property          | 8.14%          | 9.66%          |
| Other                         | 13.06%         | 17.06%         |
| <b>Total</b>                  | <b>100.00%</b> | <b>100.00%</b> |

The assets of the Pension Plan include the following assets, valued at fair value, of Cemig, Cemig GT and Cemig D:

|   | <b>2016</b>  | <b>2015</b> |
|---|--------------|-------------|
| Non-convertible debentures issued by the Sponsor and subsidiaries | 397          | 418         |
| Shares issued by the Sponsor                                      | 7            | 6           |
| Real estate properties of the Foundation occupied by the Sponsors | 710          | 230         |
|   | <b>1,114</b> | <b>654</b>  |

This table gives the main actuarial assumptions:

|   | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   |
|---|---------------|---------------|---------------|
| Annual discount rate for present value of the actuarial liability | 10.50%        | 13.20%        | 12.00%        |
| Annual expected return on plan assets                             | 10.50%        | 13.20%        | 12.00%        |
| Long-term annual inflation rate                                   | 4.50%         | 5.50%         | 5.50%         |
| Annual salary increases   | 6.59%         | 7.61%         | 7.61%         |
| Mortality rate  | AT-2000       | AT-2000       | AT-2000       |
| Disability rate   | Álvaro vindas | Álvaro vindas | Álvaro Vindas |
| Disabled mortality rate   | AT 49         | AT 49         | AT 49         |

Below is a sensitivity analysis of the effects of changes in the principal actuarial assumptions used to determine the defined-benefit obligation on December 31, 2016:

| <b>Effects on the defined-benefit obligation</b> | <b>Pension and retirement</b> |                        |                        |                           | <b>TOTAL</b> |
|--|-------------------------------|------------------------|------------------------|---------------------------|--------------|
|  | <b>supplement<br/>plan</b>    | <b>Health<br/>Plan</b> | <b>Dental<br/>Plan</b> | <b>Life<br/>insurance</b> |              |
| Reduction of one year in the mortality table     | 278                           | 26                     | 1                      |                           | 305          |
| Increase of one year in the mortality table      |                               |                        |                        | 30                        | 30           |
| Reduction of 1% in the discount rate             | 981                           | 222                    | 5                      | 153                       | 1,361        |

In the presentation of the sensitivity analysis, the present value of the defined-benefit obligation was calculated using the Unit Projected Credit method, the same method used to calculate the defined-benefit obligation recognized in the Statement of financial position. The Company has not made changes in the methods used to calculate its post-retirement obligations for the business years ending December 31, 2016 and 2015.

**Table of Contents****23. PROVISIONS**

The Company and its subsidiaries are parties in certain legal and administrative proceedings before various courts and government bodies, arising in the normal course of business, regarding employment-law, civil, tax, environmental and regulatory matters, and other issues.

The Company and its subsidiaries have made Provisions for contingencies in relation to the legal actions in which, based on the assessment of the Company and its legal advisors, the chances of loss are assessed as probable (i.e. that an outflow of funds to settle the obligation will be necessary), as follows:

|                      | 2015       | Additions  | Reversals   | Closed      | 2016       |
|----------------------|------------|------------|-------------|-------------|------------|
| Employment-law cases | 290        | 125        | (5)         | (60)        | 350        |
| Civil cases          |            |            |             |             |            |
| Consumer relations   | 18         | 15         | (3)         | (15)        | 15         |
| Other civil actions  | 28         | 18         |             | (6)         | 40         |
|                      | 46         | 33         | (3)         | (21)        | 55         |
| Tax                  | 67         | 3          | (1)         | (1)         | 68         |
| Environmental        |            |            |             |             |            |
| Regulatory           | 46         | 3          | (3)         | (2)         | 44         |
| Corporate (1)        | 269        |            | (30)        |             | 239        |
| Other                | 37         | 35         | (4)         | (9)         | 59         |
| <b>Total</b>         | <b>755</b> | <b>199</b> | <b>(46)</b> | <b>(93)</b> | <b>815</b> |

|                      | 2014       | Additions  | Reversals   | Closed      | 2015       |
|----------------------|------------|------------|-------------|-------------|------------|
| Employment-law cases | 323        | 39         | (35)        | (37)        | 290        |
| Civil cases          |            |            |             |             |            |
| Consumer relations   | 19         | 14         | (2)         | (13)        | 18         |
| Other civil actions  | 24         | 10         |             | (6)         | 28         |
|                      | 43         | 24         | (2)         | (19)        | 46         |
| Tax                  | 72         | 5          | (9)         | (1)         | 67         |
| Environmental        | 1          |            | (1)         |             |            |
| Regulatory           | 36         | 13         | (3)         |             | 46         |
| Corporate (1)        | 239        | 30         |             |             | 269        |
| Other                | 41         | 6          | (9)         | (1)         | 37         |
| <b>TOTAL</b>         | <b>755</b> | <b>117</b> | <b>(59)</b> | <b>(58)</b> | <b>755</b> |

|                      | 2013       | Additions  | Reversals   | Closed      | Liabilities assumed<br>in business<br>combination <sup>1</sup> | 2014       |
|----------------------|------------|------------|-------------|-------------|--|------------|
| Employment-law cases | 146        | 250        | (7)         | (66)        |  | 323        |
| Civil cases          |            |            |             |             |  |            |
| Consumer relations   | 29         | 10         | (10)        | (10)        |  | 19         |
| Other civil actions  | 23         | 12         | (6)         | (5)         |  | 24         |
|                      | 52         | 22         | (16)        | (15)        |  | 43         |
| Tax                  | 26         | 30         | (18)        | (16)        | 50   | 72         |
| Environmental        | 1          | 1          | (1)         |             |  | 1          |
| Regulatory           | 50         | 8          | (22)        |             |  | 36         |
| Corporate (1)        |            | 239        |             |             |  | 239        |
| Other                | 31         | 14         | (2)         | (2)         |  | 41         |
| <b>TOTAL</b>         | <b>306</b> | <b>564</b> | <b>(66)</b> | <b>(99)</b> | <b>50</b>  | <b>755</b> |

(1) The difference in monetary updating of the Advance against Future Capital Increase made by the government of Minas Gerais State, subject of dispute, has been provisioned with a counterpart in Financial revenue (expenses). There are more details in Note 27.



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The Company's management, in view of the long periods and manner of working of the Brazilian judiciary and tax and regulatory systems, believes that it is not practical to supply information that would be useful to the users of these financial statements about the time when any cash outflows, or any possibility of reimbursements, might take place in fact. The Company's management believes that any disbursements in excess of the amounts provisioned, when the respective processes are completed, will not significantly affect the Company's result of operations or financial position.

The details on the principal provisions and contingent liabilities are given below, these being the best estimates of expected future disbursements for these contingencies:

### **Provisions, made for legal actions in which the chances of loss have been assessed as probable ; and contingent liabilities, for actions in which the chances of loss are assessed as possible**

#### Employment-law cases

The Company and its subsidiaries are parties in various legal actions brought by its employees and by employees of service providing companies. Most of these claims relate to overtime and additional pay, severance payments, various benefits, salary adjustments and the effects of such items on a supplementary retirement plan. In addition to these actions, there are others relating to outsourcing of labor, complementary additions to or re-calculation of retirement pension payments by Forluz, and salary adjustments.

The value of the contingency is approximately R\$ 1,544 (R\$ 972 on December 31, 2015), of which R\$ 349 has been provisioned (R\$ 290 on December 31, 2015) this being the probable estimate for funds needed to settle these disputes.

The increase in the amount of the contingency is due, among other factors, to the larger volume of legal actions being taken by former employees, arising from severances over recent years, and also the higher volume of actions on remuneration for hazardous work, due to new legal arguments which have emerged following recent legislative changes.

#### Consumer relations

The Company and its subsidiaries are parties in various civil actions relating to indemnity for pain and suffering and for material damages, arising, principally, from allegations of irregularity in measurement of consumption, and claims of undue charging, in the normal course of business, totaling R\$ 33 (R\$ 18 on December 31, 2015), of which R\$ 15 (R\$ 17 on December 31, 2015) has been provisioned this being the probable estimate for funds needed to settle these disputes.

#### Other civil cases

Cemig and its subsidiaries are parties in various civil actions claiming indemnity for pain and suffering and for material damages, among others, arising from incidents occurring in the normal course of business, in the amount of R\$ 227 (R\$ 185 on December 31, 2015), of which R\$ 40 (R\$ 29 on December 31, 2015) the amount estimated as probably necessary for settlement of these disputes has been provisioned.

Tax

The Company and its subsidiaries are parties in numerous administrative and court actions relating to taxes, including, among other matters, subjects relating to the ICMS (Value Added) tax on goods and services; the Urban Property Tax (*Imposto sobre a Propriedade Territorial Urbana*, or IPTU); the Rural Property Tax (ITR); the tax on donations and legacies (ITCD), the Social Integration Program (*Programa de Integração Social*, or PIS), the Contribution to Finance Social Security (*Contribuição para o Financiamento da Seguridade Social*, or Cofins), Corporate Income Tax (*Imposto de Renda Pessoa Jurídica*, or IRPJ), the Social Contribution Tax (*Contribuição Social sobre o Lucro Líquido*, or CSLL) and applications to stay tax execution on tax matters. The amount of the contingency is approximately R\$ 295 (R\$ 257 on December 31, 2015). Of this total, R\$ 70 has been provisioned (R\$ 69 on December 31, 2015) this being the best probable estimate for funds needed to settle these disputes.

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### Environmental

The Company and its subsidiaries are involved in environmental matters, in which the subjects include protected areas, environmental licenses, recovery of environmental damage, and other matters, in the approximate total amount of R\$ 34 (R\$ 26 on December 31, 2015).

### Regulatory

The Company and its subsidiaries are parties in numerous administrative and court proceedings in which the main issues disputed are: (i) the tariff charges in invoices relating to the use of the distribution system by a self-producer; (ii) violation of targets for indicators of continuity in retail supply of electricity; (iii) the tariff increase made during the federal government's economic stabilization plan referred to as the Cruzado Plan, in 1986.

The value of the contingency is approximately R\$ 236 (R\$ 202 on December 31, 2015), of which R\$ 43 has been provisioned (R\$ 45 on December 31, 2015) this being the best probable estimate for funds needed to settle these disputes.

### Corporate

#### *Difference of monetary updating on the Advance against Future Capital Increase (AFAC) made by the Minas Gerais State Government*

On December 19, 2014 the Finance Secretary of Minas Gerais State sent an Official Letter to Cemig requesting recalculation of the amounts relating to the Advances against Future Capital Increase made in 1995, 1996, and 1998, which were returned to Minas Gerais State in December 2011, for review of the criterion used by the Company for monetary updating, arguing that application of the Selic rate would be more appropriate, replacing the IGP-M index.

On December 29, 2014 the Company made an administrative deposit applying for suspension of enforceability of the credit being requested by the state, and for its non-inclusion in the Register of Debts owed to the state and in the Registry of Defaulted Payments owed to the state (CADIN).

Based on the opinion of the Company's legal advisors, the chances of loss have been assessed as probable and the amount provisioned, with a counterpart in Financial revenue (expenses) of R\$ 239 (R\$ 269 on December 31, 2015), which is the estimated probable amount of funds that might be used to settle the matter.

### Other legal actions in the normal course of business

#### *Breach of contract - provision of services of cleaning power line paths and accesses*

The Company is a party in disputes alleging losses suffered as a result of supposed breach of contract at the time of provision of services of cleaning of power line pathways and firebreaks. The amount provisioned is R\$ 28 (R\$ 24 on December 31, 2015), this being estimated as the likely amount of funds necessary to settle this dispute.

#### *Other legal actions*

In addition to the issues described above, the Company is involved, on plaintiff or defendant side, in other cases, of smaller scale, related to the normal course of its operations, with an estimated total amount of R\$ 179 (R\$ 126 on December 31, 2015), of which R\$ 30 (R\$ 12 on December 31, 2015) the amount estimated as probably necessary for settlement of these disputes has been provisioned. Management believes that it has appropriate defense for these actions, and does not expect these issues to give rise to significant losses that could have an adverse effect on the Company's financial position or profit.

**Table of Contents****Contingent liabilities for cases in which the chances of loss are assessed as possible, and the Company believes it has arguments of merit for legal defense****Tax and similar charges**

The Company is a party in numerous administrative and court proceedings in relation to taxes. Below are details of the principal cases:

*Indemnity of the employees future benefit the Anuênio*

In 2006, the Company paid an indemnity to its employees, totaling R\$ 178, in exchange for rights to future payments (referred to as the *Anuênio*) for time of service, which would otherwise be incorporated, in the future, into salaries. The company did not pay income tax nor Social Security contributions in relation to these amounts because it considered that those obligations are not applicable to amounts paid as an indemnity. However, to avoid the risk of a future fine, the Company decided to apply for an order of *mandamus*, and the court permitted payment into Court of R\$ 122 which, updated, represents the amount of R\$ 255 (R\$ 237 on December 31, 2015). This was posted in Escrow deposits in litigation. The amount of the contingency, updated, is R\$ 290 (R\$ 264 on December 31, 2015) and, based on the arguments above, Management has classified the chance of loss as possible.

*Social Security contributions*

The Brazilian federal tax authority (*Secretaria da Receita Federal*) has brought administrative proceedings against the Company, under various headings: employee profit shares (*Participação nos Lucros e Resultados*, or PLR), the Workers Food Program (*Programa de Alimentação do Trabalhador*, or PAT), overtime payments, hazardous occupation payments, matters related to Sest/Senat (transport workers support programs), and fines for non-compliance with accessory obligations. The Company has presented defenses and awaits judgment. The amount of the contingency is approximately R\$ 1,510 (R\$ 1,361 on December 31, 2015). The Company has assessed the chances of loss as possible reflecting among other considerations the assessment that these legal actions against the company are likely to be unsuccessful, grounded on evaluation of the claims and the related case law.

*Non-homologation of offsetting of tax credit*

In several administrative cases, the federal tax authority did not accept (and ratify) the Company's declared offsetting of federal taxes using credits arising from undue or excess payment of federal taxes. The amount of the contingency is R\$ 317 (R\$ 663 on December 31, 2015). The Company has assessed the chance of loss as possible, since it believes that it has met the requirements of the National Tax Code (*Código Tributário Nacional*, or CTN).

The federal tax authority adjusted the debit balance in Cemig GT and Cemig D of the lawsuits in which the PIS and COFINS calculation base is discussed, with a current value of R\$ 121 (R\$ 448 as of December 31, 2015). This is the main factor in reducing the value of contingency.

*Corporate tax return restitution and offsetting*

The Company is a party in an administrative case involving requests for restitution and compensation of credits arising from tax carryforward balances indicated in the tax returns (DIPJs) for the calendar years from 1997 to 2000,

and also for excess payments identified by the corresponding tax payment receipts (DARFs and DCTFs). Due to completion of all appeals in the administrative sphere, an ordinary legal action has been filed, for the approximate total amount of R\$ 535 (R\$ 482 on December 31, 2015). The chances of loss in this action are assessed as possible, due to nullities in the conduct of the administrative proceedings and mistaken assumptions made by the inspectors in the administrative judgment, and also based on analysis of the Company's argument and documents of proof.

**Table of Contents***Income tax withheld at sourced (IRRF) on capital gain in a stockholding transaction*

The federal tax authority issued an infringement notice on Cemig as a jointly responsible party with its jointly-controlled entity Parati S.A. Participações em Ativos de Energia Elétrica (Parati), relating to income tax withheld (*Imposto de Renda Retido na Fonte*, or IRRF) allegedly applicable to returns paid by reason of a capital gain in a stockholding transaction relating to the purchase by Parati of 100.00% of the equity interest held by Enlighted in Luce LLC (a company with head office in Delaware, USA), holder of 75.00% of the shares in the Luce Brasil equity investment fund (FIP Luce), which was indirect holder, through Luce Empreendimentos e Participações S.A., of approximately 13.03% of the total and voting shares of Light S.A. (Light). The amount of the contingency is approximately R\$ 198 (R\$ 202 on December 31, 2015), and the chances of loss have been assessed as possible .

*Social Contribution tax ( CSLL ) on net income*

The federal tax authority issued a claim for incorrect payment against the Company for the business years 2012 and 2013, alleging non-addition, or deduction, by the Company, of amounts relating to the following items in calculating the Social Contribution tax on net income: (i) Taxes with liability suspended; (ii) donations and sponsorship (Law 8313/91); and (iii) fines for various alleged infringements. The amount of this contingency is R\$ 280 (R\$ 227 on December 31, 2015). The Company has classified the chances of loss as possible , in accordance with the analysis of the case law.

*ICMS (value added) Tax*

The tax authority of Minas Gerais state has opened several administrative actions against Cemig D, raising a supposed divergence in the classification, for tax purposes, of certain consumers in the years 2011 through 2015. The amount of this contingency is R\$ 82. The company has classified the chance of loss as possible , because it believes that it has arguments on the merit for defense in the court, and because of the absence of case law precedent.

**Regulatory matters***Public Lighting Contribution (CIP)*

Cemig is defendant in several public civil actions (class actions), claiming nullity of the clause in the Electricity Supply Contracts for public illumination, signed between the Company and the various municipalities of its concession area, and restitution by the Company of the difference representing the amounts charged in the last 20 years, in the event that the courts recognize that these amounts were unduly charged. The actions are grounded on a supposed mistake by Cemig in the estimate of time that was used for calculation of the consumption of electricity for public illumination, funded by the Public Illumination Contribution (*Contribuição para Iluminação Pública*, or CIP).

The Company believes it has arguments of merit for defense in these claims, since the charge at present made is grounded on Aneel Normative Resolution 456/2000. As a result it has not constituted a provision for this action, the amount of which is estimated at R\$ 1,305 (R\$ 1,232 on December 31, 2015). It has assessed the chances of loss in this action as possible , due to the Consumer Defense Code (*Código de Defesa do Consumidor*, or CDC) not being applicable, because the matter is governed by the specific regulation of the electricity sector, and because Cemig complied with Aneel Resolutions 414 and 456, which deal with the subject.

*Accounting of electricity sale transactions in the Electricity Trading Chamber (CCEE)*

In an action dating from August 2002, AES Sul Distribuidora challenged in the courts the criteria for accounting of electricity sale transactions in the wholesale electricity market (*Mercado Atacadista de Energia*, or MAE) (predecessor of the present Electricity Trading Chamber *Câmara de Comercialização de Energia Elétrica*, or CCEE), during the period of rationing in 2001-2. It obtained an interim judgment in its favor in February 2006, which ordered Aneel, working with the CCEE, to comply with the claim by AES Sul and recalculate the settlement of the transactions during the rationing period, leaving out of account Aneel's Dispatch 288 of 2002.



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This was to be put into effect in the CCEE as from November 2008, resulting in an additional disbursement for Cemig, referring to the expense on purchase of energy in the spot market on the CCEE, in the approximate amount of R\$ 264 (R\$ 230 on December 31, 2015). On November 9, 2008 the Company obtained an interim remedy in the Regional Federal Appeal Court (*Tribunal Regional Federal*, or TRF) suspending the obligatory nature of the requirement to pay into court the amount that would have been owed under the Special Financial Settlement made by the CCEE.

The Company has classified the chance of loss as possible, since this is a unique action (no similar action has previously been judged), and because it deals with the General Agreement for the Electricity Sector, in which the Company has the full documentation to support its arguments.

*System Service Charges (ESS) – Resolution of the National Energy Policy Council*

Resolution 3 of March 6, 2013 issued by the National Energy Policy Council (*Conselho Nacional de Política Energética*, or CNPE) established new criteria for the prorating of the cost of the additional dispatch of thermal plants. Under the new criteria, the costs of the System Service Charges for Electricity Security (*Encargos do Serviço do Sistema*, or ESS), which were previously prorated in full between Free Consumers and Distributors, was now to be prorated between all the agents participating in the National Grid System, including generators and traders.

In May 2013, the Brazilian Independent Electricity Producers Association (*Associação Brasileira dos Produtores Independentes de Energia Elétrica*, or Apine), with which the Company is associated, obtained an interim court remedy suspending the effects of Articles 2 and 3 of CNPE Resolution 3, exempting generators from payment of the ESS under that Resolution.

As a result of the interim remedy, the CCEE (Wholesale Trading Chamber) carried out the financial settlement for transactions in April through December 2013, using the criteria prior to the said Resolution. As a result, the Company recorded the costs of the ESS in accordance with the criteria for financial settlement published by the CCEE, without the effects of CNPE Resolution 3.

The applications by the plaintiff (Apine) were granted in the first instance, confirming the interim remedy granted in favor of its associates, including Cemig GT and its subsidiaries. This decision was the subject of an appeal, distributed to the 7th Panel of the TRF (*Tribunal Federal Regional – Regional Federal Court*) of the 1st Region, in which judgment is awaited.

The amount of the contingency is approximately R\$ 182 (R\$ 155 on December 31, 2015). In spite of the successful judgment at the first instance, the Association's legal advisers still considered the chances of loss in this contingency as possible. The Company agrees with this, since there are not yet elements to enable foreseeing the outcome of the Appeal filed by the federal government.

*PPE assets in service*

In August 2014 Aneel filed a notice of infringement alleged the Company had not met all the requirements for appropriation of costs in works and other procedures adopted and its compliance with the current legislation. This is a type of inspection relating as it does to the Electricity Sector Property Control Manual. The amount of the contingency is R\$ 3 (R\$ 66 on December 31, 2015). The Company has classified the chances of loss as possible, because it

believes it has arguments of merit for legal defense, due to the regularity and legality of the Normative Acts issued by Aneel, which orient the actions of the Company, and also due to compliance with the Normative Resolutions of Aneel in relation to the requirements of law; and also the public interest in the transfer of electricity assets; and has therefore not constituted a provision for this action.

Tariff increases

*Exclusion of consumers inscribed as low-income*

The Federal Public Attorneys Office filed a class action against the Company and Aneel, to avoid exclusion of consumers from classification in the Low-income Residential Tariff Sub-category, requesting an order for the Company to pay 200% of the amount allegedly paid in excess by consumers. Judgment was given in favor of the plaintiffs, but the Company and Aneel have filed an interlocutory appeal and await judgment. On December 31, 2016 the amount of the contingency was approximately R\$ 254 (R\$ 222 on December 31, 2015). The Company has classified the chances of loss as possible due to other favorable judgments on this theme.

**Table of Contents***Periodic Tariff Adjustment – Neutrality of – Portion A*

The Municipal Association for Protection of the Consumer and the Environment (*Associação Municipal de Proteção ao Consumidor e ao Meio Ambiente*, or Amprocom) filed a class action against the Company and against Aneel, for identification of all the consumers allegedly damaged in the processes of Periodic Review and Annual Adjustment of tariffs, in the period 2002 to 2009, and restitution, through credits on electricity bills, of any amounts unduly charged, arising from non-consideration of the impact of future variations in consumer electricity demand on non-manageable cost components, from the distributor's non-manageable costs (– Portion A – costs), and the allegedly undue inclusion of these gains in manageable costs of the distributor (– Portion B – costs), causing economic/financial imbalance of the contract. This is an action that could affect all distribution concession holders, which could thus lead to a new Electricity Sector Agreement. The estimated amount of the contingency is R\$ 317 (R\$ 276 on December 31, 2015). The Company has classified the chance of loss as – possible –, because it believes it has arguments of merit for legal defense and therefore has not made a provision for this action.

**Environmental issues***Impact arising from construction of plants*

An environmental association, in a class action, has claimed indemnity for supposed collective environmental damages as a result of the construction and operation of the Nova Ponte Hydroelectric Plant.

Due to the changes made in the environmental legislation and the trend toward a consensus in case law, the Company has re-evaluated the amounts and probabilities of loss on the claims in this action from: R\$ 376 (R\$ 314 on December 31, 2015). Based on the first instance decision, which ruled against the plaintiff's applications, Management has re-evaluated the probability of loss, classifying it as – remote –.

The Public Attorney's Office of the State of Minas Gerais has brought class actions requiring the Company to invest at least 0.5% of the gross annual operational revenue, since 1997, of the *Emborcação, Pissarrão, Funil, Volta Grande, Poquim, Paraúna, Miranda, Nova Ponte, Rio de Pedras* and *Peti* plants, in environmental protection and preservation of the water tables of the municipalities where Cemig's power plants are located, and proportional indemnity for allegedly irreparable environmental damage caused, arising from omission to comply with Minas Gerais State Law 12503/97.

The Company has filed appeals to the Higher Appeal Court (STJ) and the Federal Supreme Court (STF). Based on the opinions of its legal advisers, the Company believes that this is a matter involving legislation at sub-constitutional level (there is a Federal Law with an analogous object) and thus a constitutional matter, on the issue of whether the state law is constitutional or not, so that the final decision is a matter for the national Higher Appeal Court (STJ) and the Federal Supreme Court (STF). No provision has been constituted. The estimated amount of the contingency is R\$ 113 (R\$ 99 on December 31, 2015).

The Public Attorneys' Office of Minas Gerais State has filed class actions requiring the formation of a Permanent Preservation Area (APP) around the reservoir of the *Capim Branco* hydroelectric plant, suspension of the effects of the environmental licenses, and recovery of alleged environmental damage. Based on the opinion of its legal advisors in relation to the changes that have been made in the new Forest Code and in the case law on this subject, the Company has classified the probability of loss in this dispute as – possible –. The estimated value of the contingency is

R\$ 71 (R\$ 64 on December 31, 2015).

Other contingent liabilities

*Early settlement of the CRC (Earnings Compensation) Account*

The Company is a party in an administrative proceeding before the Audit Court of the State of Minas Gerais which challenges (i) a difference of amounts relating to the discount offered by Cemig for early repayment of the credit owed to Cemig by the State under the Receivables Assignment Contract in relation to the CRC Account (*Conta de Resultados a Compensar*, or Earnings Compensation Account) this payment was completed in the first quarter of 2013 and also (ii) possible undue financial burden on the State after the signature of the Amendments that aimed to re-establish the economic and financial balance of the Contract. The amount of the contingency is approximately R\$ 390 (R\$ 363 on December 31, 2015), and the Company believes that it has met the legal requirements, having based its actions on the Opinion of the Public Attorneys Office of the Audit Board of the State of Minas Gerais. Thus, it has assessed the chances of loss as possible, since it believes that the adjustment was made in faithful obedience to the legislation applicable to the case.

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*Contractual imbalance*

The Company is a party in disputes alleging losses suffered as a result of supposed breach of contract at the time of implementation of part of the rural electrification program known as *Luz Para Todos* ( Light for Everyone ). The estimated amount is R\$ 237 (R\$ 202 on December 31, 2015) and no provision has been made. The Company has classified the chances of loss as possible as a result of the analysis that has been made of the argument and documentation used by the contracted parties in attempting to make the Company liable for any losses that allegedly occurred.

The Company is also a party in other disputes arising from alleged non-compliance with contracts in the normal course of business, for an estimated total of R\$ 71 (R\$ 33 on December 31, 2015). The Company has classified the chance of loss as possible , after analysis of the case law on this subject.

*Irregularities in competitive tender proceedings*

The Company is a party in a dispute alleging irregularities in competitive tender proceedings, governed by an online invitation to bid. The estimated amount is R\$ 26 (R\$ 24 on December 31, 2015), and no provision has been made. The Company has classified the chances of loss as possible , after analysis of the case law on this subject.

*Alteration of the monetary updated index of employment-law cases*

The Higher Employment Law Appeal Court (*Tribunal Superior do Trabalho*, or TST), considering a position adopted by the Federal Supreme Court (*Supremo Tribunal Federal*, STF) in two actions on constitutionality that dealt with the index for monetary updating of federal debts, decided on August 4, 2015 that employment-law debts in actions not yet decided that discuss debts subsequent to June 30, 2009 should be updated based on the variation of the IPCA-E (Expanded National Consumer Price Index), rather than of the TR reference interest rate. On October 16, 2015 an interim injunction was given by the STF that suspended the effects of the TST decision, on the grounds that decisions on matters of general constitutional importance should exclusively be decided by the STF.

The estimated value of the difference between the monetary updating indices of the employment-law cases is R\$ 176 (R\$ 140 on December 31, 2015). No additional provision has been made, since the Company, based on the assessment by its legal advisers, has assessed the chances of loss in the action as possible , as a result of the decision by the STF, and of there being no established case law, nor analysis by legal writers, on the subject, after the injunction given by the Federal Supreme court.

**Table of Contents****24. EQUITY AND REMUNERATION TO SHAREHOLDERS**

The Company's registered share capital on December 31, 2016 and 2015 is R\$ 6,294, in 420,764,708 common shares and 838,076,946 preferred shares, all with nominal value of R\$ 5.00 (reais), as follows:

| Shareholders                         | Number of shares on December 31, 2016 |            |                    |            |                      |            |
|--------------------------------------|---------------------------------------|------------|--------------------|------------|----------------------|------------|
|                                      | Common                                | %          | Preferred          | %          | Total                | %          |
| State of Minas Gerais                | 214,414,739                           | 51         |                    |            | 214,414,739          | 17         |
| Other entities of Minas Gerais State | 56,703                                |            | 4,860,228          | 1          | 4,916,931            | 1          |
| AGC Energia S.A.                     | 84,357,856                            | 20         |                    |            | 84,357,856           | 7          |
| Other                                |                                       |            |                    |            |                      |            |
| In Brazil                            | 112,584,011                           | 27         | 252,478,755        | 30         | 365,062,766          | 28         |
| Rest of world                        | 9,351,399                             | 2          | 580,737,963        | 69         | 590,089,362          | 47         |
| <b>Total</b>                         | <b>420,764,708</b>                    | <b>100</b> | <b>838,076,946</b> | <b>100</b> | <b>1,258,841,654</b> | <b>100</b> |

| Shareholders                 | Number of shares on December 31, 2015 |            |                    |            |                      |            |
|------------------------------|---------------------------------------|------------|--------------------|------------|----------------------|------------|
|                              | Common                                | %          | Preferred          | %          | Total                | %          |
| Minas Gerais State           | 214,414,739                           | 51         |                    |            | 214,414,739          | 17         |
| Other entities of M.G. State | 56,703                                |            | 10,418,812         | 1          | 10,475,515           | 1          |
| AGC Energia S.A.             | 138,700,848                           | 33         | 42,671,763         | 5          | 181,372,611          | 15         |
| Others                       |                                       |            |                    |            |                      |            |
| In Brazil                    | 58,127,167                            | 14         | 179,358,041        | 21         | 237,485,208          | 18         |
| Rest of world                | 9,465,251                             | 2          | 605,628,330        | 73         | 615,093,581          | 49         |
| <b>Total</b>                 | <b>420,764,708</b>                    | <b>100</b> | <b>838,076,946</b> | <b>100</b> | <b>1,258,841,654</b> | <b>100</b> |

**(a) Earnings per share**

The number of shares used in the calculation of basic profit and diluted profit per share, including the effect of the new shares, is as follows:

| Number of shares | 2016               | 2015               | 2014               |
|------------------|--------------------|--------------------|--------------------|
| Common shares    | 420,764,708        | 420,764,708        | 420,764,708        |
| Held in treasury | (69)               | (69)               | (69)               |
|                  | <b>420,764,639</b> | <b>420,764,639</b> | <b>420,764,639</b> |

|                               |                      |                      |                      |
|-------------------------------|----------------------|----------------------|----------------------|
| Preferred shares              | 838,076,946          | 838,076,946          | 838,076,946          |
| Held in treasury              | (560,649)            | (560,649)            | (560,649)            |
|                               | <b>837,516,297</b>   | <b>837,516,297</b>   | <b>837,516,297</b>   |
| <b>Total</b>                  | <b>1,258,280,936</b> | <b>1,258,280,936</b> | <b>1,258,280,936</b> |
| <u>Basic profit per share</u> |                      |                      |                      |

The Company's preferred shares carry the right to a minimum mandatory dividend, as shown in more detail in item c .

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The following is the calculation of the basic profit per share:

|   | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|-------------|
| Profit for the period   | 334         | 2,469       | 3,137       |
| Minimum mandatory dividend for the preferred shares arising from the profit for the period (item c) | 204         | 422         | 531         |
| Profit not distributed arising from the profit for the period preferred shares                      | 87          | 1,221       | 1,557       |
| Total of the profit for the preferred shares (A)  | 291         | 1,643       | 2,088       |
| Minimum mandatory dividend for the common shares  |             | 212         | 266         |
| Profit not distributed arising from the profit for the period common shares                         | 44          | 614         | 783         |
| Total profit for the common shares (B)  | 44          | 826         | 1,049       |
| Basic profit per preferred share ( A / number of preferred shares )                                 | 0.35        | 1.96        | 2.49        |
| Basic profit per common share ( B / number of common shares )                                       | 0.10        | 1.96        | 2.49        |
| <u>Diluted profit per share</u>   |             |             |             |

The call and put options in shares of investees, described in more detail in Note 15, have potential to dilute the Company's shares. The following shows the calculation of diluted profit per share:

|  | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|-------------|
| Profit for the period  | 334         | 2,469       | 3,137       |
| Total basic profit for the preferred shares                        | 291         | 1,643       | 2,088       |
| Dilutive effect related to the RME/Lepsa Option                    | (22)        |             |             |
| Dilutive effect related to the Ativas Option                       | (5)         |             |             |
| Diluted profit for the preferred shares (C)                        | 264         | 1,643       | 2,088       |
| Total profit for the year for the common shares (B)                | 44          | 826         | 1,049       |
| Dilutive effect related to the RME/Lepsa Option                    | (11)        |             |             |
| Dilutive effect related to the Ativas Option                       | (2)         |             |             |
| Diluted profit for the common shares (D)                           | 30          | 826         | 1,049       |
| Diluted profit per preferred share ( C / No. of preferred shares ) | 0.32        | 1.96        | 2.49        |
| Diluted profit per common share ( D / No. of common shares )       | 0.07        | 1.96        | 2.49        |
| <u>Shareholders' agreement</u>                                     |             |             |             |



On August 1, 2011, the government of Minas Gerais State signed a Shareholders Agreement with AGC Energia S.A., with BNDES Participações S.A. as consenting party, valid for 15 years. The agreement maintains the State of Minas Gerais as dominant, sole and sovereign controlling shareholder of the Company, and attributes to AGC Energia certain prerogatives for the purpose of contributing to the sustainable growth of the Company, among other provisions.

**Table of Contents****(b) Reserves**

The account lines Capital Reserves and Profit Reserves are made up as follows:

| <b>Capital reserves and shares in Treasury</b> | <b>2016</b>  | <b>2015</b>  | <b>2014</b>  |
|--|--------------|--------------|--------------|
| Investment-related subsidies                   | 1,857        | 1,857        | 1,857        |
| Goodwill on issuance of shares                 | 69           | 69           | 69           |
| Shares in Treasury                             | (1)          | (1)          | (1)          |
|  | <b>1,925</b> | <b>1,925</b> | <b>1,925</b> |

The Reserve for investment-related subsidies basically refers to the compensation by the federal government for the difference between the profitability obtained by Cemig up to March 1993 and the minimum return guaranteed by the legislation in effect at the time.

The reserve for treasury shares refers to the pass-through by Finor of shares arising from funds applied in Cemig projects in the area covered by Sudene (the development agency for the Northeast) under tax incentive programs.

| <b>Profit reserves</b>                           | <b>2016</b>  | <b>2015</b>  | <b>2014</b>  |
|--|--------------|--------------|--------------|
| Legal reserve                                    | 853          | 853          | 853          |
| Reserve under the By-laws                        | 57           | 57           | 57           |
| Retained earnings reserve                        | 2,813        | 2,906        | 1,655        |
| Tax incentives reserve                           | 57           | 50           | 29           |
| Reserve for obligatory dividends not distributed | 1,420        | 797          |              |
|  | <b>5,200</b> | <b>4,663</b> | <b>2,594</b> |

**Legal reserve**

Constitution of the Legal Reserve is obligatory, up to the limits established by law. The purpose of the Reserve is to ensure the security of the share capital, its use being allowed only for offsetting of losses or increase in the share capital. The Company did not deposit in the Legal Reserve in 2016 due to its having reached its legal limit.

**Reserve under the by-laws**

The Reserve under the By-laws is for future payment of extraordinary dividends, in accordance with Article 28 of the by-laws.

**Retained Earnings reserve**

The Retained Earnings Reserves are for profits not distributed in previous years, to guarantee execution of the Company's Investment Program, and amortizations of loans and financings planned for the 2016 business year. The retentions are supported by capital budgets approved by the Board of Directors in the periods in question.

Tax Incentives Reserve

The federal tax authority (*Receita Federal*) recognized the Company's right to reduction of 75% in income tax, including the tax paid at the additional rate, calculated on the basis of the operating profit in the region of Sudene (the Development Agency for the Northeast), for 10 years starting in 2014. The amount of the tax incentive gain recorded was R\$ 57 in 2016 (R\$50 in 2015 and R\$29 in 2014). This reserve cannot be used for payment of dividends.

**Table of Contents****(c) Dividends****Ordinary dividends**

Under its by-laws, Cemig is required to pay to its shareholders, as obligatory dividends, 50% of the net profit of each business year.

The preferred shares have preference in the event of reimbursement of capital and participate in profits on the same conditions as the common shares. They have the right to a minimum annual dividend equal to the greater of:

(a) 10% of their par value and

(b) 3% of the portion of equity that they represent.

Under the by-laws, Cemig's shares held by private individuals have the right to a minimum dividend of 6% per year on their par value in all years when Cemig does not obtain sufficient profits to pay dividends to its shareholders. This guarantee is given by the State of Minas Gerais by Article 9 of State Law 828 of December 14, 1951 and Article 1 of State Law 8796 of April 29, 1985.

Under the Company's by-laws, if the Company is able to pay dividends higher than the obligatory minimum dividend required for the preferred shareholders, and the remainder of net profit is sufficient to offer equal dividends for both the common and preferred shares, then the dividend per share will be the same for the holders of common shares and the holders of preferred shares. Dividends declared are paid in two equal installments, the first by June 30 and the second by December 30, of the year following the generation of the profit to which they refer. The Executive Board decides the location and processes of payment, subject to these periods.

The calculation of the dividends proposed for distribution to shareholders based on the profit for the business year is as follows:

| <b>Calculation of the Minimum Dividends required by the Bylaws for the preferred shares</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|-------------|
| Nominal value of the preferred shares   | 4,190       | 4,190       | 4,190       |
| Percentage applied to the nominal value of the preferred shares                             | 10.00%      | 10.00%      | 10.00%      |
| Amount of the dividends by the First payment criterion                                      | 419         | 419         | 419         |
| Equity  | 12,930      | 12,984      | 11,281      |
| Preferred shares as a percentage of Equity (net of shares held in Treasury)                 | 66.58%      | 66.58%      | 66.58%      |
| Portion of Equity represented by the preferred shares                                       | 8,609       | 8,645       | 7,511       |

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|  |       |       |       |
|--|-------|-------|-------|
| Percentage applied to the portion of Equity represented by the preferred shares      | 3.00% | 3.00% | 3.00% |
| Amount of the dividends by the Second payment criterion                              | 258   | 259   | 225   |
| Calculation of the Minimum Dividends required by the Bylaws for the preferred shares | 419   | 419   | 419   |
| <b>Obligatory Dividend</b>   |       |       |       |
| Net profit for the year  | 334   | 2,469 | 3,137 |
| Obligatory dividend 50.00% of net income   | 167   | 1,235 | 1,568 |

In 2016, 2015 and 2014 the mandatory minimum dividend under the by-laws for the preferred shares is R\$ 419.

In December 2016 the Company declared payment of R\$ 380 in the form of Interest on Equity, to be paid in two equal installments, by June 30 and December 30, 2017, to holders of preferred and common shares whose names were on the Company's Nominal Share Registry on December 26, 2016. The total amount of this Interest on Equity will have counterpart in the Retained Earnings Reserve.

|   |             |
|---|-------------|
| <b>Interest on Equity</b>                             | <b>2016</b> |
| Interest on Equity preferred shares and common shares |             |
| Common shares   | 127         |
| Preferred shares                                      | 253         |
|   | <b>380</b>  |

Sub-item III of CVM Decision 683/2012 establishes that Interest on Equity paid or credited may only be imputed against the minimum obligatory dividend at its value net of withholding income tax.

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Based on this, the following is the proposal for allocation of profit, with the guarantee of minimum dividends for the preferred shares:

|   | <b>Holding<br/>company<br/>2016</b> |
|---|-------------------------------------|
| <b>Calculation of dividends to be distributed</b>   |                                     |
| Interest on Equity paid to holders of the preferred shares  | 253                                 |
| Additional dividends to guarantee the minimum payment for the preferred shares  |                                     |
| Dividends to meet the minimum amount specified in the by-laws   | 166                                 |
| Withholding income tax on Interest on Equity paid for the preferred shares (253.004 x 15%)                                | 38                                  |
|   | 204                                 |
| Total of Interest on Equity paid to the preferred shares from profit reserves   | 253                                 |
| Total of Additional Dividends to guarantee the Minimum Payment for the preferred shares paid from the profit for the year | 204                                 |
|   | 457                                 |
| Unit value of dividends   R\$   |                                     |
| Minimum Dividends required by the by-laws for the preferred shares  | 0.5                                 |
| Dividends proposed   preferred shares (net of withholding tax)  | 0.5                                 |
| <u>Allocation of Net profit for 2016   Proposal by management</u>   |                                     |

The Board of Directors decided to propose to the Annual General Meeting to be held on May 12, 2017 that the profit for 2016, in the amount of R\$ 334, and the balance of Retained earnings, of R\$ 37, should be allocated as follows:

R\$ 204 to be paid as minimum obligatory dividend, to the Company's shareholders, in two equal installments, by June 30 and December 30, 2017 to holders of preferred shares whose names were on the Company's Nominal Share Registry.

R\$ 161 to be held in Equity in the Retained earnings reserve, to guarantee for the Company's consolidated investments planned for the 2017 business year, in accordance with a capital budget.

R\$ 7 to be held in Equity in the Tax incentives reserve, in reference to the tax incentive amounts obtained in 2016 in relation to the investments made in the region of Sudene.

**(d) Accumulated Other Comprehensive Income**

| <b>Equity valuation adjustments</b>   | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
|---|--------------|-------------|-------------|
| Adjustments to actuarial liabilities Employee Retirement Benefits                       | (170)        | (121)       | (14)        |
| <b>Other comprehensive income in subsidiary and jointly-controlled entities</b>         |              |             |             |
| Deemed cost of PP&E   | 685          | 720         | 780         |
| Change in fair value of financial asset available for sale in jointly controlled entity | 38           | 18          |             |
| Cumulative translation adjustments  |              | 63          | 26          |
| Adjustments to actuarial liabilities Employee Retirement Benefits                       | (1,041)      | (578)       | (324)       |
|   | (318)        | 223         | 482         |
| <b>Accumulated Other Comprehensive Income</b>   | <b>(488)</b> | <b>102</b>  | <b>468</b>  |

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The amounts reported as deemed cost of the generation assets are due to the valuation of the generation assets, with the assessment of their fair value at replacement cost in the initial adoption of international financial standards on January 1, 2009. The new valuation of the generation assets resulted in an increase in their value, posted in the specific line of Equity, net of the tax effects.

This table shows the adjustments arising from conversion of the financial statements:

|   |           |
|---|-----------|
| <b>Balance at December 31, 2014</b>   | <b>27</b> |
| Conversion adjustment of equity method gain in Other comprehensive income of Transchile | 36        |
| <b>Balance on December 31, 2015</b>   | <b>63</b> |
| Conversion adjustment of equity method gain in Other comprehensive income of Transchile | (23)      |
| Recycling to Income statement due to the sale of Transchile                             | (40)      |
| <b>Balance at December 31, 2016</b>   |           |

**25. REVENUE**

|  | <b>2016</b>   | <b>2015<br/>Restated</b> | <b>2014<br/>Restated</b> |
|--|---------------|--------------------------|--------------------------|
| Revenue from supply of electricity (a)   | 23,430        | 22,526                   | 17,232                   |
| Revenue from use of the electricity distribution systems (TUSD) (b)  | 1,705         | 1,465                    | 855                      |
| CVA and Other financial components in tariff increases (c)   | (1,455)       | 1,704                    | 1,107                    |
| Transmission revenue   |               |                          |                          |
| Transmission concession revenue (d)  | 312           | 261                      | 557                      |
| Transmission construction revenue (e)  | 54            | 146                      | 80                       |
| Transmission indemnity revenue (g)   | 751           | 101                      | 420                      |
| Distribution construction revenue (e)  | 1,139         | 1,106                    | 861                      |
| Adjustment to expectation of cash flow from the indemnifiable Financial asset of the distribution concession (i) | 8             | 576                      | 55                       |
| Revenue from financial updating of the Concession Grant Fee (f)*   | 300           |                          |                          |
| Transactions in electricity on the CCEE (h)  | 161           | 2,425                    | 2,348                    |
| Supply of gas  | 1,444         | 1,667                    | 422                      |
| Other operating revenues (i)   | 1,421         | 1,440                    | 1,284                    |
| Deductions from revenue (k)  | (10,497)      | (11,549)                 | (5,626)                  |
| <b>Net operating revenue</b>   | <b>18,773</b> | <b>21,868</b>            | <b>19,595</b>            |



\* Net of financial updating of the remaining balance payable of the concession grant fee

**Table of Contents****a) Revenue from supply of electricity**

This table shows supply of electricity by type of consumer:

|  | GWh (1)       |               |               | R\$           |               |               |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
|  | 2016          | 2015          | 2014          | 2016          | 2015          | 2014          |
| Residential                                      | 9,916         | 9,830         | 10,014        | 7,819         | 7,297         | 5,183         |
| Industrial                                       | 19,494        | 22,969        | 26,026        | 5,396         | 5,781         | 4,793         |
| Commercial, Services and Others                  | 6,573         | 6,434         | 6,395         | 4,359         | 3,956         | 2,786         |
| Rural  | 3,575         | 3,380         | 3,390         | 1,463         | 1,407         | 908           |
| Public authorities                               | 886           | 892           | 891           | 545           | 548           | 381           |
| Public illumination                              | 1,350         | 1,326         | 1,298         | 528           | 533           | 358           |
| Public service                                   | 1,252         | 1,204         | 1,273         | 547           | 540           | 369           |
| <b>Subtotal</b>                                  | <b>43,046</b> | <b>46,035</b> | <b>49,287</b> | <b>20,657</b> | <b>20,062</b> | <b>14,778</b> |
| Own consumption                                  | 37            | 38            | 37            |               |               |               |
| Supply not yet invoiced, net                     |               |               |               | (199)         | 257           | 144           |
|  | <b>43,083</b> | <b>46,073</b> | <b>49,324</b> | <b>20,458</b> | <b>20,319</b> | <b>14,922</b> |
| Wholesale supply to other concession holders (2) | 12,509        | 10,831        | 14,146        | 2,713         | 2,358         | 2,251         |
| Wholesale supply not yet invoiced, net           |               |               |               | 259           | (151)         | 59            |
| <b>Total</b>                                     | <b>55,592</b> | <b>56,904</b> | <b>63,470</b> | <b>23,430</b> | <b>22,526</b> | <b>17,232</b> |

(1) Data not audited by external auditors.

(2) Includes Regulated Market Electricity Sale Contracts (CCEARs) and bilateral contracts with other agents.

**b) Revenue from Use of Distribution Systems (the TUSD charge)**

A significant part of the large industrial consumers in the concession areas of Cemig D and Light are now Free Consumers energy is sold to them by the Cemig group's generation and transmission company, Cemig GT, as well as other generators. When these users became Free Consumers, they began to pay separate charges for use of the distribution network. This line ( TUSD ) records those charges.

**c) The CVA (Portion A Costs Variation Compensation) Account, and Other financial components, in tariff adjustments**

The gains arising from variations in the CVA Account (Portion A Costs Variation Compensation Account) and *Other financial components* in calculation of tariffs, refer to the positive and negative differences between the estimate of the Company's non-manageable costs and the payments actually made. The amounts recognized arise from balances constituted in the current period, homologated or to be homologated in tariff adjustment processes. For more information see Note 14.

**d) Transmission Concession Revenue**

Transmission Revenue comprises the following:

Concession Transmission Revenue, which includes the portion received from agents of the electricity sector relating to operation and maintenance of the transmission lines;

Generation Connection System Revenue, arising from the transmission assets belonging to the generating units.

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**e) Construction revenue**

Construction Revenue is substantially offset by Construction costs, and corresponds to the Company's investments in assets of the transmission and distribution concessions in the period.

**f) Gain on financial updating of the Concession Grant Fee**

Represents updating by the IPCA index, plus remuneratory interest, on the Concession Grant Fee for the concession awarded as Lot D of Auction 12/2015. For more details please see Note 14.

**g) Transmission indemnity revenue**

In 2016 the Company recognized revenue of R\$ 751, in relation to the following events:

R\$ 20 relating to the difference between the amount of the Preliminary Revision made by Aneel R\$ 1,157 on February 23, 2015, of the Opinion sent by the Company, and the Final Revision.

R\$ 44 for monetary updating of the balance of indemnity receivable by the IGP-M index, up to May 2016.

R\$ 90 representing the difference between the variations resulting from application of the IGP-M index and the IPCA index since the Company had updated the balance receivable, up to May 2016, by the IGP-M.

R\$ 438, representing the cost of own capital, calculated on the basis of 10.44% p.a.

R\$ 159 for updating of the balance of indemnity receivable, by the IPCA index, in accordance with Mining and Energy Ministry Order 120, in the period July through December 2016.

**h) Revenue from transactions in electricity on the CCEE (Wholesale Trading Chamber)**

The revenue from transactions made through the Electricity Trading Chamber (*Câmara de Comercialização de Energia Elétrica*, or CCEE) is the monthly positive net balance of settlements of transactions for purchase and sale of electricity in the Spot Market, through the CCEE.

**i)**

**Adjustment to expectation of cash flow from the indemnifiable Financial asset of the distribution concession**

This arises from the gain on the Adjustment made to the expectation of cash flow from the indemnifiable Financial asset of the distribution concession, due to monetary updating of the Regulatory Remuneration Base of assets.

**j) Other operating revenues**

|                    | <b>2016</b>  | <b>2015</b>  | <b>2014</b>  |
|--------------------|--------------|--------------|--------------|
| Charged service    | 6            | 14           | 11           |
| Telecoms services  | 137          | 134          | 135          |
| Services rendered  | 167          | 131          | 118          |
| Subsidies (*)      | 1,001        | 996          | 790          |
| Rental and leasing | 105          | 93           | 81           |
| Other              | 5            | 72           | 149          |
|                    | <b>1,421</b> | <b>1,440</b> | <b>1,284</b> |

(\*) Revenue recognized for the tariff subsidies applicable to users of distribution services, reimbursed by Eletrobras.

**Table of Contents****k) Deductions from revenue**

|  | <b>2016</b>   | <b>2015</b>   | <b>2014</b>  |
|--|---------------|---------------|--------------|
| <b>Taxes on revenue</b>                                      |               |               |              |
| ICMS tax (1)   | 5,211         | 4,487         | 3,198        |
| Cofins tax   | 2,041         | 2,263         | 1,628        |
| PIS and Pasep taxes  | 443           | 491           | 353          |
| Other  | 7             | 6             | 6            |
|  | <b>7,702</b>  | <b>7,247</b>  | <b>5,185</b> |
| <b>Charges to the consumer</b>                               |               |               |              |
| Global Reversion Reserve RGR                                 | (18)          | 36            | 39           |
| Energy Efficiency Program (P.E.E.)                           | 58            | 45            | 47           |
| Energy Development Account CDE                               | 2,074         | 2,870         | 211          |
| Research and Development P&D                                 | 48            | 47            | 49           |
| National Scientific and Technological Development Fund FNDCT | 48            | 47            | 48           |
| Energy System Expansion Research EPE                         | 24            | 24            | 24           |
| Consumer charges Proinfra alternative sources program        | 43            | 27            | 29           |
| Electricity Services Inspection Charge                       | 35            | 37            |              |
| Royalties for use of water resources                         | 123           | 102           |              |
| 0.30% additional payment (Law 12111/09) (2)                  |               |               | (6)          |
| Consumer charges Tariff Flag amounts                         | 360           | 1,067         |              |
|  | <b>2,795</b>  | <b>4,302</b>  | <b>441</b>   |
|  | <b>10,497</b> | <b>11,549</b> | <b>5,626</b> |

(1) As from January 1, 2016, the rate for consumers in the Commercial, services and other activities category was changed from 18% to 25% (Decree n° 46.924, of December 29, 2015).

(2) Reimbursement recognized by the Company in first quarter 2014, as per Official Letter 782/2013 authorized by Aneel, due to excess payment.

**Table of Contents****26. OPERATING COSTS AND EXPENSES**

|  | <b>2016</b>   | <b>2015</b><br><b>Restated</b> | <b>2014</b><br><b>Restated</b> |
|--|---------------|--------------------------------|--------------------------------|
| Personnel (a)                              | 1,643         | 1,435                          | 1,252                          |
| Employees and managers profit shares       | 7             | 137                            | 249                            |
| Post-retirement liabilities <i>Note 22</i> | 345           | 156                            | 212                            |
| Materials                                  | 58            | 154                            | 381                            |
| Outsourced services (b)                    | 867           | 899                            | 953                            |
| Electricity purchased for resale (c)       | 8,273         | 9,542                          | 7,428                          |
| Depreciation and amortization              | 834           | 835                            | 801                            |
| Operating provisions (d)                   | 704           | 1,401                          | 581                            |
| Charges for the use of the national grid   | 947           | 999                            | 744                            |
| Gas purchased for resale                   | 877           | 1,051                          | 254                            |
| Construction costs (e)                     | 1,193         | 1,252                          | 942                            |
| Other operating expenses, net (f)          | 156           | 426                            | 651                            |
|  | <b>15,904</b> | <b>18,287</b>                  | <b>14,448</b>                  |

**a) Personnel expenses**

|  | <b>2016</b>  | <b>2015</b>  | <b>2014</b>  |
|--|--------------|--------------|--------------|
| Remuneration and salary-related charges and expenses | 1,350        | 1,273        | 1,098        |
| Supplementary pension contributions                  |              |              |              |
| Defined-contribution plan                            | 100          | 85           | 80           |
| Assistance benefits                                  | 175          | 142          | 144          |
|  | <b>1,625</b> | <b>1,500</b> | <b>1,322</b> |
| Provision for retirement premium (Reversal)          | (12)         | 2            | 4            |
| Voluntary retirement program                         | 93           |              |              |
| ( ) Personnel costs transferred to Assets            | (63)         | (67)         | (74)         |
|  | 18           | (65)         | (70)         |
|  | <b>1,643</b> | <b>1,435</b> | <b>1,252</b> |
| <b>Programmed Voluntary Retirement Plan (PDVP)</b>   |              |              |              |

In April 2016, the Company created the PDVP (Voluntary Employee Severance Program). Those eligible to take part were any employees who would have worked with Cemig for 25 years or more by December 31, 2016. For voluntary retirement, the PDVP offered the much more advantageous severance payments which are specified by law only for the case of dismissal without just cause including payment for the period of notice, but especially deposit of an amount equal to the penalty payment of 40% of the Base Value of the employee's FGTS fund, as well as the other payments specified by the legislation.



**Table of Contents****b) Outsourced services**

|   | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|-------------|
| Meter reading and bill delivery                                     | 140         | 122         | 184         |
| Communication   | 55          | 64          | 67          |
| Maintenance and conservation of electrical facilities and equipment | 246         | 238         | 230         |
| Building conservation and cleaning                                  | 97          | 100         | 91          |
| Contracted labor  | 13          | 6           | 7           |
| Freight and airfares  | 7           | 10          | 11          |
| Accommodation and meals   | 13          | 17          | 18          |
| Security services   | 25          | 28          | 26          |
| Consultancy   | 15          | 17          | 24          |
| Maintenance and conservation of furniture and utensils              | 53          | 46          | 37          |
| Maintenance and conservation of vehicles                            | 8           | 11          | 12          |
| Disconnection and reconnection                                      | 7           | 26          | 19          |
| Environment   | 19          | 22          | 29          |
| Legal services and procedural costs                                 | 30          | 24          | 33          |
| Tree pruning  | 14          | 23          | 23          |
| Cleaning of power line pathways                                     | 8           | 30          | 29          |
| Copying and legal publications                                      | 16          | 14          | 9           |
| Inspection of consumer units  | 1           | 4           | 4           |
| Printing of tax invoices and electricity bills                      | 3           | 4           | 5           |
| Other   | 97          | 93          | 95          |
|   | <b>867</b>  | <b>899</b>  | <b>953</b>  |

**c) Electricity purchased for resale**

|   | <b>2016</b>  | <b>2015</b>  | <b>2014</b>  |
|---|--------------|--------------|--------------|
| From Itaipu Binacional                            | 1,144        | 1,734        | 830          |
| Physical guarantee quota contracts                | 537          | 252          | 221          |
| Quotas from Angra I and II Nuclear Plants         | 217          | 200          | 179          |
| Spot market                                       | 761          | 935          | 1,263        |
| Proinfa Program                                   | 323          | 253          | 262          |
| Bilateral contracts                               | 292          | 326          | 380          |
| Electricity acquired in Regulated Market auctions | 2,540        | 3,978        | 3,242        |
| Electricity acquired in the Free Market           | 3,279        | 2,762        | 1,762        |
| Credits of Pasep and Cofins taxes                 | (820)        | (898)        | (711)        |
|   | <b>8,273</b> | <b>9,542</b> | <b>7,428</b> |



**Table of Contents****d) Operating provisions (reversals)**

|                                    | <b>2016</b> | <b>2015</b>  | <b>2014</b> |
|------------------------------------|-------------|--------------|-------------|
| Allowance for doubtful receivables | 382         | 175          | 127         |
| Contingency provision              |             |              |             |
| Employment-law cases               | 120         | 4            | 242         |
| Civil cases                        | 30          | 22           | 6           |
| Tax                                | 2           | (4)          | 13          |
| Environmental                      |             | (1)          |             |
| Regulatory                         |             | 10           | (14)        |
| Other                              | 31          | (3)          | 12          |
|                                    | <b>183</b>  | <b>28</b>    | <b>259</b>  |
| Provision for losses on            |             |              |             |
| Other accounts receivable          | 40          |              |             |
| Put option Parati (Note 15)        | 55          | 1,079        | 166         |
| Put option SAAG (Note 15)          | 49          | 119          | 29          |
| Put option Sonda (Note 15)         | (5)         |              |             |
|                                    | <b>704</b>  | <b>1,401</b> | <b>581</b>  |

**e) Construction cost**

|                        | <b>2016</b>  | <b>2015</b>  | <b>2014</b> |
|------------------------|--------------|--------------|-------------|
| Personnel and managers | 58           | 65           | 60          |
| Materials              | 534          | 521          | 415         |
| Outsourced services    | 448          | 504          | 385         |
| Other                  | 153          | 162          | 82          |
|                        | <b>1,193</b> | <b>1,252</b> | <b>942</b>  |

**f) Other operating expenses (revenues), net**

|             | <b>2015</b>     | <b>2014</b>     |
|-------------|-----------------|-----------------|
| <b>2016</b> | <b>Restated</b> | <b>Restated</b> |

|   |            |            |            |
|---|------------|------------|------------|
| Leasings and rentals                            | 112        | 102        | 112        |
| Advertising                                     | 13         | 11         | 19         |
| Own consumption of electricity                  | 22         | 21         | 17         |
| Subsidies and donations                         | 17         | 31         | 50         |
| Paid concession                                 | 3          | 7          | 23         |
| Insurance                                       | 9          | 9          | 9          |
| CCEE annual charge                              | 8          | 8          | 7          |
| Net loss on deactivation and disposal of assets | 112        | 30         | 97         |
| Forluz Administrative running cost              | 25         | 22         | 22         |
| Gain on disposal of shares in Taesa             | (181)      |            |            |
| Gain on disposal of Transchile                  | (134)      |            |            |
| Other expenses                                  | 150        | 185        | 295        |
|   | <b>156</b> | <b>426</b> | <b>651</b> |

### Operating Leases

The Company has operating lease contracts relating, mainly, to vehicles and buildings used in its operational activities. Their amounts are not material in relation to the Company's total costs.

**Table of Contents****27. FINANCIAL REVENUES AND EXPENSES**

|  | <b>2016</b>    | <b>2015<br/>Restated</b> | <b>2014<br/>Restated</b> |
|--|----------------|--------------------------|--------------------------|
| <b>FINANCIAL REVENUES</b>                                    |                |                          |                          |
| Income from cash investments                                 | 317            | 251                      | 298                      |
| Late charges on overdue electricity bills                    | 277            | 230                      | 166                      |
| Foreign exchange variations                                  | 62             | 76                       | 15                       |
| Monetary variations  | 106            | 36                       | 53                       |
| Monetary variations CVA                                      | 204            | 68                       |                          |
| Monetary updating on Court escrow deposits                   | 46             | 212                      |                          |
| Pasep and Cofins taxes charged on financial revenues         | (88)           | (84)                     | (38)                     |
| Contractual penalty payments                                 | 12             | 16                       | 10                       |
| Adjustment to present value                                  |                | 2                        |                          |
| Other  | 105            | 56                       | 31                       |
|  | <b>1,041</b>   | <b>863</b>               | <b>535</b>               |
| <b>FINANCIAL EXPENSES</b>                                    |                |                          |                          |
| Costs of loans and financings                                | (1,928)        | (1,386)                  | (931)                    |
| Foreign exchange variations                                  | (35)           | (172)                    | (26)                     |
| Monetary updating Loans and financings                       | (245)          | (387)                    | (271)                    |
| Monetary updating concession agreements                      | (3)            | (11)                     | (17)                     |
| Charges and monetary updating on Post-retirement liabilities | (103)          | (129)                    | (99)                     |
| Monetary updating CCEE obligations                           | (10)           |                          |                          |
| Adjustment to present value                                  |                |                          |                          |
| Other  | (154)          | (119)                    | (350)                    |
|  | <b>(2,478)</b> | <b>(2,204)</b>           | <b>(1,694)</b>           |
| <b>NET FINANCIAL REVENUE (EXPENSES)</b>                      | <b>(1,437)</b> | <b>(1,341)</b>           | <b>(1,159)</b>           |

The Pasep and Cofins expenses apply to Interest on Equity.

**Table of Contents****28. RELATED PARTY TRANSACTIONS**

Cemig's principal balances and transactions with related parties are shown here:

| COMPANY                                       | ASSETS |      | LIABILITIES |      | REVENUE |      |      | EXPENSES |       |       |
|---|--------|------|-------------|------|---------|------|------|----------|-------|-------|
|   | 2016   | 2015 | 2016        | 2015 | 2016    | 2015 | 2014 | 2016     | 2015  | 2014  |
| <b>Controlling shareholder</b>                |        |      |             |      |         |      |      |          |       |       |
| <b>MINAS GERAIS STATE GOVT.</b>               |        |      |             |      |         |      |      |          |       |       |
| <b>Current</b>                                |        |      |             |      |         |      |      |          |       |       |
| Consumers and Traders (1)                     | 71     | 19   |             |      | 152     | 150  | 105  |          |       |       |
| Financings BDMG                               |        |      | 4           | 9    |         |      |      | (1)      | (2)   | (1)   |
| Debentures (2)                                |        |      |             |      |         |      |      |          |       | (30)  |
| <b>Non-current</b>                            |        |      |             |      |         |      |      |          |       |       |
| Financings BDMG                               |        |      | 23          | 50   |         |      |      |          |       |       |
| <b>Jointly-controlled entities</b>            |        |      |             |      |         |      |      |          |       |       |
| <b>Aliança Geração</b>                        |        |      |             |      |         |      |      |          |       |       |
| <b>Current</b>                                |        |      |             |      |         |      |      |          |       |       |
| Transactions in electricity (2)               |        |      | 7           | 11   |         |      |      | (142)    | (106) |       |
| Provision of services (3)                     | 4      |      |             |      | 14      | 6    |      |          |       |       |
| <b>Baguari Energia</b>                        |        |      |             |      |         |      |      |          |       |       |
| <b>Current</b>                                |        |      |             |      |         |      |      |          |       |       |
| Transactions in electricity (2)               |        |      | 1           | 1    |         |      |      | (7)      | (6)   | (6)   |
| Interest on Equity, and dividends             |        | 6    |             |      |         |      |      |          |       |       |
| <b>Madeira Energia</b>                        |        |      |             |      |         |      |      |          |       |       |
| <b>Current</b>                                |        |      |             |      |         |      |      |          |       |       |
| Transactions in electricity (2)               |        |      | 18          | 16   | 8       |      |      | (574)    | (638) | (124) |
| Advance against future electricity supply (4) |        | 87   |             |      |         | 12   |      |          |       |       |
| <b>Norte Energia</b>                          |        |      |             |      |         |      |      |          |       |       |
| <b>Current</b>                                |        |      |             |      |         |      |      |          |       |       |
| Transactions in electricity (2)               |        |      | 4           |      | 2       |      |      | (49)     |       |       |
| <b>Pipoca</b>                                 |        |      |             |      |         |      |      |          |       |       |
| <b>Current</b>                                |        |      |             |      |         |      |      |          |       |       |
| Transactions in electricity (2)               |        |      | 1           | 1    |         |      |      | (16)     | (11)  |       |
| Interest on Equity, and dividends             |        | 1    |             |      |         |      |      |          |       |       |
| <b>Retiro Baixo</b>                           |        |      |             |      |         |      |      |          |       |       |
| <b>Current</b>                                |        |      |             |      |         |      |      |          |       |       |

|   |     |    |       |      |      |
|---|-----|----|-------|------|------|
| Dividends, and Interest on Equity                         | 2   |    |       |      |      |
| <b>Guanhães Energia</b>                                   |     |    |       |      |      |
| <b>Current</b>  |     |    |       |      |      |
| Adjustment for losses (5)                                 | 59  |    |       |      |      |
| <b>Renova</b>   |     |    |       |      |      |
| <b>Current</b>  |     |    |       |      |      |
| Transactions in electricity (2)                           | 2   |    | (159) | (12) | (12) |
| <b>Non-current</b>  |     |    |       |      |      |
| Accounts receivable (6)                                   | 74  | 14 |       |      |      |
| Advance for future delivery of power supply (7)           | 229 | 60 | 17    |      |      |
| <b>TAESA</b>  |     |    |       |      |      |
| <b>Current</b>  |     |    |       |      |      |
| Transactions in electricity (2)                           | 10  | 11 | (110) | (94) | (33) |
| <b>Empresa Amazonense de Transmissão de Energia -EATE</b> |     |    |       |      |      |
| <b>Current</b>  |     |    |       |      |      |
| Transactions in electricity (2)                           | 3   | 3  | (25)  | (28) | (6)  |

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| COMPANY  | ASSETS |       | LIABILITIES |       | REVENUE |      |      | EXPENSES |       |       |
|--|--------|-------|-------------|-------|---------|------|------|----------|-------|-------|
|  | 2016   | 2015  | 2016        | 2015  | 2016    | 2015 | 2014 | 2016     | 2015  | 2014  |
| <b>Light</b>   |        |       |             |       |         |      |      |          |       |       |
| <b>Current</b>   |        |       |             |       |         |      |      |          |       |       |
| Transactions in electricity (2)                            |        | 1     |             |       | 59      | 47   | 9    | (1)      | (1)   |       |
| Interest on Equity, and dividends                          | 7      | 44    |             |       |         |      |      |          |       |       |
| <b>Parati</b>  |        |       |             |       |         |      |      |          |       |       |
| <b>Current</b>   |        |       |             |       |         |      |      |          |       |       |
| Interest on Equity, and dividends                          |        | 9     |             |       |         |      |      |          |       |       |
| <b>Axxiom</b>  |        |       |             |       |         |      |      |          |       |       |
| <b>Current</b>   |        |       |             |       |         |      |      |          |       |       |
| Provision of services (8)                                  |        |       | 7           | 6     |         |      |      |          |       |       |
| <b>Other related parties</b>                               |        |       |             |       |         |      |      |          |       |       |
| <b>FIC Pampulha</b>  |        |       |             |       |         |      |      |          |       |       |
| <b>Current</b>   |        |       |             |       |         |      |      |          |       |       |
| Securities   | 1,455  | 1,031 |             |       | 197     | 115  | 181  |          |       |       |
| (-) Securities issued by subsidiary companies of Cemig (9) | (49)   |       |             |       |         |      |      |          |       |       |
| <b>Non-current</b>   |        |       |             |       |         |      |      |          |       |       |
| Securities   | 46     | 17    |             |       |         |      |      |          |       |       |
| (-) Securities issued by subsidiary companies of Cemig (9) | (15)   |       |             |       |         |      |      |          |       |       |
| <b>FORLUZ</b>  |        |       |             |       |         |      |      |          |       |       |
| <b>Current</b>   |        |       |             |       |         |      |      |          |       |       |
| Post-retirement obligations (10)                           |        |       | 86          | 76    |         |      |      | (186)    | (129) | (99)  |
| Personnel expenses (11)                                    |        |       |             |       |         |      |      | (100)    | (85)  | (80)  |
| Administrative running costs (12)                          |        |       |             |       |         |      |      | (25)     | (22)  | (22)  |
| Operational leasing (13)                                   |        |       | 10          | 2     |         |      |      | (39)     | (18)  | (17)  |
| <b>Non-current</b>   |        |       |             |       |         |      |      |          |       |       |
| Post-retirement obligations (10)                           |        |       | 1,593       | 1,270 |         |      |      |          |       |       |
| <b>CEMIG SAÚDE (HEALTH)</b>                                |        |       |             |       |         |      |      |          |       |       |
| <b>Current</b>   |        |       |             |       |         |      |      |          |       |       |
| Health Plan and Dental Plan (14)                           |        |       | 102         | 79    |         |      |      | (187)    | (146) | (135) |
| <b>Non-current</b>   |        |       |             |       |         |      |      |          |       |       |
| Health Plan and Dental Plan (14)                           |        |       | 1,647       | 1,275 |         |      |      |          |       |       |

The main conditions relating to the related party transactions are as follows:

(1)



Refers to sale of electricity to the government of the State of Minas Gerais. The price of the electricity is defined by Aneel through a Resolution which decides the Company's annual tariff adjustment.

- (2) Transactions in electricity between generators and distributors were made in auctions organized by the federal government; transactions for transport of electricity, made by transmission companies, arise from the centralized operation of the National Grid carried out by the National System Operator (ONS).
- (3) Refers to contract to provide plant operation and maintenance services.
- (4) Effected in February 2015, in accordance with a condition of the power purchase agreement between Cemig GT and Saesa signed on March 19, 2009. For the purpose of settlement, this amount will be updated at a rate of 135% of the CDI rate, and will be offset against invoicing by Saesa for supply of electricity. The offsetting was completed on March 15, 2016.
- (5) A liability was recognized corresponding to the Company's interest in the share capital of Guanhães, due to its negative equity (see Note 15).
- (6) Cemig GT has an item of R\$ 60 receivable from Renova Energia, which will be paid in 12 monthly installments, the first on January 10, 2018 and the last becoming due in December 2018, with monetary updating at 150% of the CDI rate.
- (7) In June 2016, under an electricity supply contract with Renova, Cemig GT advanced R\$ 94 to Renova's trading company, Renova Comercializadora, after guarantees of certain assets of Renova had been provided. Subsequently further advances were made, of R\$ 40 in September, and R\$ 15, R\$ 25 and R\$ 38 on October 3, 17 and 27, 2016, respectively. For the purpose of settlement, this amount will be updated at a rate of 155% of the CDI rate, and offset by invoicing, by Renova, for supply of electricity provided.
- (8) Refers to obligations and expenses on development of management software.
- (9) FIC Pampulha has financial investments in securities issued by subsidiary companies of the Company. There is more information, and characteristics of the fund, in the descriptive text below.
- (10) The contracts of Forluz are updated by the Expanded Consumer Price Index (IPCA) calculated by the Brazilian Geography and Statistics Institute (*Instituto Brasileiro de Geografia e Estatística*, or IBGE) (See Note 22) and will be amortized up to the business year of 2024.
- (11) The Company's contributions to the pension fund for the employees participating in the Mixed Plan, and calculated on the monthly remuneration (see Explanatory Note 26), in accordance with the regulations of the Fund.
- (12) Funds for annual current administrative costs of the Pension Fund in accordance with the specific legislation of the sector. The amounts are estimated as a percentage of the Company's payroll.
- (13) Rental of the head office building.
- (14) Contribution by the sponsor to the employees' Health Plan and Dental Plan (See Note 22).

For more information on the principal transactions, please see Notes 8, 18 and 25.

**Table of Contents****Guarantees and sureties for loans, financings and debentures**

Cemig is provider of surety or guarantee of loans, financings and debentures of the following related parties not consolidated in the financial statements because they relate to jointly-controlled entities or affiliated companies:

| Related party               | Relationship              | Type              | Object of guarantee | 2016         | Expiration |
|-----------------------------|---------------------------|-------------------|---------------------|--------------|------------|
| Norte Energia S.A. ( Nesa ) | Affiliated                | Surety            | Financing           | 2,357        | 2042       |
| Light (1)                   | Jointly-controlled entity | Counter-guarantee | Financing           | 684          | 2042       |
| Santo Antônio Energia S.A.  | Jointly-controlled entity | Surety            | Financing           | 1,995        | 2034       |
| Santo Antônio Energia S.A.  | Jointly-controlled entity | Surety            | Debentures          | 736          | 2037       |
| Guanhães                    | Jointly-controlled entity | Surety            | Promissory Note     | 67           | 2016       |
| Centroeste                  | Jointly-controlled entity | Surety            | Financing           | 9            | 2023       |
|                             |                           |                   |                     | <b>5,848</b> |            |

(1) Related to execution of guarantees of the Norte Energia financing.

At December 31, 2016, Management believes that there is no need to recognize any provisions in the Company's financial statements for the purpose of meeting any obligations arising under these sureties and/or guarantees.

**Cash investments in FIC Pampulha investment fund of Cemig and its subsidiaries and affiliates**

Cemig and its subsidiaries and affiliates invest part of their financial resources in an investment fund which has the characteristics of fixed income and obeys the Company's cash investment policy. The amounts invested by the fund Presented in the table below are accounted under *Securities* in Current and Non-current assets, or presented as deductions in the account line *Debentures* in Current or Non-current assets, on December 31, 2016.

The funds applied in this investment fund are allocated only in public and private fixed income securities, subject only to credit risk, with various maturity periods, obeying the unit holders' cash flow needs.

The financial investments in securities of related parties, in the investment fund, on December 31, 2016 and 2015, are as follows:

| Issuer of security | Type       | Annual contractual conditions | Maturity  | Cemig Holding |    |         |                    | Total 2016 |
|--------------------|------------|-------------------------------|-----------|---------------|----|---------|--------------------|------------|
|                    |            |                               |           | Cemig         | GT | Cemig D | Other Subsidiaries |            |
| Axxiom             | Debentures | 109.00% of CDI Rate           | 1/29/2017 | 1             | 1  | 1       | 1                  | 4          |
| ETAU               | Debentures |                               | 12/1/2019 | 1             | 2  | 3       | 2                  | 8          |

108.00% of  
CDI

2 3 4 3 12

(\*) Refers to the other companies consolidated by Cemig, which also have participation in the investment funds.

| Issuer of security | Type       | Annual contractual conditions | Maturity  | Cemig Holding |        |        |        | Total 2015 |
|--------------------|------------|-------------------------------|-----------|---------------|--------|--------|--------|------------|
|                    |            |                               |           | Company       | 10.12% | 20.86% | 24.94% |            |
| Axxiom             | Debentures | 109.00% of CDI Rate           | 1/29/2017 | 1             | 3      | 3      | 4      | 11         |
| Ativas             | Debentures | CDI + 3.50%                   | 7/1/2017  | 2             | 7      | 5      | 8      | 22         |
| Ativas             | Debentures | CDI + 3.50%                   | 7/1/2017  | 3             | 8      | 6      | 10     | 27         |
| ETAU               | Debentures | 108.00% of CDI Rate           | 12/1/2019 | 1             | 3      | 2      | 4      | 10         |
| Brasnorte          | Debentures | 108.00% of CDI Rate           | 6/22/2016 |               | 1      | 1      | 1      | 3          |
|                    |            |                               |           | 7             | 22     | 17     | 27     | 73         |

(\*) Refers to the other companies consolidated by Cemig, which also have participation in the investment funds.

**Table of Contents****Remuneration of key management personnel**

The total costs of key management personnel, in 2016, 2015 and 2014, are shown in this table:

|                           | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|---------------------------|-------------|-------------|-------------|
| Remuneration              | 25          | 19          | 11          |
| Profit shares (reversals) | (1)         | 2           | 3           |
| Assistance benefits       | 2           | 1           | 1           |
|                           | <b>26</b>   | <b>22</b>   | <b>15</b>   |

**29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The financial instruments of the Company and its subsidiaries are restricted to the following: cash and cash equivalents, securities, Consumers, traders, and power transport concession holders; Financial assets of the concession related to infrastructure; Linked funds; Escrow deposits in litigation; the CVA (Portion A Costs Variation Compensation) Account and Other Financial Components in tariff adjustments; Loans and financings; Concession obligations payable; Suppliers; and Post-employment obligations. The gains and losses on transactions are recorded in full in the profit or loss for the business year or in Equity, by the accrual method.

The Company's financial instruments and those of its subsidiaries are recorded at fair value and measured in accordance with the following classifications:

Loans and receivables: This category contains: Cash equivalents; Credits receivable from Consumers, Traders, and power transport concession holders; Linked funds; Financial assets related to the CVA account, and Other financial components, in calculation of tariffs; the Low-income subscriber subsidy; Reimbursement of tariff subsidies and Other credits owed by Eletrobras; Escrow deposits in litigation; Financial assets of the concession not covered by Law 12783/1; and Financial assets related to Auction 12/2015 for award of generation plants. They are recognized at their nominal realization value, which is similar to fair value.

Financial instruments at fair value through profit or loss: Securities held for trading, and Put options, are in this category. They are valued at fair value and the gains or losses are recognized directly in the Profit and loss account.

Financial instruments held to maturity: These include Securities, in the amount of R\$ 50 on December 31, 2016 and R\$ 225 on December 31, 2015, included in Note 7. There is positive intention to hold them to maturity. They are measured at amortized cost using the effective rates method. Fair value, of R\$ 50 on December 31, 2016 and R\$ 224 on December 31, 2015, was measured using information of Level 2.



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Financial instruments available for sale: In this category are Financial assets of the concession related to distribution infrastructure covered by Law 12783/13. They are measured at New Replacement Value (*Valor Novo de Reposição*, or VNR), which is equivalent to fair value on the date of these financial statements.

Other financial liabilities – Non-derivative financial liabilities: In this category are Loans and financings; Obligations under debentures; Debt agreed with the Pension Fund (Forluz); Concessions payable; and Suppliers. They are measured at amortized cost using the effective rates method. The Company has calculated the fair value of its Loans, financings and debentures using 140% of the CDI rate based on its most recent funding. For the following, the Company considered fair value to be substantially equal to book value: Loans, financings and debentures with annual rates between IPCA + 6.00% to 8.07% and CDI + 2.00% to 4.05%. For the financings from the BNDES and Eletrobras, fair value is conceptually similar to book value, due to the specific characteristics of the transactions.

Liabilities measured at fair value – Financial liabilities for the put options: The options to sell units in FIP Melbourne and FIP Malbec ( the SAAG Put ); the options to sell shares in RME and Lepsa ( the Parati PUT ); and the Sonda Options, were valued at fair value using the Black-Scholes-Merton (BSM) model. 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.

The accounting balances of the financial instruments are similar to the fair values, except for loans, of which the accounting balance is R\$ 15,179 (R\$ 15,167 on December 31, 2015) and fair value is R\$ 14,711 (R\$ 15,544 on December 31, 2015), being measured as Level 2, using similar liabilities as reference.

**a) Risk management**

Corporate risk management is a management tool that is an integral part of the Company's corporate governance practices, and is aligned with the process of planning, which sets the Company's strategic business objectives.

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The Company has a Financial Risks Management Committee, the purpose of which is to implement guidelines and monitor the financial risk of transactions that could negatively affect the Company's liquidity or profitability, recommending hedge protection strategies to control the Company's exposure to foreign exchange rate risk, interest rate risk, and inflation risks.

The principal risks to which the Company is exposed are as follows:

**Exchange rate risk**

Cemig and its subsidiaries are exposed to the risk of increase in exchange rates, with impact on Loans and financings, Suppliers, and cash flow.

This table gives the net exposure to exchange rates:

|  | 2016                |            | 2015                |            |
|--|---------------------|------------|---------------------|------------|
|  | Foreign<br>currency | R\$        | Foreign<br>currency | R\$        |
| <b>Exposure to exchange rates</b>                  |                     |            |                     |            |
| US dollars   |                     |            |                     |            |
| Loans and financings (Note 20)                     | 7                   | 23         | 8                   | 33         |
| Suppliers (Itaipu Binacional)                      | 62                  | 207        | 83                  | 315        |
|  | <b>69</b>           | <b>230</b> | <b>91</b>           | <b>348</b> |
| Euro   |                     |            |                     |            |
| Loans, financings and debentures – Euros (Note 20) | 2                   | 7          | 3                   | 14         |
| <b>Net liabilities exposed</b>                     |                     | <b>237</b> |                     | <b>362</b> |

(\*) BNDES monetary unit reflects the weighted average of the FX variations in the BNDES Basket of Currencies.

**Sensitivity analysis**

Based on its financial consultants, the Company estimates that in a probable scenario, at December 31, 2017 the US dollar will have appreciated by 2.82%, to an exchange rate of R\$ 3.351/US\$; and the Euro will have appreciated by 1.95%, to R\$ 3.505/Euro. The Company has made a sensitivity analysis of the effects on the Company's profit arising from depreciation of the Real exchange rate by 25%, and by 50%, in relation to this scenario 1:

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|  | Base<br>scenario<br>Dec.<br>31.<br>2016 | Scenario 1<br>USD: R\$ 3.351<br>Euro: R\$ 3.505 | Scenario 2<br>FX depreciation 25%<br>USD:<br>R\$ 4.189<br>Euro:<br>R\$ 4.381 | Scenario 3<br>FX depreciation 50%<br>USD:<br>R\$ 5.027<br>Euro:<br>R\$ 5.258 |
|--|---|---|--|--|
| <b>Risk: foreign exchange rate exposure</b>  |   |   |  |  |
| US dollar                                    |   |   |  |  |
| Loans and financings (Note 20)               | 23                                      | 24  | 30   | 36   |
| Suppliers (Itaipu Binacional)                | 207                                     | 212   | 266  | 319  |
|  | <b>230</b>                              | <b>236</b>                                      | <b>296</b>   | <b>355</b>   |
| Euro   |   |   |  |  |
| Loans and financings (Note 20)               | 7                                       | 8   | 9  | 11   |
| <b>Net liabilities exposed</b>               | <b>237</b>                              | <b>244</b>                                      | <b>305</b>   | <b>366</b>   |
| <b>Net effect of exchange rate variation</b> |   | <b>7</b>  | <b>68</b>  | <b>129</b>   |
| <b>Interest rate risk</b>                    |   |   |  |  |

Cemig and its subsidiaries are exposed to the risk of increase in international interest rates, affecting loans and financings in foreign currency with floating interest rates (principally Libor), in the amount of R\$ 60 (R\$ 72 on December 31, 2015).

The Company is exposed to the risk of increase in domestic Brazilian interest rates through its net liabilities, indexed to the variations in the Selic and CDI rates, as follows:

| <b>Exposure to domestic interest rate changes</b>                    | <b>2016</b>  | <b>2015</b>  |
|--|--------------|--------------|
| <b>Assets</b>  |              |              |
| Cash equivalents Short-term investments (Note 6)                     | 894          | 873          |
| Securities (Note 7)  | 1,045        | 2,511        |
| Restricted cash  | 367          |              |
| CVA and Other financial components in tariffs Selic rate * (Note 14) | 398          | 1,350        |
| Credits owed by Eletrobras   | 138          |              |
|  | <b>2,842</b> | <b>4,734</b> |
| <b>Liabilities</b>   |              |              |
| Loans, financings and debentures CDI rate (Note 20)                  | (10,928)     | (10,734)     |
| Loans, financings and debentures TJLP (Note 20)                      | (213)        | (283)        |
| CVA and Other financial components in tariffs Selic rate * (Note 14) | (805)        |              |



(11,946) (11,017)

|                                |                |                |
|--------------------------------|----------------|----------------|
| <b>Net liabilities exposed</b> | <b>(9,104)</b> | <b>(6,283)</b> |
|--------------------------------|----------------|----------------|

(\*) Amounts of CVA and Other financial components, indexed to the Selic rate.

Sensitivity analysis

The Company estimates that, in a probable scenario, on December 31, 2017 the Selic rate will be 9.00% p.a. and the TJLP will be 6.75% p.a. The Company has made a sensitivity analysis of the effects on its profit arising from increases in rates of 25% and 50% in relation to this scenario 1. Variation in the CDI rate accompanies the variation in the Selic rate.

Estimation of the scenarios for the path of interest rates will consider the projection of the Company's scenarios, based on its financial consultants.

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| <b>Risk: Increase in Brazilian interest rates</b>       | <b>2016</b>     | <b>December 31, 2017</b> |                    |                     |                     |
|---|-----------------|--------------------------|--------------------|---------------------|---------------------|
|   |                 |                          | <b>Scenario 1</b>  | <b>Scenario 2</b>   | <b>Scenario 3</b>   |
|   |                 |                          | <b>Selic 9.00%</b> | <b>Selic 11.25%</b> | <b>Selic 13.50%</b> |
|   |                 | <b>Book value</b>        | <b>TJLP 6.75%</b>  | <b>TJLP 8.44%</b>   | <b>TJLP 10.13%</b>  |
| <b>Assets</b>   |                 |                          |                    |                     |                     |
| Cash investments (Note 6)                               | 894             | 974                      | 994                | 1,014               |                     |
| Securities (Note 7)                                     | 1,045           | 1,139                    | 1,163              | 1,186               |                     |
| Restricted cash   | 367             | 401                      | 409                | 417                 |                     |
| CVA and Other financial components of tariff Selic rate | 398             | 434                      | 442                | 451                 |                     |
| Credits owed by Eletrobras                              | 138             | 151                      | 154                | 157                 |                     |
|   | <b>2,842</b>    | <b>3,099</b>             | <b>3,162</b>       | <b>3,225</b>        |                     |
| <b>Liabilities</b>                                      |                 |                          |                    |                     |                     |
| Loans, financings and debentures CDI rate (Note 20)     | (10,928)        | (11,912)                 | (12,158)           | (12,404)            |                     |
| Loans and financings TJLP (Note 20)                     | (213)           | (227)                    | (231)              | (235)               |                     |
| CVA and <i>Other financial components in</i>            |                 |                          |                    |                     |                     |
| tariff adjustments (Note 14)                            | (805)           | (877)                    | (896)              | (914)               |                     |
|   | <b>(11,946)</b> | <b>(13,016)</b>          | <b>(13,285)</b>    | <b>(13,553)</b>     |                     |
| <b>Net liabilities exposed</b>                          | <b>(9,104)</b>  | <b>(9,917)</b>           | <b>(10,123)</b>    | <b>(10,328)</b>     |                     |
| <b>Net effect of variation in interest rates</b>        |                 | <b>(813)</b>             | <b>(1,019)</b>     | <b>(1,224)</b>      |                     |

**Risk of increase in inflation**

This table shows the Company's net exposure to inflation rates:

| <b>Exposure to increase in inflation</b>  | <b>2016</b>  | <b>2015</b>  |
|---|--------------|--------------|
| <b>Assets</b>   |              |              |
| Financial assets of the concession related to infrastructure Distribution IPCA Index (Note 14)  | 128          | 121          |
| Financial assets of the concession related to infrastructure Transmission IPCA index (note 14)* | 1,805        | 1,054        |
| Concession Grant Fee IPCA (Note 14)   | 2,254        |              |
|   | <b>4,187</b> | <b>1,175</b> |

**Liabilities**

|   |                |                |
|---|----------------|----------------|
| Loans, financings and debentures – IPCA index (Note 20) | (3,933)        | (3,910)        |
| Debt agreed with pension fund (Forluz) – IPCA           | (787)          | (812)          |
|   | <b>(4,720)</b> | <b>(4,722)</b> |
| <b>Net assets (liabilities) exposed</b>                 | <b>(533)</b>   | <b>(3,547)</b> |

(\*) Value of the Financial assets of the concession homologated by Aneel in Dispatch 729 of March 25, 2014.

**Sensitivity analysis**

In relation to the most significant risk of increase in inflation, the Company estimates that, in a probable scenario, on December 31, 2017 the IPCA inflation index will be 4.70%. The Company has made a sensitivity analysis of the effects on its profit arising from increases in inflation of 25% and 50% in relation to this scenario 1:

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|   | 2016           | December 31, 2017        |                          |                          |
|---|----------------|--------------------------|--------------------------|--------------------------|
|   | Book value     | Scenario 1<br>IPCA 4.70% | Scenario 2<br>IPCA 5.88% | Scenario 3<br>IPCA 7.05% |
| <b>Risk: increase in inflation</b>  |                |                          |                          |                          |
| <b>Assets</b>   |                |                          |                          |                          |
| Financial assets of the concession related to infrastructure Distribution IPCA Index (Note 14)  | 128            | 134                      | 136                      | 137                      |
| Financial assets of the concession related to infrastructure Transmission IPCA index (note 14)* | 1,805          | 1,890                    | 1,911                    | 1,932                    |
| Concession Grant Fee IPCA (Note 14)   | 2,254          | 2,360                    | 2,386                    | 2,413                    |
|   | <b>4,187</b>   | <b>4,384</b>             | <b>4,433</b>             | <b>4,482</b>             |
| <b>Liabilities</b>  |                |                          |                          |                          |
| Loans, financings and debentures IPCA index (Note 20)   | (3,933)        | (4,118)                  | (4,164)                  | (4,210)                  |
| Debt agreed with pension fund (Forluz) IPCA   | (787)          | (824)                    | (833)                    | (842)                    |
|   | <b>(4,720)</b> | <b>(4,942)</b>           | <b>(4,997)</b>           | <b>(5,052)</b>           |
| <b>Net liabilities exposed</b>  | <b>(533)</b>   | <b>(558)</b>             | <b>(564)</b>             | <b>(570)</b>             |
| <b>Net effect of variation in IPCA / IGP M indices</b>  |                | <b>(25)</b>              | <b>(31)</b>              | <b>(37)</b>              |

**Liquidity risk**

Cemig has sufficient cash flow to cover the cash needs related to its operating activities.

The Company manages liquidity risk with a group of methods, procedures and instruments that are coherent with the complexity of the business, and applied in permanent control of the financial processes, to guarantee appropriate risk management.

Cemig manages liquidity risk by permanently monitoring its cash flow in a conservative, budget-oriented manner. Balances are projected monthly, for each one of the companies, over a period of 12 months, and daily liquidity is projected over 180 days.

Short-term investments must comply with certain rigid investing principles established in the Company's Cash Investment Policy, which was approved by the Financial Risks Management Committee. These include applying its resources in private credit investment funds, without market risk, and investment of the remainder directly in bank CDs or repo contracts which earn interest at the CDI rate.

In managing cash investments, the Company seeks to obtain profitability on its investment transactions through performing a rigid analysis of financial institutions' credit, obeying operational limits with banks based on assessments that take into account the financial institutions' ratings, risk exposures and equity position. It also seeks greater returns on investments by strategically investing in securities with longer investment maturities, while bearing in mind the

Company's minimum liquidity control requirements.

The greater part of the electricity produced by the Company is generated by hydroelectric plants. A prolonged period of scarce rainfall can result in lower water volumes in the plants' reservoirs, possibly causing losses due to increased costs of purchasing electricity, due to replacement by thermoelectric generation, or reduction of revenues due to reduction in consumption caused by implementation of wide-ranging programs for saving of electricity. Prolongation of generation by thermoelectric plants can pressure costs of acquisition of electricity for the distributors, causing a greater need for cash, and can impact future tariff increases as indeed has happened with the Extraordinary Tariff Review granted to the distributors in March 2015.

On December 31, 2016 the Company had excess of current liabilities over current assets.

Please refer to note 1 about the Company's 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. Any further lowering of credit ratings may have adverse consequences on CEMIG ability to obtain financing or may impact the cost of financing, also making it more difficult and/or costly to refinance maturing obligations. Any financing or refinancing of the CEMIG indebtedness could be at higher interest rates and may require the Company to comply with more onerous covenants, which could further restrict business operations.

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The flow of payments of the Company's obligations, for debt agreed with the pension fund, and under loans, financings and debentures, for floating and fixed rates, including the interest specified in contracts, is shown in the table below:

|   | Up to 1<br>month | 1 to 3<br>months | 3 months<br>to 1<br>year | 1 to 5<br>years | Over 5<br>years | Total         |
|---|------------------|------------------|--------------------------|-----------------|-----------------|---------------|
| <b>Financial instruments at (interest rates):</b> |                  |                  |                          |                 |                 |               |
| <b>- Floating rates</b>                           |                  |                  |                          |                 |                 |               |
| Loans, financings and debentures                  | 50               | 1,226            | 4,834                    | 11,275          | 2,203           | 19,588        |
| Concessions payable                               |                  | 1                | 2                        | 10              | 14              | 27            |
| Debt agreed with pension fund (Forluz)            | 11               | 33               | 89                       | 596             | 431             | 1,160         |
|   | <b>61</b>        | <b>1,260</b>     | <b>4,925</b>             | <b>11,881</b>   | <b>2,648</b>    | <b>20,775</b> |
| <b>- Fixed rate</b>                               |                  |                  |                          |                 |                 |               |
| Suppliers   | 1,771            | 169              |                          |                 |                 | 1,940         |
|   | <b>1,832</b>     | <b>1,429</b>     | <b>4,925</b>             | <b>11,881</b>   | <b>2,648</b>    | <b>22,715</b> |

**Credit risk**

The risk arising from the possibility of Cemig and its subsidiaries incurring losses as a result of difficulty in receiving amounts billed to its clients is considered to be low. The Company carries out monitoring for the purpose of reducing default, on an individual basis, with its consumers. Negotiations are also entered into for receipt of any receivables in arrears. The risk is also reduced by the extremely wide client base.

The allowance for doubtful debtors constituted on December 31, 2016, considered to be adequate in relation to the credits in arrears receivable by the Company and its subsidiaries and jointly-controlled entities, was R\$ 660.

In relation to the risk of losses resulting from insolvency of the financial institutions at which the Company or its subsidiaries have deposits, a Cash Investment Policy was approved and has been in effect since 2004.

Cemig manages the counterparty risk of financial institutions based on an internal policy approved by its Financial Risks Management Committee. This Policy assesses and scales the credit risks of the institutions, the liquidity risk, the market risk of the investment portfolio and the Treasury operational risk.

All investments are made in financial securities that have fixed-income characteristics, always indexed to the CDI rate. The Company does not carry out any transactions that would bring volatility risk into its financial statements.

As a management instrument, Cemig divides the investment of its funds into direct purchases of securities (own portfolio) and investment funds. The investment funds invest the funds exclusively in fixed income products, and companies of the Group are the only unit holders. They obey the same policy adopted in the investments for the

Company's directly-held own portfolio.

The minimum requirements for concession of credit to financial institutions are centered on three items:

1. Rating by three risk rating agencies.
2. Equity greater than R\$ 400.
3. Basel ratio above 12.

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Banks that exceed these thresholds are classified in three groups, by the value of their equity; and within this classification, limits of concentration by group and by institution are set, as follows:

| <b>Group</b> | <b>Equity</b>                      | <b>Concentration</b> | <b>Limit per bank<br/>(% of<br/>Equity)*</b> |
|--------------|------------------------------------|----------------------|--|
| A1           | Over R\$ 3.5 billion               | Minimum 80%          | 6% to 9%                                     |
| A2           | R\$ 1.0 billion to R\$ 3.5 billion | Maximum 20%          | 5% to 8%                                     |
| B            | R\$ 400 million to R\$ 1.0 billion | Maximum 20%          | 5% to 7%                                     |

\* The percentage assigned to each bank depends on an individual assessment of indicators such as liquidity, quality of the credit portfolio, and other aspects.

Further to these points, Cemig also establishes two concentration limits:

1. No bank may have more than 30% of the Group's portfolio.
2. No bank may have more than 50% of the portfolio of any individual company.

**Risk of early maturity of debt**

The Company has financing contracts with restrictive covenants normally applicable to this type of transaction, complying with a financial index. Non-compliance with these covenants could cause early maturity of the debt. See Note 20.

On December 31, 2016, all restrictive covenants on the contracts for loans and financings of CemigTelecom were complied with. Those contracts that contained these clauses during the year 2016 have been settled in their entirety.

On December 31, 2016 all the restrictive covenants relating to financial ratios of the Company were complied with.

**Capital management**

This table shows the Company's net liabilities in relation to its Equity at December 31, 2016 and 2015:

|                               | <b>2016</b>   | <b>2015</b>   |
|-------------------------------|---------------|---------------|
| Total liabilities             | 29,102        | 27,869        |
| ( ) Cash and cash equivalents | (995)         | (925)         |
| ( ) Restricted cash           | (367)         |               |
| <b>Net liabilities</b>        | <b>27,740</b> | <b>26,944</b> |



|                                 |               |               |
|---------------------------------|---------------|---------------|
| <b>Total of equity</b>          | <b>12,934</b> | <b>12,988</b> |
| <b>Net liabilities / Equity</b> | <b>2.14</b>   | <b>2.07</b>   |

### 30. MEASUREMENT AT FAIR VALUE

The Company measures its financial assets and liabilities at fair value. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Fair Value Hierarchy aims to increase consistency and comparability: it divides the inputs used in measuring fair value into three broad levels, as follows:

**Level 1** Active market Quoted prices: A financial instrument is considered to be quoted in an active market if the prices quoted are promptly and regularly made available by an exchange or organized over-the-counter market, by operators, by brokers or by a market association, by entities whose purpose is to publish prices, or by regulatory agencies, and if those prices represent regular arm's length market transactions.

**Level 2** No active market Valuation technique: For an instrument that does not have an active market, fair value should be found by using a method of valuation/pricing. Criteria such as data on the current fair value of another instrument that is substantially similar, or discounted cash flow analysis or option pricing models, may be used. The objective of the valuation technique is to establish what would be the transaction price on the measurement date in an arm's-length transaction motivated by business considerations.

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**Level 3** No active market: Unobservable inputs: The fair value of investments in securities for which there are no prices quoted on an active market, and/or of derivatives linked to them which are to be settled by delivery of unquoted securities, is determined based on generally accepted valuation techniques, mainly related to discounted cash flow analysis.

This is a summary of the instruments that are measured at fair value:

|  | Fair value at December 31, 2016 |  |  |  |
|--|---------------------------------|--|--|--|
|  | Balance<br>At Dec. 31, 2016     | Active market<br>quoted<br>price<br>(Level<br>1) | No active market<br>Valuation technique<br>(Level 2) | No active market<br>Unobservable inputs<br>(Level 3) |
| <b>Assets</b>  |                                 |  |  |  |
| <b>Held for trading</b>                                      |                                 |  |  |  |
| Securities   |                                 |  |  |  |
| Bank certificates of deposit                                 |                                 |  |  |  |
| Treasury Financial Notes (LFTs)                              | 193                             | 193  |  |  |
| Financial Notes Banks  | 724                             |  | 724  |  |
| Debentures   | 45                              |  | 45   |  |
|  | <b>995</b>                      | <b>193</b>                                       | <b>802</b>   |  |
| <b>Loans and receivables</b>                                 |                                 |  |  |  |
| Concession Grant Fee   | 2,254                           |  | 2,254  |  |
| Restricted cash  | 367                             |  | 367  |  |
|  | <b>2,621</b>                    |  | <b>2,621</b>   |  |
| <b>Available for sale</b>                                    |                                 |  |  |  |
| Financial assets of the concession related to infrastructure | 216                             |  |  | 216  |
|  | <b>3,832</b>                    | <b>193</b>                                       | <b>3,423</b>   | <b>216</b>   |
| <b>Liabilities</b>   |                                 |  |  |  |
| <b>Fair value through profit or loss</b>                     |                                 |  |  |  |
| Put options: (1)   | (1,342)                         |  | (1,150)  | (192)  |
|  | <b>2,490</b>                    | <b>193</b>                                       | <b>2,273</b>   | <b>24</b>  |

(1) After 2016 the Company is using the Black-Scholes-Merton method for measuring the fair value of the options. See more details in Note 15.

|  | Fair value at December 31, 2015 |  |  |  |
|--|---------------------------------|--|--|--|
|  | Balance at<br>December 31, 2015 | Active market<br>Quoted<br>price<br>(Level<br>1) | No active market<br>Valuation technique<br>(Level 2) | No active market<br>Unobservable inputs<br>(Level 3) |
| <b>Assets</b>                            |                                 |  |  |  |
| <b>Held for trading</b>                  |                                 |  |  |  |
| <b>Securities</b>                        |                                 |  |  |  |
| Bank certificates of deposit             | 1,577                           |  | 1,577  |  |
| Treasury Financial Notes (LFTs)          | 88                              | 88   |  |  |
| Financial Notes Banks                    | 460                             |  | 460  |  |
| Debentures                               | 161                             |  | 161  |  |
|  | <b>2,286</b>                    | <b>88</b>  | <b>2,198</b>   |  |
| <b>Available for sale</b>                |                                 |  |  |  |
| Financial assets of the concession       | 137                             |  |  | 137  |
|  | <b>2,423</b>                    | <b>88</b>  | <b>2,198</b>   | <b>137</b>   |
| <b>Liabilities</b>                       |                                 |  |  |  |
| <b>Fair value through profit or loss</b> |                                 |  |  |  |
| Put options                              | (1,393)                         |  |  | (1,393)  |
|  | <b>1,030</b>                    | <b>88</b>  | <b>2,198</b>   | <b>(1,256)</b>                                       |

**Table of Contents****Fair value calculation of financial positions**

Financial assets of the concession related to infrastructure: Measured at New Replacement Value (*valor novo de reposição*, or VNR), according to criteria established in regulations by the Concession-granting power ( Grantor ), based on fair value of the assets in service belonging to the concession and which will be revertible at the end of the concession, and on the Weighted average cost of capital (WACC) used by the Grantor, which reflects the concession holder's return on the operations of the concession. The VNR and the WACC are public information disclosed by the Grantor and by Cemig. The movement in Financial assets of the concession is shown in Note 14 to the financial statements.

Cash investments: The fair value of cash investments is calculated taking into consideration the market prices of the security, or market information that makes such calculation possible, and future rates in the fixed-income and FX markets applicable to similar securities. The market value of the security is deemed to be its maturity value discounted to present value by the discount factor obtained from the market yield curve in Reais.

Put options: The Company has adopted the Black-Scholes-Merton method for measurement of the fair value of the options of SAAG, Parati and Sonda. The fair value of these options was calculated on the basis of the estimated exercise price on the day of exercise of the option, less the fair value of the shares that are the subject of the put option, also estimated for the date of exercise, brought to present value at the reporting date. The movement in relation to the put options, and other information is given in Note 15 to the financial statements.

**31. INSURANCE**

Cemig and its subsidiaries maintain insurance policies to cover damages to certain items of their assets, in accordance with orientation by specialists, as listed below (item relating to the policy of Cemig – the holding company), taking into account the nature and the degree of risk, for amounts considered sufficient to cover any significant losses related to its assets and liabilities. The risk assumptions adopted, due to their nature, are not part of the scope of an audit of the financial statements, and consequently were not examined by the external auditors.

|                                    | <b>Cover</b>                   | <b>Dates of cover</b>          | <b>Amount insured (**)</b> | <b>Annual premium (**)</b> |
|------------------------------------|--------------------------------|--------------------------------|----------------------------|----------------------------|
| <b>Cemig Geração e Transmissão</b> |                                |                                |                            |                            |
|                                    |                                |                                | US\$4,675                  |                            |
| Air transport / Aircraft           | Fuselage Third party liability | Apr. 29, 2016 to Apr. 29, 2017 | US\$14,000                 | US\$84                     |
| Warehouse stores                   | Fire                           | Oct. 2, 2016 to Oct 2, 2017    | R\$16,921                  | R\$25                      |
| Facilities in buildings            | Fire                           | Jan. 8, 2017 to Jan. 8, 2018   | R\$451,860                 | R\$98                      |
| Telecoms equipment (1)             | Fire                           | Jan. 8, 2017 to Jan. 8, 2018   | R\$11,514                  | R\$5                       |
| Operational risk                   |                                | Dec. 7, 2016 to Dec. 7, 2017   | R\$1,438,338               | R\$1,795                   |
| <b>Cemig D (Distribution)</b>      |                                |                                |                            |                            |
| Air transport / Aircraft           | Fuselage                       | Apr. 29, 2016 to Apr. 29, 2017 | US\$3,613                  | US\$60                     |

|   |                       |                                |              |        |
|---|-----------------------|--------------------------------|--------------|--------|
|   | Third party liability |                                | U\$14,000    |        |
| Warehouse stores  | Fire                  | Oct. 2, 2016 to Oct 2, 2017    | R\$94,930    | R\$143 |
| Facilities in buildings   | Fire                  | Jan. 8, 2017 to Jan. 8, 2018   | R\$1,073,416 | R\$232 |
| Telecoms equipment  | Fire                  | Jan. 8, 2017 to Jan. 8, 2018   | R\$17,208    | R\$7   |
| Operational risk Transformers above 15MVA and other power distribution equipment with value above R\$ 1,000 (2) | Total                 | Dec. 7, 2016 to Dec. 7, 2017   | R\$563,637   | R\$703 |
| <b>Gasmig</b>   |                       |                                |              |        |
| Gas distribution network / Third party  | Third party liability | Dec. 15, 2016 to Dec. 15, 2017 | R\$60,000    | R\$429 |
| Own vehicle fleet (Operation)   | Third party only      | Jul. 7, 2016 to Jul. 7, 2017   | R\$400       | R\$4   |
| Own vehicle fleet (Directors)   | Full cover            | Oct. 25, 2016 to Oct. 25, 2017 | R\$100       | R\$1   |
| Facilities multirisk  | Robbery, theft, fire  | Jan. 1, 2017 to Jan. 1, 2018   | R\$41,375    | R\$50  |

(\*\*) Amounts expressed in R\$ 000 or US\$ 000.

(1) The new period of validity is from January 8, 2017 to January 8, 2018.

(2) The new period of validity is from December 7, 2016 to December 7, 2017.

Cemig does not have general third-party liability insurance covering accidents, except for its aircraft, and is not seeking proposals for this type of insurance. Additionally, Cemig has not sought proposals for, and does not have current policies for, insurance against events that could affect its facilities, such as earthquakes, floods, systemic failures or business interruption risk. The Company has not suffered significant losses as a result of the above-mentioned risks.

**Table of Contents****32. COMMITMENTS**

Cemig and its subsidiaries have contractual obligations and commitments that include, principally, amortization of loans and financings, contracts with contractors for construction of new projects, and purchase of electricity from Itaipu and other sources, as follows:

|   | 2017          | 2018          | 2019          | 2020          | 2021          | After 2022     | Total          |
|---|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
| Loans and financings                        | 4,837         | 3,880         | 1,828         | 1,794         | 1,586         | 1,254          | 15,179         |
| Purchase of electricity from Itaipu         | 1,266         | 1,426         | 1,578         | 1,754         | 1,829         | 98,574         | 106,427        |
| Purchase of electricity auctions            | 3,010         | 3,084         | 3,478         | 3,667         | 4,295         | 101,896        | 119,430        |
| Purchase of electricity bilateral contracts | 298           | 314           | 328           | 346           | 361           | 1,347          | 2,994          |
| Quotas for Angra 1 and Angra 2              | 239           | 251           | 259           | 277           | 284           | 11,377         | 12,687         |
| Physical quota guarantees                   | 580           | 612           | 640           | 671           | 700           | 28,052         | 31,255         |
| Transport of electricity from Itaipu        | 162           | 232           | 238           | 243           | 226           | 8,129          | 9,230          |
| Other electricity purchase contracts        | 3,736         | 3,411         | 2,776         | 2,887         | 3,201         | 30,267         | 46,278         |
| Purchase of gas for resale                  | 1,006         | 1,198         | 1,470         | 1,817         | 2,098         | 0              | 7,589          |
| Paid concession                             | 3             | 3             | 2             | 2             | 2             | 10             | 22             |
| Debt to pension plan Forluz                 | 86            | 91            | 97            | 103           | 109           | 301            | 787            |
| Operational leasing contracts               | 96            | 91            | 91            | 91            | 91            | 93             | 553            |
| <b>Total</b>                                | <b>15,319</b> | <b>14,593</b> | <b>12,785</b> | <b>13,652</b> | <b>14,782</b> | <b>281,300</b> | <b>352,431</b> |

**33. NON-CASH TRANSACTIONS**

In the business years 2016, 2015 and 2014, the Company made the following transactions not involving cash, which are not reflected in the Cash flow statements:

|  | 2016 | 2015 | 2014 |
|--|------|------|------|
| Transfer from PP&E to Other long-term assets (São Simão plant) |      | 223  |      |
| Assets transferred to Aliança Geração de Energia S.A.          |      | 581  |      |
| Financial charges capitalized                                  | 142  | 159  | 70   |

**34. SUBSEQUENT EVENTS****Homologation of Annual Generation Revenue (RAG) of Volta Grande Hydroelectric Plant**

In February 2017 there was a concession expiry date for the Volta Grande plant, and on March 21, 2017, by its Resolution 2208, Aneel homologated the RAG of the Volta Grande Hydroelectric Plant under the quotas regime, for temporary provision of the service of electricity generation by Cemig GT until it is taken over by the concession holder winning the tender for the plant.

**Applications to Energy Ministry for opening of administrative proceedings: Concessions of the *Volta Grande, Jaguara, São Simão and Miranda* Plants:**

In February 2017, Cemig GT reiterated to the Mining and Energy Ministry ( MME ), its request for extension, for 20 (twenty) years, of concessions of the Jaguara, São Simão and Miranda hydroelectric plants, as specified by Clause 4 of its Concession Contract 007/1997. Subsidiarily, it requested opening of an Administrative Proceeding under Paragraph 1-C of Article 8 of Law 12783/2013, to the benefit of one of the service providing subsidiaries of Cemig GT. The terms of Cemig s request is presente below:

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 stockholder on or before February 28, 2018; and II the transfer of control takes place by June 30, 2018.

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The subsidiary request is 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 stockholders 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 to guaranteed extension of the concessions as specified in Clause 4 of Concession Contract 007/1997.

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.

### **Interim Injunction granted on São Simão Plant**

The Higher Appeal Court ( STJ ) granted an interim injunction to maintain Cemig GT as holder of the concession for the *São Simão* Hydroelectric Plant, in Minas Gerais, on the initial bases of Concession Contract 007/97, until conclusion of judgment in the Company's application for *mandamus* No. 21465, in the STJ.

According to the position report on the STJ website and STJ certificate 1783814, ... the interim injunction applied for by Cemig Geração e Transmissão S.A. is granted, until conclusion of judgment on the current application for *mandamus*, enabling the now applicant to remain in ownership of the concession for the São Simão Plant, on the initial bases of the concession contract, N° 007/97.

On March 28, 2017, the interim remedy (injunction) given in Application for Mandamus No. 21.465/DF, before the Higher Appeal Court ( STJ ), brought by the Company for annulment of the decision by the Mining and Energy Ministry (MME) which refused, on merits, the request by Cemig GT for extension of the concession period of the São Simão Hydroelectric Plant, in the terms of its concession contract 007/97, was revoked.

### **Interim injunction in Supreme Court action for Provisional Remedy 3980 on *Jaguara* Plant revoked**

The Federal Supreme Court ( STF ) refused the order to maintain Cemig GT in possession of the concession for the *Jaguara* Hydroelectric Plant under the initial terms of Concession Contract 007/97.

The section of the website of the STF that records the current situation of cases stated on March 21, 2017: the interim remedy previously given has been revoked, with an order that the demand should be sent to the Procurator-general of the Republic, for statement on the case, Mandamus Appeal 34203 .



**Repeal of interim remedy *Miranda* plant**

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.

**Disposal of wind farms by Renova**

On April 18, 2017 a share purchase agreement was signed for sale of the Alto Sertão II Wind Farm Complex. The parties to the agreement are Cemig's affiliated company Renova Energia S.A. (Renova), Renovapar S.A. and AES Tietê Energia S.A., with Nova Energia Holding S.A. as consenting party.

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Under the agreement AES undertakes to acquire 100% of the shares of Nova Energia for R\$ 600 million. Nova Energia controls the sub-holding company Renova Eólica Participações S.A., which owns 100% of the 15 special-purpose companies which comprise the Alto Sertão II Wind Power Complex.

Completion of the Transaction is subject to certain conditions precedent stated in the Agreement, including approval by government bodies and creditors.

Renova's management emphasizes that the Transaction is aligned to its new Directional Strategy, the goals of which are: (i) restoration of the balance of its capital structure; and (ii) sustainability of the business in the long term.

### **Changes in the bylaws of Light**

On March 28, 2017 the Board of Directors of Light approved convocation of an Extraordinary General Meeting of Shareholders to:

- (i) Decide on changes to the bylaws; and
- (ii) Consider the possibility of carrying out a primary public offering of shares, with restricted distribution efforts: in Brazil, based on CVM Instruction 476, of January 16, 2009, as amended; and outside Brazil, to qualified institutional investors in the United States, and to investors considered not to be resident or domiciled in the United States, Under Rule 144A and Regulation S of the U.S. Securities Act of 1933, as amended ( the Securities Act ; the Offering ), with the possibility of a secondary offer, and possible participation by shareholders of Light.

Light added the following note to its Material Announcement:

This Material Announcement is not for publication or distribution, directly or indirectly, in the United States, and does not constitute an offer to sell securities in the United States; and the securities mentioned in it have not been and will not be registered under the Securities Act, or any other law referring to securities, and shall not be offered or sold in the United States of America without the due registry of an exemption from registry applicable under the Securities Act. On the date of publication, no public offering is being carried out in Brazil or in the United States. No security shall be sold in any state or jurisdiction, including Brazil or the United States of America, in which offering, application for or sale of such security is considered illegal before registry or qualification under the securities laws of such state or jurisdiction.

This Material Announcement is for merely informative purposes, and should not under any circumstances be interpreted as, nor constitute, an investment recommendation or an offer for sale, or a bid or offer to purchase, any securities of the Company in Brazil, including shares issued by it.

### **Payment of debentures by Cemig GT**

On February 15, 2017, Cemig GT amortized in full the First Series of its 3<sup>rd</sup> Debenture Issue, in the amount of R\$ 553 (principal, plus interest, calculated up to the date of the actual amortization). The interest on the Second and Third Series of the 3<sup>rd</sup> Debenture Issue, totaling R\$ 76, was paid on the same date. These payments were made from the Company's own funds.

**Table of Contents****PDVP Programmed Voluntary Retirement Plan (PDVP 2017)**

In March 2017, the Company created the 2017 Employee Voluntary Severance Program ( the 2017 PDVP ). Those eligible to take part were any employees who will have worked with Cemig for 25 years or more by December 31, 2017. Employees will be able to accept the 2017 PDVP from April 3 through September 29, 2017. It provides for payment of an additional premium of five monthly salaries to employees who join in April 2017, to leave the Company in May 2017; the premium diminishes progressively depending on the month of acceptance. An employee who accepts the plan in August 2017, for severance in September 2017, will have the right to a premium corresponding to one monthly remuneration. Employees using the plan to leave on or after September 1, 2017, will have no premium. There will also be payment for voluntary retirement: the PDVP offers the much more advantageous severance payments which are specified by law only for the case of dismissal without just cause including: payment for the period of notice, and especially, an amount equal to the penalty payment of 40% of the Base Value of the employee s FGTS fund, as well as the other payments specified by the legislation.

Due to the variable period for acceptance by the employees, it is not possible to estimate the effect on Cemig s financial statements in 2017.

**Authorization for Cemig to exceed financial ratios specified in the bylaws**

The Company s bylaws establish certain target levels for debt and investments which the Company s management must obey. However, the Extraordinary General Meeting of Shareholders of March 31, 2017 gave authorization to exceed these indicators, exceptionally for the year 2017, as follows:

|  | <b>Target<br/>in the by-laws</b> | <b>Higher limit<br/>authorized by the Meeting</b> |
|--|----------------------------------|---|
| Consolidated debt / Ebitda                           | 2.00                             | 4.44  |
| (Net debt) / (Net debt + Equity)                     | 40.00%                           | 55.00%  |
| (Capex including acquisition of any assets) / Ebitda | 40.00%                           | 192.00%   |

These new limits approved for 2017 must be reviewed at the time of the approval of the budget for 2017 by the Board of Directors, and must again be submitted to the shareholders in a General Meeting.

**Amendments to contracts of Gasmig**

On February 10, 2017, Gasmig signed amendments 07 and 02 (general rules) to its additional gas supply contract (CSA) with Petróleo Brasileiro S.A. - Petrobras, which have changed the expectations of Gasmig s future results. The principal elements of the new gas supply contract, and its consequences in Gasmig s results, are as follows:

In effect from January 1, 2017, through December 2021.

Alteration of the Daily Contracted Quantity, and the commitments for daily offtake of gas, adapting to expectations for consumption in the Minas Gerais market until December 2021.

The Annual Take or Pay commitment will now be on monthly basis, with automatic recovery of the volume of gas paid for and not yet taken.

Payment by installments of the Take or Pay contract for the year 2015: in up to 36 installments, which may be brought forward.

Adjustment of the price for acquisition of the gas supplied by Petrobras

Clauses for programming of more restricted offtake of gas.

The Take or Pay commitment for annual minimum offtake for the year 2016 will not be calculated/paid.

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Arising from the provisions of the previous contract, Gasmig reported R\$ 225 in an account line *Advance to supplier rights to offtake gas*, in Current assets, with counterpart in *Suppliers of gas*, in Current liabilities. This caused a negative impact in the net working capital of Gasmig, which posted a net negative value of R\$ 354. With the signature of the new contractual amendment, the annual minimum offtake commitment for the year 2016 was extinguished.

Gasmig and Petrobras further negotiated rescission of the *Distribution Contract to Supply the Nitrogen Fertilizers Unit (UFN-V)*, with no financial charge for either side.

### **Taesá signs concession contracts from Aneel Auction 13/2015 (2nd phase)**

On February 10, 2017, Taesa signed the 30-year concession contracts 17/2017 (*Janaúba*), 04/2017 (*Aimorés*), 03/2017 (*Paraguaçu*) and 19/2017 (*ESTE*).

### **Indemnification of Transmission assets Injunction relieve by industrial costumers**

On April 10, 2017, the Associação Brasileira de Grandes Consumidores Livres, da Associação Técnica Brasileira das Indústrias Automáticas de Vidro e da Associação Brasileira dos Produtores de Ferroligas e de Silício Metálico obtained a injunctive relief (*tutela antecipada*) in judicial claims against Aneel and the Federal Government aiming to suspend the effects on their tariffs of the indemnification payment due to energy companies that adered to law 12.783/13.

The injunctive relief (*tutela antecipada*) was partially granted, with its effects related to the suspension of the inclusion in the tariffs charged to the consumers that are members of those associations of the indemnification related to the remuneration of the cost of capital included since the extension of the concessions.

The Company does not expect to incur in losses in realization of transmission indemnification assets. Please refer to note 14 for more detail about the asset and the criteria for update.

### **Taesá Wins Principal Lot at Aneel Auction 005/2016**

On Monday, April 24, 2017, the Columbia Consortium, formed by the companies Taesa and CTEEP, won the Lot 1 in Transmission Auction 5/2016, held by the Brazilian electricity regulator, Aneel. The consortium offered Permitted Annual Revenue (RAP) of R\$ 267 million.

The undertaking will require investment of R\$ 1.936 billion, and comprises the following 525 kV transmission lines: Guaíra Sarandi, with 266,3 KM of extension; Foz do Iguaçu Guaíra, with 173 KM of extension; Londrina Sarandi, with 75,5 KM of extension. It comprises also 230 kV transmission line Sarandi Paranavaí Norte, with 85 KM of extension and three substations: (Guaíra, Sarandi e Paranavaí Norte), in the state of Paraná.

The tender specified completion of the works in 60 months, for start of commercial operation in August 2022.

### **International securities issue by Cemig GT**

As per the Material Announcement issued by the Company on April 28, 2017, Cemig GT is preparing a possible international issue of securities. The Board of Directors of Cemig GT has authorized such an issue in the amount of up

to US\$1 billion, with maturity of 7 years, the proceeds to be used to refinance existing financial obligations. Also, the Board of Directors of Cemig has made the decision to authorize a surety guarantee.

Carrying out of the Issue is subject, among other factors, to the conditions of the Brazilian and international capital markets, and to obtaining of the related approvals; and if the issue is made it will be carried out in accordance with the applicable law and regulations.

This Material Announcement is for information purposes only. It should not under any circumstances be (i) understood as an offer or solicitation of an offer to acquire any securities of the Company or of Cemig GT, including but not limited to such securities as may at any time be issued in the international market by Cemig GT as part of the Issue; nor (ii) interpreted as an investment recommendation. If the Issue takes place, any decision to purchase securities arising from the Issue should be made exclusively on the basis of the information contained in an offering memorandum which will be prepared in relation to the Issue.

The Company will keep the market and its stockholders informed on any developments relating to the Issue in accordance with the applicable regulations.

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\*\*\*\*\*

(The original is signed by)

**Bernardo Afonso Salomão de  
Alvarenga**

Chief Executive Officer

**Bernardo Afonso Salomão de  
Alvarenga**

Deputy CEO

**Adézio de Almeida Lima**  
Chief Finance and Investor  
Relations Officer

**Luís Fernando Paroli Santos**  
Chief Distribution and Sales Officer

**Franklin Moreira Gonçalves**  
Chief Generation and Transmission  
Officer

**Maura Galuppo Botelho  
Martins**  
Chief Officer for Human  
Relations and Resources

**José de Araújo Lins Neto**  
Chief Corporate Management Officer

**Luís Fernando Paroli Santos**  
Chief Institutional Relations and  
Communication Officer

**Dimas Costa**  
Chief Trading Officer

**César Vaz de Melo Fernandes**  
Chief Business Development Officer

**Raul Lycurgo Leite**  
Chief Counsel

**Leonardo George de Magalhães**  
Controller

**Leonardo Felipe Mesquita**

CRC-MG 53.140

Accounting Manager  
Accountant CRC-MG-85.260



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**Table of Contents****BALANCE SHEETS****AT SEPTEMBER 30, 2017 AND DECEMBER 31, 2016****ASSETS****(In thousands of Brazilian Reais R\$ 000)**

|  | Note           | Consolidated<br>Sept.30,<br>2017 | Dec. 31,<br>2016 | Holding company<br>Sept.30,<br>2017 | Dec. 31,<br>2016 |
|--|----------------|----------------------------------|------------------|-------------------------------------|------------------|
| <b>CURRENT</b>   |                |                                  |                  |                                     |                  |
| Cash and cash equivalents                                    | 5              | 582,382                          | 995,132          | 131,541                             | 69,352           |
| Securities   | 6              | 690,991                          | 1,014,188        | 21,641                              | 133,359          |
| Consumers, Traders, Electricity transport concession holders | 7              | 3,602,934                        | 3,425,018        |                                     |                  |
| Financial assets of the concession                           | 14             | 665,674                          | 730,488          |                                     |                  |
| Recoverable taxes  | 8              | 246,954                          | 236,284          | 122                                 |                  |
| Income tax and Social Contribution taxes recoverable         | 9 <sup>a</sup> | 557,307                          | 589,519          | 37,872                              | 78,174           |
| Dividends receivable   |                | 3,742                            | 11,386           | 711,423                             | 673,239          |
| Restricted cash  | 10             | 405,494                          | 367,474          | 396,038                             | 366,568          |
| Inventories  |                | 48,605                           | 49,473           | 9                                   | 12               |
| Advances to suppliers  |                | 140,541                          | 1,059            |                                     |                  |
| Accounts receivable from the State of Minas Gerais           | 11             | 254,579                          |                  | 254,579                             |                  |
| Funding from Energy Development Account (CDE)                | 13             | 73,345                           | 63,751           |                                     |                  |
| Low-income subsidy   |                | 40,759                           | 36,261           |                                     |                  |
| Credits owed by Eletrobras RGR                               |                |                                  | 48,379           |                                     |                  |
| Credits owed by Eletrobras CDE                               |                | 901                              | 90,065           |                                     |                  |
| Other  |                | 541,374                          | 626,993          | 28,162                              | 20,435           |
| <b>TOTAL, CURRENT</b>  |                | <b>7,855,582</b>                 | <b>8,285,470</b> | <b>1,581,387</b>                    | <b>1,341,139</b> |
| <b>NON-CURRENT</b>   |                |                                  |                  |                                     |                  |
| Securities   | 6              | 12,123                           | 31,040           | 693                                 | 5,959            |
| Advances to suppliers  |                | 319,913                          | 229,053          |                                     |                  |
| Consumers, Traders, Electricity transport concession holders | 7              | 174,252                          | 146,367          |                                     |                  |
| Recoverable taxes  | 8              | 189,675                          | 178,288          | 1,810                               | 1,816            |
| Income and Social Contribution taxes recoverable             | 9a             | 63,639                           | 112,060          | 63,639                              | 112,060          |
| Deferred income tax and Social Contribution tax              | 9b             | 2,003,908                        | 1,797,453        | 745,028                             | 789,318          |
| Accounts receivable from the State of Minas Gerais           | 11             | 23,144                           |                  | 23,144                              |                  |
| Escrow deposits  | 12             | 1,743,060                        | 1,886,879        | 265,243                             | 499,868          |
| Generation concession assets                                 | 4              | 195,611                          | 206,566          |                                     |                  |

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|                                    |    |                   |                   |                   |                   |
|------------------------------------|----|-------------------|-------------------|-------------------|-------------------|
| Other                              |    | 612,847           | 843,589           | 10,939            | 37,743            |
| Financial assets of the concession | 14 | 6,163,319         | 4,971,244         |                   |                   |
| Investments                        | 15 | 8,620,126         | 8,753,088         | 12,605,561        | 12,627,857        |
| Property, plant and equipment      | 16 | 2,797,191         | 3,775,076         | 1,900             | 2,201             |
| Intangible assets                  | 17 | 11,057,685        | 10,819,680        | 1,777             | 1,852             |
| <b>TOTAL, NON-CURRENT</b>          |    | <b>33,976,493</b> | <b>33,750,383</b> | <b>13,719,734</b> | <b>14,078,674</b> |
| <b>TOTAL ASSETS</b>                |    | <b>41,832,075</b> | <b>42,035,853</b> | <b>15,301,121</b> | <b>15,419,813</b> |

The Condensed Notes are an integral part of the Interim Financial Statements.

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

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Table of Contents**BALANCE SHEETS**

AT SEPTEMBER 30, 2017 AND DECEMBER 31, 2016

**LIABILITIES**

(R\$ 000)

|   | Note | Consolidated<br>Sept.30,<br>2017 | Dec. 31,<br>2016  | Holding company<br>Sept.30,<br>2017 | Dec. 31,<br>2016 |
|---|------|----------------------------------|-------------------|-------------------------------------|------------------|
| <b>CURRENT</b>                                  |      |                                  |                   |                                     |                  |
| Suppliers                                       | 18   | 2,186,448                        | 1,939,593         | 23,571                              | 20,936           |
| Regulatory charges                              | 21   | 351,246                          | 380,586           |                                     |                  |
| Taxes   | 19a  | 983,993                          | 793,587           | 4,941                               | 83,634           |
| Income and Social Contribution taxes            | 19b  | 99,684                           | 26,866            |                                     |                  |
| Interest on Equity, and dividends, payable      | 24   | 198,264                          | 466,987           | 196,004                             | 466,689          |
| Loans, financings and debentures                | 20   | 5,199,471                        | 4,836,923         |                                     |                  |
| Payroll and related charges                     |      | 247,655                          | 224,741           | 11,358                              | 9,970            |
| Post-retirement obligations                     | 22   | 224,137                          | 198,867           | 12,584                              | 11,143           |
| Financial liabilities of the concession         | 14   | 704,418                          | 481,835           |                                     |                  |
| Financial instruments Put options               | 15   | 1,242,818                        | 1,149,881         | 1,242,818                           | 1,149,881        |
| Advance sales of power supply                   | 7    | 245,367                          | 181,200           |                                     |                  |
| Other obligations                               |      | 666,426                          | 766,394           | 5,573                               | 7,192            |
| <b>TOTAL, CURRENT</b>                           |      | <b>12,349,927</b>                | <b>11,447,460</b> | <b>1,496,849</b>                    | <b>1,749,445</b> |
| <b>NON-CURRENT</b>                              |      |                                  |                   |                                     |                  |
| Regulatory charges                              | 21   | 544,443                          | 454,625           |                                     |                  |
| Loans, financings and debentures                | 20   | 8,856,104                        | 10,342,357        |                                     |                  |
| Taxes   | 19a  | 722,102                          | 723,922           |                                     |                  |
| Deferred income tax and Social Contribution tax | 9b   | 682,757                          | 582,206           |                                     |                  |
| Provisions                                      | 23   | 713,973                          | 815,017           | 75,259                              | 309,995          |
| Post-retirement obligations                     | 22   | 4,156,202                        | 4,042,544         | 405,611                             | 386,321          |
| Financial liabilities of the concession         | 14   |                                  | 323,140           |                                     |                  |
| Financial instruments Put options               | 15   | 259,655                          | 191,587           |                                     |                  |
| Advance sales of power supply                   | 7    | 66,745                           |                   |                                     |                  |
| Other obligations                               |      | 192,960                          | 178,624           | 40,293                              | 43,771           |
| <b>TOTAL, NON-CURRENT</b>                       |      | <b>16,194,941</b>                | <b>17,654,022</b> | <b>521,163</b>                      | <b>740,087</b>   |
| <b>TOTAL LIABILITIES</b>                        |      | <b>28,544,868</b>                | <b>29,101,482</b> | <b>2,018,012</b>                    | <b>2,489,532</b> |
| <b>STOCKHOLDERS EQUITY</b>                      | 24   |                                  |                   |                                     |                  |
| Share capital                                   |      | 6,294,208                        | 6,294,208         | 6,294,208                           | 6,294,208        |

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|  |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
| Capital reserves                                   | 1,924,503         | 1,924,503         | 1,924,503         | 1,924,503         |
| Profit reserves                                    | 5,199,855         | 5,199,855         | 5,199,855         | 5,199,855         |
| Equity valuation adjustments                       | (575,873)         | (488,285)         | (575,873)         | (488,285)         |
| Retained earnings                                  | 440,416           |                   | 440,416           |                   |
| <b>ATTRIBUTABLE TO CONTROLLING STOCKHOLDERS</b>    | <b>13,283,109</b> | <b>12,930,281</b> | <b>13,283,109</b> | <b>12,930,281</b> |
| <b>ATTRIBUTABLE TO NON-CONTROLLING STOCKHOLDER</b> | <b>4,098</b>      | <b>4,090</b>      |                   |                   |
| <b>STOCKHOLDERS EQUITY</b>                         | <b>13,287,207</b> | <b>12,934,371</b> | <b>13,283,109</b> | <b>12,930,281</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>                | <b>41,832,075</b> | <b>42,035,853</b> | <b>15,301,121</b> | <b>15,419,813</b> |

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

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Table of Contents**CONSOLIDATED PROFIT AND LOSS ACCOUNTS****FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016****(In thousands of Brazilian Reais R\$ 000 except Net profit per share)**

|  | Note<br>No. | Consolidated        |                     | Holding company |                |
|--|-------------|---------------------|---------------------|-----------------|----------------|
|  |             | 30/09/2017          | 30/09/2016          | 30/09/2017      | 30/09/2016     |
| <b>NET REVENUE</b>   | <b>25</b>   | 15,153,781          | 14,106,738          | 250             | 582            |
| <b>OPERATING COSTS</b>   |             |                     |                     |                 |                |
| <b>COST OF ELECTRICITY AND GAS</b>   | <b>26</b>   |                     |                     |                 |                |
| Electricity purchased for resale   |             | (7,685,392)         | (6,126,458)         |                 |                |
| Charges for use of the national grid                                       |             | (791,339)           | (741,416)           |                 |                |
| Gas bought for resale  |             | (789,861)           | (623,503)           |                 |                |
|  |             | (9,266,592)         | (7,491,377)         |                 |                |
| <b>OTHER COSTS</b>   | <b>26</b>   |                     |                     |                 |                |
| Personnel and managers   |             | (992,908)           | (981,505)           |                 |                |
| Materials  |             | (30,589)            | (28,792)            |                 |                |
| Outsourced services  |             | (542,357)           | (521,118)           |                 |                |
| Depreciation and amortization  |             | (570,031)           | (578,255)           |                 |                |
| Operating provisions (net of reversions)                                   |             | (195,345)           | (121,302)           |                 |                |
| Infrastructure construction cost   |             | (736,754)           | (917,855)           |                 |                |
| Other  |             | (58,101)            | (57,683)            |                 |                |
|  |             | (3,126,085)         | (3,206,510)         |                 |                |
| <b>TOTAL COST</b>  |             | <b>(12,392,677)</b> | <b>(10,697,887)</b> |                 |                |
| <b>GROSS PROFIT</b>  |             | <b>2,761,104</b>    | <b>3,408,851</b>    | <b>250</b>      | <b>582</b>     |
| <b>OPERATING EXPENSES</b>  | <b>26</b>   |                     |                     |                 |                |
| Selling expenses   |             | (191,343)           | (282,915)           |                 |                |
| General and administrative expenses  |             | (548,075)           | (473,230)           | (43,214)        | (33,248)       |
| Operating provisions   |             | (172,105)           | (310,020)           | (104,037)       | (280,532)      |
| Other operational expenses   |             | (505,239)           | (471,889)           | (40,435)        | (35,809)       |
|  |             | (1,416,762)         | (1,538,054)         | (187,686)       | (349,589)      |
| Equity method gains in non-consolidated investees                          | 15          | (20,680)            | 47,260              | 320,979         | 842,337        |
| <b>Operational profit before Financial income<br/>(expenses) and taxes</b> |             | <b>1,323,662</b>    | <b>1,918,057</b>    | <b>133,543</b>  | <b>493,330</b> |
| Financial revenues   | 27          | 550,065             | 835,191             | 84,893          | 77,057         |
| Financial expenses   | 27          | (1,271,951)         | (1,888,015)         | 236,553         | (4,332)        |
| <b>Pre-tax profit</b>  |             | <b>601,776</b>      | <b>865,233</b>      | <b>454,989</b>  | <b>566,055</b> |



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|  |               |                |                |                |                |
|--|---------------|----------------|----------------|----------------|----------------|
| Current income tax and Social Contribution tax           | <b>9c</b>     | (305,956)      | (148,460)      | (13,949)       | (11,480)       |
| Deferred income tax and Social Contribution tax          | <b>9c</b>     | 101,362        | (75,940)       | (44,290)       | 85,988         |
| <b>PROFIT (LOSS) FOR THE PERIOD</b>                      |               | <b>397,182</b> | <b>640,833</b> | <b>396,750</b> | <b>640,563</b> |
| <b>Total of net profit for the period attributed to:</b> |               |                |                |                |                |
| Attributable to controlling shareholders                 |               | 396,750        | 640,563        | 396,750        | 640,563        |
| Attributable to non-controlling stockholder              |               | 432            | 270            |                |                |
|  |               | <b>397,182</b> | <b>640,833</b> | <b>396,750</b> | <b>640,563</b> |
| <b>Basic and diluted profit per preferred share</b>      | <b>R\$ 24</b> | <b>0.32</b>    | <b>0.51</b>    | <b>0.32</b>    | <b>0.51</b>    |
| <b>Basic and diluted profit per common share</b>         | <b>R\$ 24</b> | <b>0.32</b>    | <b>0.51</b>    | <b>0.32</b>    | <b>0.51</b>    |

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

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Table of Contents**CONSOLIDATED PROFIT AND LOSS ACCOUNTS****FOR THE QUARTERS ENDED SEPTEMBER 30, 2017 AND 2016****(In thousands of Brazilian Reais R\$ 000 except Net profit per share)**

|  | Note<br>No. | Consolidated       |                    | Holding company  |                |
|--|-------------|--------------------|--------------------|------------------|----------------|
|  |             | 3Q17               | 3Q16               | 3Q17             | 3Q16           |
| <b>NET REVENUE</b>   | <b>25</b>   | <b>5,135,822</b>   | <b>4,895,606</b>   | <b>72</b>        | <b>129</b>     |
| <b>OPERATING COSTS</b>   |             |                    |                    |                  |                |
| <b>COST OF ELECTRICITY AND GAS</b>   | <b>26</b>   |                    |                    |                  |                |
| Electricity purchased for resale   |             | (2,942,974)        | (2,170,348)        |                  |                |
| Charges for use of the national grid                                       |             | (387,078)          | (215,504)          |                  |                |
| Gas bought for resale  |             | (304,698)          | (196,494)          |                  |                |
|  |             | (3,634,750)        | (2,582,346)        |                  |                |
| <b>OTHER COSTS</b>   | <b>26</b>   |                    |                    |                  |                |
| Personnel and managers   |             | (304,061)          | (297,678)          |                  |                |
| Materials  |             | (13,035)           | (11,704)           |                  |                |
| Outsourced services  |             | (200,960)          | (167,146)          |                  |                |
| Depreciation and amortization  |             | (184,576)          | (195,286)          |                  |                |
| Operating provisions (net of reversions)                                   |             | (23,266)           | (34,468)           |                  |                |
| Infrastructure construction cost   |             | (295,720)          | (334,122)          |                  |                |
| Other  |             | (36,742)           | (18,720)           |                  |                |
|  |             | (1,058,360)        | (1,059,124)        |                  |                |
| <b>TOTAL COST</b>  |             | <b>(4,693,110)</b> | <b>(3,641,470)</b> |                  |                |
| <b>GROSS PROFIT</b>  |             | <b>442,712</b>     | <b>1,254,136</b>   | <b>72</b>        | <b>129</b>     |
| <b>OPERATING EXPENSES</b>  | <b>26</b>   |                    |                    |                  |                |
| Selling expenses   |             | (50,458)           | (108,349)          |                  |                |
| General and administrative expenses  |             | (110,181)          | (164,201)          | (14,921)         | (11,957)       |
| Operating provisions   |             | (115,151)          | 162,192            | (88,726)         | 165,669        |
| Other operational expenses   |             | (191,538)          | (185,548)          | (15,405)         | (12,272)       |
|  |             | (467,328)          | (295,906)          | (119,052)        | 141,440        |
| Equity method gains in non-consolidated investees                          | 15          | (80,798)           | 33,218             | (190,646)        | 339,631        |
| <b>Operational profit before Financial income<br/>(expenses) and taxes</b> |             | <b>(105,414)</b>   | <b>991,448</b>     | <b>(309,626)</b> | <b>481,200</b> |
| Financial revenues   | 27          | 201,164            | 231,256            | 51,875           | 5,602          |
| Financial expenses   | 27          | (188,750)          | (654,168)          | 238,514          | (1,128)        |
| <b>Pre-tax profit</b>  |             | <b>(93,000)</b>    | <b>568,536</b>     | <b>(19,237)</b>  | <b>485,674</b> |
| Current income tax and Social Contribution tax                             | 9c          | (13,234)           | (69,593)           | (11,416)         | 757            |

|  |            |                 |                |                 |                |
|--|------------|-----------------|----------------|-----------------|----------------|
| Deferred income tax and Social Contribution tax          | <b>9c</b>  | 22,568          | (65,441)       | (53,175)        | (53,034)       |
| <b>PROFIT (LOSS) FOR THE PERIOD</b>                      |            | <b>(83,666)</b> | <b>433,502</b> | <b>(83,828)</b> | <b>433,397</b> |
| <b>Total of net profit for the period attributed to:</b> |            |                 |                |                 |                |
| Interest of the controlling shareholders                 |            | (83,828)        | 433,397        | (83,828)        | 433,397        |
| Interest of non-controlling stockholder                  |            | 162             | 105            |                 |                |
|  |            | <b>(83,666)</b> | <b>433,502</b> | <b>(83,828)</b> | <b>433,397</b> |
| <b>Basic and diluted profit per preferred share</b>      | <b>R\$</b> | <b>24</b>       | <b>(0.06)</b>  | <b>0.34</b>     | <b>(0.06)</b>  |
| <b>Basic and diluted profit per common share</b>         | <b>R\$</b> | <b>24</b>       | <b>(0.06)</b>  | <b>0.34</b>     | <b>(0.06)</b>  |

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

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Table of Contents**STATEMENTS OF COMPREHENSIVE INCOME****FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016****R\$ 000**

|   | Consolidated   |                | Holding company |                |
|---|----------------|----------------|-----------------|----------------|
|   | 9M17           | 9M16           | 9M17            | 9M16           |
| <b>PROFIT (LOSS) FOR THE PERIOD</b>   | <b>397,182</b> | <b>640,833</b> | <b>396,750</b>  | <b>640,563</b> |
| <b>OTHER COMPREHENSIVE INCOME</b>   |                |                |                 |                |
| <b>Items that will not be reclassified to the Profit and loss account in subsequent periods</b>                                       |                |                |                 |                |
| Adjustment of actuarial liabilities – restatement of obligations of defined benefit plans, net of taxes                               | (680)          | (115)          |                 |                |
| Equity gain on Other comprehensive income in jointly-controlled entity  | (4,851)        | 7,415          | (5,531)         | 7,300          |
|   | (5,531)        | 7,300          | (5,531)         | 7,300          |
| <b>Items that may be reclassified to the Profit and loss account in subsequent periods</b>  |                |                |                 |                |
| Equity gain on Other comprehensive income, in jointly-controlled entity, relating to fair value of financial asset available for sale | (38,134)       | (2,441)        | (38,134)        | (2,451)        |
| Conversion adjustment on transactions outside Brazil  |                | (10)           |                 |                |
|   | (38,134)       | (2,451)        | (38,134)        | (2,451)        |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>  | <b>353,517</b> | <b>645,682</b> | <b>353,085</b>  | <b>645,412</b> |
| <b>Total of comprehensive income attributed to:</b>   |                |                |                 |                |
| Interest of the controlling shareholders  | 353,085        | 645,517        | 353,085         | 645,412        |
| Interest of non-controlling stockholder   | 432            | 165            |                 |                |
|   | <b>353,517</b> | <b>645,682</b> | <b>353,085</b>  | <b>645,412</b> |

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**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE QUARTERS ENDED SEPTEMBER 30, 2017 AND 2016**

**R\$ 000**

|   | Consolidated    |                | Holding company |                |
|---|-----------------|----------------|-----------------|----------------|
|   | 3Q17            | 3Q16           | 3Q17            | 3Q16           |
| <b>PROFIT (LOSS) FOR THE PERIOD</b>   | (83,666)        | 433,502        | (83,828)        | 433,397        |
| <b>OTHER COMPREHENSIVE INCOME</b>   |                 |                |                 |                |
| <b>Items that will not be reclassified to the Profit and loss account in subsequent periods</b>                                       |                 |                |                 |                |
| Equity gain on Other comprehensive income in jointly-controlled entity  |                 | 612            |                 | 612            |
|   |                 | 612            |                 | 612            |
| <b>Items that may be reclassified to the Profit and loss account in subsequent periods</b>  |                 |                |                 |                |
| Equity gain on Other comprehensive income, in jointly-controlled entity, relating to fair value of financial asset available for sale |                 | 23,607         |                 | 23,607         |
| Conversion adjustment on transactions outside Brazil  |                 |                |                 |                |
|   |                 | 23,607         |                 | 23,607         |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>  | <b>(83,666)</b> | <b>457,721</b> | <b>(83,828)</b> | <b>457,616</b> |
| <b>Total of comprehensive income attributed to:</b>   |                 |                |                 |                |
| Interest of the controlling shareholders  | (83,828)        | 457,721        | (83,828)        | 457,616        |
| Interest of non-controlling stockholder   | 162             |                |                 |                |
|   | <b>(83,666)</b> | <b>457,721</b> | <b>(83,828)</b> | <b>457,616</b> |

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Table of Contents**STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY CONSOLIDATED****FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016****R\$ 000 except where otherwise stated**

|   | Share<br>capital | Capital<br>reserves | Profit<br>reserves | Equity<br>valuation<br>adjustments | Retained<br>earnings |  |
|---|------------------|---------------------|--------------------|------------------------------------|----------------------|--|
| <b>2015</b>   | 6,294,208        | 1,924,503           | 4,662,723          | 102,264                            |                      |  |
|   |                  |                     |                    |                                    | 640,563              |  |
| Restatement of obligations of the defined benefit plans, net of taxes |                  |                     |                    | (115)                              |                      |  |
| Income in subsidiary and jointly-controlled entity                    |                  |                     |                    | 4,974                              |                      |  |
| Expenses on transactions outside Brazil                               |                  |                     |                    | (10)                               |                      |  |
| <b>End of period</b>  |                  |                     |                    | <b>4,849</b>                       | <b>640,563</b>       |  |
| <b>Equity:</b>  |                  |                     |                    |                                    |                      |  |
| Dividends will not be distributed                                     |                  |                     | 445                |                                    | (445)                |  |
| Reversal of provision   |                  |                     | 622,530            |                                    |                      |  |
| Accumulated cost of PP&E  |                  |                     |                    | (29,147)                           | 29,147               |  |
| <b>September 30, 2016</b>   | <b>6,294,208</b> | <b>1,924,503</b>    | <b>5,285,698</b>   | <b>77,966</b>                      | <b>669,265</b>       |  |
| <b>STOCKHOLDERS</b>   |                  |                     |                    |                                    |                      |  |
| <b>ISSUING STOCKHOLDERS</b>   | 6,294,208        | 1,924,503           | 5,285,698          | 77,966                             | 669,265              |  |
| <b>2016</b>   | <b>6,294,208</b> | <b>1,924,503</b>    | <b>5,199,855</b>   | <b>(488,285)</b>                   |                      |  |
|   |                  |                     |                    |                                    | 396,750              |  |
| Restatement of obligations of the defined benefit plans, net of taxes |                  |                     |                    | (680)                              |                      |  |
| Income in jointly-controlled entity                                   |                  |                     |                    | (42,985)                           |                      |  |
| <b>End of period</b>  |                  |                     |                    | <b>(43,665)</b>                    | <b>396,750</b>       |  |
| <b>Equity:</b>  |                  |                     |                    |                                    |                      |  |
| Stockholders proposed   |                  |                     |                    |                                    |                      |  |
| Accumulated cost of PP&E  |                  |                     |                    | (43,923)                           | 43,666               |  |



|                     |           |           |           |           |         |
|---------------------|-----------|-----------|-----------|-----------|---------|
| , 2017              | 6,294,208 | 1,924,503 | 5,199,855 | (575,873) | 440,416 |
| <b>STOCKHOLDERS</b> |           |           |           |           |         |
| ING STOCKHOLDERS    | 6,294,208 | 1,924,503 | 5,199,855 | (575,873) | 440,416 |

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**Table of Contents****STATEMENTS OF CASH FLOW****FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016****R\$ 000**

|  | <b>Consolidated</b> |             | <b>Holding company</b> |             |
|--|---------------------|-------------|------------------------|-------------|
|  | <b>9M17</b>         | <b>9M16</b> | <b>9M17</b>            | <b>9M16</b> |
| <b>CASH FLOW FROM OPERATIONS</b>   |                     |             |                        |             |
| Net profit for the period  | 397,182             | 640,833     | 396,750                | 640,563     |
| <b>Expenses (revenues) not affecting cash and cash equivalents</b>   |                     |             |                        |             |
| Income tax and Social Contribution tax   | 204,594             | 224,400     | 58,239                 | (74,508)    |
| Depreciation and amortization  | 616,783             | 601,197     | 351                    | 382         |
| Losses on write-offs of PP&E and Intangible assets   | 23,060              | 61,932      | 25                     | 41          |
| Equity method gains in non-consolidated investees  | 20,680              | (47,260)    | (320,979)              | (842,337)   |
| Interest and monetary variation  | 834,151             | 589,132     | (44,696)               | (39,610)    |
| Monetary updating AFAC   | (239,445)           |             | (239,445)              |             |
| Provisions (reversals) for operational losses  | 558,793             | 714,237     | 104,037                | 280,532     |
| CVA ( <i>Compensation of Portion A items</i> ) Account and <i>Other Financial Components</i> in tariff adjustments | (148,216)           | 937,053     |                        |             |
| Adjustment of indemnity plants with non-renewed concessions (Ministerial Order 291)                                | (259,516)           |             |                        |             |
| Post-retirement obligations  | 342,018             | 335,365     | 31,863                 | 31,458      |
|  | 2,350,084           | 4,056,889   | (13,855)               | (3,479)     |
| <b>(Increase) / decrease in assets</b>   |                     |             |                        |             |
| Consumers and Traders  | (397,144)           | 16,995      |                        |             |
| CVA ( <i>Compensation of Portion A items</i> ) Account and <i>Other Financial Components</i> in tariff adjustments | 304,841             | 341,259     |                        |             |
| Funding from Energy Development Account (CDE)  | (9,594)             | 7,944       |                        |             |
| Recoverable taxes  | (22,057)            | (34,078)    | (116)                  | 3           |
| Income tax and Social Contribution tax recoverable   | (24,460)            | (129,246)   | 88,723                 | 29,316      |
| Transport of electricity   |                     | (27,416)    |                        |             |
| Escrow deposits in litigation  | (47,440)            | (35,383)    | 1,598                  | (3,210)     |
| Dividends received from equity holdings  | 247,824             | 445,178     | 361,293                | 713,900     |
| Financial assets of the concession   | 314,473             | (2,174,997) |                        |             |
| Advances to suppliers  | (199,400)           | (41,929)    |                        |             |
| Gas drawing rights   | 658,444             |             |                        |             |
| Other  | (155,307)           | (64,848)    | 19,077                 | (1,080)     |
|  | 670,180             | (1,696,521) | 470,575                | 738,929     |
| <b>Increase (reduction) in liabilities</b>   |                     |             |                        |             |

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|  |                  |                |                |                |
|--|------------------|----------------|----------------|----------------|
| Suppliers                                      | 246,855          | (280,945)      | 2,635          | (310)          |
| Taxes  | 188,586          | (185,477)      | (78,693)       | (32,369)       |
| Income tax and Social Contribution tax payable | 175,273          | 75,934         | (9,191)        | 2,314          |
| Payroll and related charges                    | 22,914           | 59,758         | 1,388          | 3,247          |
| Regulatory charges                             | 60,478           | (10,789)       |                |                |
| Post-retirement obligations                    | (203,090)        | (173,731)      | (11,132)       | (9,476)        |
| Other  | (29,786)         | (189,349)      | (11,488)       | (17,002)       |
|  | 461,230          | (704,599)      | (106,481)      | (53,596)       |
| Cash generated by Operations                   | 3,481,494        | 1,655,769      | 350,239        | 681,854        |
| Interest paid on loans and financings          | (1,030,773)      | (1,320,119)    |                |                |
| Income tax and Social Contribution tax paid    | (307,860)        | (106,956)      | (4,758)        | (13,794)       |
| <b>NET CASH FROM OPERATIONAL ACTIVITIES</b>    | <b>2,142,861</b> | <b>228,694</b> | <b>345,481</b> | <b>668,060</b> |

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|   | <b>Consolidated</b> |                  | <b>Holding company</b> |                  |
|---|---------------------|------------------|------------------------|------------------|
|   | <b>9M17</b>         | <b>9M16</b>      | <b>9M17</b>            | <b>9M16</b>      |
| <b>CASH FLOW IN INVESTMENT ACTIVITIES</b>                 |                     |                  |                        |                  |
| Securities Cash investments                               | 331,069             | 1,465,227        | 116,984                | 11,385           |
| Financial assets  | (160,481)           |                  |                        |                  |
| Restricted cash   | (38,020)            | (874)            | (29,470)               | 1                |
| Investments   |                     |                  |                        |                  |
| Cash injection in Investees                               | (228,205)           | (724,750)        | (100,121)              | (426,660)        |
| In PP&E   | (53,883)            | (61,332)         |                        | (484)            |
| In Intangible assets                                      | (691,017)           | (779,462)        |                        |                  |
| <b>NET CASH FLOW FROM (USED IN) INVESTMENT ACTIVITIES</b> | <b>(840,537)</b>    | <b>(101,191)</b> | <b>(12,607)</b>        | <b>(415,758)</b> |
| <b>CASH FLOW IN FINANCING ACTIVITIES</b>                  |                     |                  |                        |                  |
| New loans and debentures                                  | 60,108              | 2,858,644        |                        |                  |
| Loans and debentures paid                                 | (1,506,459)         | (2,106,248)      |                        |                  |
| Interest on Equity, and dividends                         | (268,723)           | (111,453)        | (270,685)              | (111,453)        |
| <b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>       | <b>(1,715,074)</b>  | <b>640,943</b>   | <b>(270,685)</b>       | <b>(111,453)</b> |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>            | <b>(412,750)</b>    | <b>768,446</b>   | <b>62,189</b>          | <b>140,849</b>   |
| Cash and cash equivalents at start of period              | <b>995,132</b>      | <b>924,632</b>   | <b>69,352</b>          | <b>256,484</b>   |
| Cash and cash equivalents at end of period                | <b>582,382</b>      | <b>1,693,078</b> | <b>131,541</b>         | <b>397,333</b>   |

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**Table of Contents****STATEMENTS OF ADDED VALUE****FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016****R\$ 000**

|   | <b>9M17</b>       | <b>Consolidated<br/>9M16</b> | <b>9M17</b> | <b>Holding company<br/>9M16</b> |
|---|-------------------|------------------------------|-------------|---------------------------------|
| <b>REVENUES</b>   |                   |                              |             |                                 |
| Sales of electricity,<br>gas and services   | 21,927,158        | 20,211,783                   | 276         | 641                             |
| Distribution<br>construction<br>revenue   | 725,528           | 881,450                      |             |                                 |
| Transmission<br>construction<br>revenue   | 11,226            | 36,405                       |             |                                 |
| Gain on financial<br>updating of the<br>Concession Grant<br>Fee   | 240,420           | 212,185                      |             |                                 |
| Adjustment to<br>expectation of cash<br>flow from the<br>indemnifiable<br>Financial assets of<br>the distribution<br>concession | 2,277             | 6,638                        |             |                                 |
| Transmission<br>indemnity revenue   | 295,749           | 692,211                      |             |                                 |
| Generation<br>indemnity revenue   | 259,516           |                              |             |                                 |
| Investments in<br>PP&E  | 24,549            | 40,287                       |             |                                 |
| Other revenues  | 1,479             | 3,905                        |             |                                 |
| Estimated<br>Provision for<br>Doubtful<br>Receivables<br>(PECLD)  | (191,343)         | (282,915)                    |             |                                 |
|   | <b>23,296,559</b> | <b>21,801,949</b>            | <b>276</b>  | <b>641</b>                      |

| <b>INPUTS ACQUIRED FROM THIRD PARTIES</b>         |                     |              |                     |                  |               |              |                  |             |
|---|---------------------|--------------|---------------------|------------------|---------------|--------------|------------------|-------------|
| Electricity purchased for resale                  | (8,424,585)         |              | (6,734,311)         |                  |               |              |                  |             |
| Charges for use of national grid                  | (882,536)           |              | (825,611)           |                  |               |              |                  |             |
| Outsourced services                               | (983,908)           |              | (904,721)           | (6,796)          |               |              | (6,226)          |             |
| Gas bought for resale                             | (789,861)           |              | (623,503)           |                  |               |              |                  |             |
| Materials   | (392,871)           |              | (521,118)           | (89)             |               |              | (52)             |             |
| Other operational costs                           | (587,938)           |              | (740,543)           | (107,183)        |               |              | (291,438)        |             |
|   | <b>(12,061,699)</b> |              | <b>(10,349,807)</b> | <b>(114,068)</b> |               |              | <b>(297,716)</b> |             |
| <b>GROSS VALUE ADDED</b>                          |                     |              |                     |                  |               |              |                  |             |
|   | <b>11,234,860</b>   |              | <b>11,452,142</b>   | <b>(113,792)</b> |               |              | <b>(297,075)</b> |             |
| <b>RETENTIONS</b>                                 |                     |              |                     |                  |               |              |                  |             |
| Depreciation and amortization                     | (616,783)           |              | (601,197)           | (351)            |               |              | (382)            |             |
| <b>NET ADDED VALUE PRODUCED BY THE COMPANY</b>    |                     |              |                     |                  |               |              |                  |             |
|   | <b>10,618,077</b>   |              | <b>10,850,945</b>   | <b>(114,143)</b> |               |              | <b>(297,457)</b> |             |
| <b>ADDED VALUE RECEIVED BY TRANSFER</b>           |                     |              |                     |                  |               |              |                  |             |
| Equity method gains in non-consolidated investees | (20,680)            |              | 47,260              | 320,979          |               |              | 842,337          |             |
| Financial revenues                                | 550,065             |              | 835,191             | 84,893           |               |              | 77,057           |             |
| <b>ADDED VALUE TO BE DISTRIBUTED</b>              |                     |              |                     |                  |               |              |                  |             |
|   | <b>11,147,462</b>   |              | <b>11.733.396</b>   | <b>291.729</b>   |               |              | <b>621.937</b>   |             |
| <b>DISTRIBUTION OF ADDED VALUE</b>                |                     |              |                     |                  |               |              |                  |             |
|   |                     | %            |                     | %                |               | %            |                  | %           |
| <b>Employees</b>                                  | <b>1,507,087</b>    | <b>13.52</b> | <b>1,386,236</b>    | <b>11.81</b>     | <b>65,849</b> | <b>22.57</b> | <b>48,232</b>    | <b>7.76</b> |
| Direct remuneration                               | 850,936             | 7.63         | 856,959             | 7.3              | 26,795        | 9.18         | 13,137           | 2.12        |
| Benefits  | 406,373             | 3.65         | 371,145             | 3.16             | 31,928        | 10.94        | 28,511           | 4.58        |
| FGTS fund   | 52,452              | 0.47         | 65,213              | 0.56             | 1,891         | 0.65         | 1,261            | 0.2         |
|   | 197,326             | 1.77         | 92,919              | 0.79             | 5,235         | 1.79         | 5,323            | 0.86        |

|  |                   |               |                   |               |                  |                |                 |                |
|--|-------------------|---------------|-------------------|---------------|------------------|----------------|-----------------|----------------|
| Voluntary retirement program                               |                   |               |                   |               |                  |                |                 |                |
| <b>Taxes</b>   | <b>7,833,994</b>  | <b>70.28</b>  | <b>7,631,496</b>  | <b>65.04</b>  | <b>62,821</b>    | <b>21.53</b>   | <b>(71,696)</b> | <b>(11.53)</b> |
| Federal  | 3,351,706         | 30.07         | 3,746,798         | 31.93         | 62,186           | 21.32          | (71,965)        | (11.57)        |
| State  | 4,472,137         | 40.12         | 3,875,582         | 33.03         | 485              | 0.17           | 77              | 0.01           |
| Municipal  | 10,151            | 0.09          | 9,116             | 0.08          | 150              | 0.05           | 192             | 0.03           |
| <b>Remuneration of external capital</b>                    | <b>1,409,199</b>  | <b>12.64</b>  | <b>2,074,831</b>  | <b>17.69</b>  | <b>(233,691)</b> | <b>(80.11)</b> | <b>4,838</b>    | <b>0.78</b>    |
| Interest   | 1,326,887         | 11.90         | 2,004,756         | 17.09         | (236,553)        | (81.09)        | 4,332           | 0.7            |
| Rentals  | 82,312            | 0.74          | 70,075            | 0.6           | 2,862            | 0.98           | 506             | 0.08           |
| <b>Remuneration of own capital</b>                         | <b>397,182</b>    | <b>3.56</b>   | <b>640,833</b>    | <b>5.46</b>   | <b>396,750</b>   | <b>136.00</b>  | <b>640,563</b>  | <b>102.99</b>  |
| Retained earnings  | 396,750           | 3.56          | 640,563           | 5.46          | 396,750          | 136.00         | 640,563         | 102.99         |
| Non-controlling stockholders interest in Retained earnings | 432               |               | 270               |               |                  |                |                 |                |
|  | <b>11,147,462</b> | <b>100.00</b> | <b>11,733,396</b> | <b>100.00</b> | <b>291,729</b>   | <b>100.00</b>  | <b>621,937</b>  | <b>100.00</b>  |

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**CONDENSED NOTES TO THE INTERIM FINANCIAL INFORMATION**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2017**

**(In thousands of Brazilian Reals R\$ 000 except where otherwise indicated)**

**1. OPERATING CONTEXT**

**a) The Company**

Companhia Energética de Minas Gerais ( Cemig , Parent company , Holding company or the 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, 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.

The Company has assumed a significant amount of debt to finance the capital expenses that are necessary for compliance with its long term growth objectives. On September 30, 2017 the consolidated current liabilities of Cemig GT exceeded its consolidated current assets by R\$ 4,494,345. On September 30, 2017, its aggregate totals of loans, financings and debentures, were: R\$ 5,199,471, short-term; and R\$ 8,856,104 long-term. In its consolidated result, the Company reports positive consolidated operational cash flow for the first nine months of 2017 (9M17) of R\$ 2,142,861. In 9M16 this result was positive consolidated operational cash flow of R\$ 228,694.

Management monitors the Company s cash flow, and for this purpose assesses measures to adjust the present situation of its financial assets and liabilities to the levels considered appropriate to meet its needs.

The substantial volume of Cemig s debt could negatively affect its business, financial situation and operational results. More specifically, Cemig is subject to certain restrictions on its capacity to raise funds from third parties, which could be an impediment when entering into new contracts for financing of its operations, or for refinancing of existing obligations, and this might adversely affect its business, financial situation and operational results, as follows:

The Company s bylaws require certain consolidated financial ratios to be maintained, on factors including debt and capital expenditure, with consolidated limits for the Group. This could affect the Group s operational flexibility. In 2016 and on September 30, 2019, certain financial limits and indices established in the bylaws were exceeded. These were previously approved by the General Meeting of Stockholders. Cemig obtained approval from its stockholders for the Company to exceed these financial limits and indices as applicable for 2017.



The following points relate to contracting of loans: (i) as a state-controlled company, Cemig is subject to rules and limits on lending applicable to the public sector, including rules established by the National Monetary Council (CMN) and the Brazilian Central Bank; and (ii) since the Company operates in the electricity sector it is subject to rules and limits established by Aneel governing indebtedness of companies in the electricity sector. Additionally, (iii) state-controlled companies may use funds from transactions with commercial banks only for refinancing of financial obligations, or in transactions guaranteed by trade bills.

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Another rule in force is the requirement for certain international financial transactions to be approved by the Brazilian Federal Treasury (part of the Finance Ministry) and the Central Bank, before their execution; this approval is usually given only if the objective is to finance importation of merchandise or roll over foreign debt. The objective of these rules is to impose limits on the Company's capacity for indebtedness.

Cemig is subject to the restrictive covenants contained in its contracts for loans, financings and debentures. In the event of non-compliance with an obligation under the terms of the financing contract, Cemig will be required to reinforce the guarantees of the financing, on penalty of early maturity of the contract. Any default event on our financial instruments could lead creditors to cause all amounts related to that debt to become immediately payable. Early maturity of debt could have a significant adverse effect on the Company's financial situation, and could also result in activation of cross-default clauses in other financial instruments. In the event of default, the Company's cash flows could be insufficient to completely satisfy the debt or to comply with the service of those debts.

The credit risk rating agencies attribute a rating to Brazil, to the Company, and to its debt securities on the Brazilian basis, and also issue a rating for the Company on a global basis. If ratings are reduced due to any factor that is not related to the Company's operational performance or the high level of the debt, the cost of capital could increase.

For the purposes of amortization of the programmed debt maturities, Cemig will raise significant amounts of capital from third parties through a wide range of financing sources available in the market. For the purposes of complying with services of the debt after meeting its investment targets, Cemig depended, and may continue to depend, on a combination of cash flows from operational activities, drawdowns on our available credit lines, the balance of our cash position and financial investments, and contracting of additional debts.

Cemig has a range of initiatives for increasing liquidity by entering into new financing contracts, refinancing existing obligations, and possibly disposal of assets that are not part of its end-activity. In 2016, Cemig presented a program of disinvestment for sale of assets in the period 2017-2018, with the objective of improving its liquidity position in the short term through creation of liquidity and reduction of debt.

Although Cemig has significant leverage, it expects that the balances of current cash, liquidity of the rotating credit line, cash generated by the initiatives described above, and cash flow from operational activities will be sufficient to supply the needs of working capital, investments, debt servicing, and other cash needs of the coming business year. Management believes that its plans will be successful.

If, for any reason, Cemig has difficulty in obtaining financings, this could negatively affect its conditions for making investments in the amounts necessary to maintain the present level of investments or its long-term objectives, and could compromise its ability to pay financial obligations for principal and debt to creditors, considering that the cash flow from its operations might be insufficient to cover its investment program and all of its debt servicing. A reduction in the investment program or the sale of assets could significantly affect the result of its operations.

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**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

The individual and consolidated Interim Accounting Information has been prepared in accordance with IAS 34 *Interim Financial Reporting*, issued by the International Accounting Standards Board (IASB) and Technical Pronouncement 21 *Interim Reporting (Pronunciamento Técnico 21 Demonstração Intermediária*, or CPC21) ; and is also presented in a form compliant with the rules issued by the Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or CVM), applicable to preparation of Quarterly Information (*Informações Trimestrais*, or ITR).

The Company has opted to present the individual and the consolidated Interim Financial Statements in a single group, since there is no difference in the values stated for (a) Stockholders' equity and (b) Net profit (loss) between the individual and the consolidated Interim Financial Statements.

This Interim Quarterly Information has been prepared according to principles, practices and criteria consistent with those adopted in the preparation of the annual accounting statements at December 31, 2016. Thus, this Interim financial information should be read in conjunction with the said financial statements, approved by the Company's management on April 11, 2017.

The added value statement is not required by IFRS, but is obligatory for listed companies in Brazil. Its purpose is to show the wealth created by the Company, and its distribution in the reporting period. It is provided as supplementary information to the individual and consolidated quarterly information.

The Company also takes into account the orientations provided by Technical Orientation OCPC07 in preparation of its financial statements. Thus, the material information in the Interim accounting information, and only that information, is being presented, and corresponds to the information used by Management in its administration of the company.

The Executive Board authorized conclusion and publication of this Interim financial information on November 13, 2017.

**2.2 Correlation between the Explanatory Notes published in the annual financial statements and those in the Interim Financial Information**

The table below shows the correlation between the Explanatory Notes published in the consolidated annual financial statements at December 31, 2016 and the consolidated interim financial accounting information at September 30, 2017.

The Company believes that this Interim accounting information presents the material updating of information relating to its equity situation, and its results for the three-month and nine-month period ended September 30, 2017, in compliance with the requirements for disclosure stated by the CVM.

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| Number of the Note |                  | Title of the Note   |
|--------------------|------------------|---|
| Dec. 31,<br>2016   | Sep. 30,<br>2017 |   |
| 1                  | 1                | Operational context   |
| 2                  | 2                | Basis of preparation  |
| 3                  | 3                | Consolidation principles  |
| 4                  | 4                | Concessions and authorizations  |
| 5                  | 31               | Operational segments  |
| 6                  | 5                | Cash and cash equivalents   |
| 7                  | 6                | Securities  |
| 8                  | 7                | Consumers and traders; Concession holders    Transport of electricity   |
| 9                  | 8                | Recoverable taxes   |
| 10                 | 9                | Income and Social Contribution taxes  |
| 11                 | 10               | Restricted cash   |
| 12                 | 12               | Escrow deposits in litigation   |
| 13                 | 13               | Passthrough funding from the Energy Development Account ( <i>Conta de Desenvolvimento Energético</i> , or CDE) and the Flag Tariff Centralizing Account |
| 14                 | 14               | Financial Assets and Liabilities of the Concession  |
| 15                 | 15               | Investments   |
| 16                 | 16               | Property, plant and equipment   |
| 17                 | 17               | Intangible assets   |
| 18                 | 18               | Suppliers   |
| 19                 | 19               | Taxes and social security   |
| 20                 | 20               | Loans, financings and debentures  |
| 21                 | 21               | Regulatory charges  |
| 22                 | 22               | Post-retirement obligations   |
| 23                 | 23               | Provisions  |
| 24                 | 24               | Stockholders' equity and remuneration to stockholders   |
| 25                 | 25               | Revenue   |
| 26                 | 26               | Operational costs and expenses  |
| 27                 | 27               | Financial revenue and expenses  |
| 28                 | 28               | Related party transactions  |
| 29                 | 29               | Financial instruments and risk management   |
| 30                 | 30               | Measurement at fair value   |
| 33                 | 33               | Transactions not involving cash   |
| 34                 | 34               | Subsequent events   |

The Notes to the 2016 annual statements that have not been included in these consolidated interim financial statements because they had no material changes, and/or were not applicable to the interim information, are as follows:

| Number | Title of the Note |
|--------|-------------------|
| 31     | Insurance         |
| 32     | Commitments       |

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

The reporting dates for the interim accounting information on the subsidiaries and jointly-controlled subsidiaries, used for the purposes of calculation of consolidation and equity method gains (losses) 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>Subsidiary</b>   | <b>Form of valuation</b> | <b>Sep. 30, 2017 Direct stake, %</b> |
|---|--------------------------|--------------------------------------|
| Cemig Geração e Transmissão                               | Consolidation            | 100.00                               |
| Cemig Distribuição  | Consolidation            | 100.00                               |
| Gasmig  | Consolidation            | 99.57                                |
| CemigTelecom  | Consolidation            | 100.00                               |
| Rosal Energia   | Consolidation            | 100.00                               |
| Sá Carvalho   | Consolidation            | 100.00                               |
| Horizontes Energia  | Consolidation            | 100.00                               |
| Usina Térmica Ipatinga                                    | Consolidation            | 100.00                               |
| Cemig PCH   | Consolidation            | 100.00                               |
| Cemig Trading   | Consolidation            | 100.00                               |
| Efficientia   | Consolidation            | 100.00                               |
| Cemig Comercializadora de Energia Incentivada             | Consolidation            | 100.00                               |
| UTE Barreiro  | Consolidation            | 100.00                               |
| Empresa de Serviços e Comercialização de Energia Elétrica | Consolidation            | 100.00                               |

**4. CONCESSIONS AND AUTHORIZATIONS****Renewal of the concessions of the *Jaguara, São Simão, Miranda and Volta Grande* Hydroelectric Plants**

The concession contracts (under Concession 007/97) of the *Jaguara, São Simão* and *Miranda* hydroelectric plants, of the subsidiary Cemig GT, reached a maturity date in August 2013, January 2015 and December 2016, respectively. The subsidiary, since it believes that it has the right to renewal of these concessions under the original Concession Contracts, filed administrative and court actions requiring renewal/extension of the concessions. These applications, however, were rejected by the Mining and Energy Ministry, on the view that the request was made out of time in relation to the period/rules set by Law 12783/13.

As part of the legal dispute in the courts, in March 2017 the interim judgments that had maintained Cemig GT in possession of the concession of the plants on the initial basis of the Concession Contract 007/97, were revoked.

Up to the date of lifting of the interim injunctions for each one of the plants, the Subsidiary Cemig GT recognized revenue from sales of electricity and operational costs of this plant, since it remained in control of the asset up to that date. From that date onward, Cemig GT ceased to recognize the expenses of depreciation on the plants, 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.

Management of the subsidiary continues to argue for 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 subsidiary's internal and external legal advisers have categorized the chance of success in the court disputes as possible.

Since there are legal disputes pending, involving the São Simão, Jaguara and Miranda plants, on September 27, 2017 the Brazilian federal government auctioned the concessions of those three plants, and also the concession of Volta Grande plant, which concession expired in February, 2017. Those concessions were previously held by Cemig GT. The plants have an aggregate generation capacity of 2,922 MW. The concessions were auctioned for a total of R\$ 12,130,784. The parties that won these concessions are not related to Cemig.

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Until the signature of the new concession contracts with the concession holders that won Auction 01/2017, and the actual transfer of possession of the related facilities, as long as the period of assisted operation specified in the tender of Auction 01/2017 continues, the Mining and Energy Ministry maintains Cemig GT as the party responsible for provision of service of generation at the Jaguará, Miranda, São Simão and Volta Grande Plants, to guarantee continuity of service. The Annual Generation Revenue (RAG) of the plants totals R\$ 433,243 per year and was recorded a revenue of R\$330,369 in the nine-month period ended on September 30, 2017 (R\$238.641 in the same period of 2016). The period of assisted operation may not exceed 180 days from the signature of the new concession contracts.

On August 3, 2017 Mining and Energy Ministry Order 291/17 established the values of indemnity, payable to Cemig GT, for the investments made in the São Simão and Miranda plants that have not been amortized up to the end of the contract. The total amount of the indemnity is R\$ 1,027,751, of which R\$ 243,599 relates to indemnity for the São Simão Plant, and R\$ 784,152 is for indemnity for the Miranda Plant – these figures being expressed in September 2015 and December 2016 currency, respectively. The amounts are being updated, pro rata die, by the IPCA (Expanded Consumer Price) index, up to the date of signature of the Concession Contract by whichever party wins the tender for the concession of the Plants and also by the Selic Reference Rate for Federal securities, as from the date of signature of the Concession Contract up to the date of actual payment of the indemnity. The balances not yet amortized of the concessions of the São Simão and Miranda Plants, in relation to their Basic Plans, were adjusted to reflect the matters defined in Ministerial Order 291/17. Updating gains of R\$ 259,516 were recognized in this quarter (see more details in Notes 13 and 24). The subsidiary transferred the balances referred to to Financial Assets of the concession.

On September 30, 2017, the balance not yet amortized of the Jaguará Plant concession, with accounting value of R\$ 169,822, and also the amounts of the investments made after the São Simão and Miranda plants started operation, respectively with book value of R\$ 3,243 and R\$ 22,546, reported under the heading Generation Concession Assets.

Cemig GT is discussing with the Mining and Energy Ministry the criteria used for deciding the amounts states in Ministerial Order 291/17 and also the fact that this Order did not take into consideration the as yet non-amortized balance of the Jaguará Plant and the balances of investments carried out to the São Simão and Miranda Plants after their coming into operation. The Company does not expect to see loss of value in realization of these assets.

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

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**Table of Contents****5. CASH AND CASH EQUIVALENTS**

| R\$ 000                                   | Consolidated   |                | Holding company |               |
|---|----------------|----------------|-----------------|---------------|
|   | Sep, 30, 2017  | Dec. 31, 2016  | Sep, 30, 2017   | Dec. 31, 2016 |
| Bank accounts                             | 33,631         | 101,419        | 4,527           | 4,414         |
| Cash investments                          |                |                |                 |               |
| Bank certificates of deposit ( CDBs ) (1) | 421,000        | 523,673        | 123,382         | 17,098        |
| Overnight (2)                             | 125,726        | 370,040        | 3,632           | 47,840        |
| Other                                     | 2,025          |                |                 |               |
|   | 548,751        | 893,713        | 127,014         | 64,938        |
|   | <b>582,382</b> | <b>995,132</b> | <b>131,541</b>  | <b>69,352</b> |

- 1) Bank Certificates of Deposit (*Certificados de Depósito Bancário*, or CBDs), are remunerated at a percentage varying from 60% to 106% at September 30, 2017 (75% to 106% at December 31, 2016) of the CDI Rate (Interbank Rate for Interbank Certificates of Deposit or *Certificados de Depósito Inter-bancário* CDIs) published by the Custody and Settlement Chamber (*Câmara de Custódia e Liquidação*, or Cetip). Repo transactions state, in their trading notes, the Bank's commitment to repurchase the security, at sight, on the maturity date of the transaction, or earlier, at the client's option.
- 2) Overnight transactions are repos available for redemption on the following day. They are usually backed by Treasury Bills, Notes or Bonds and referenced to a pre-fixed rate of 10.14% on September 30, 2017 (13.64% on December 31, 2016); their purpose is to settle obligations of the unit holders of the Fund or to be used in the purchase of other assets with better remuneration to replenish the portfolio.

The Company's exposure to interest rate risk and an analysis of sensitivity of financial assets and liabilities are given in Note 29 to this Interim Consolidated Accounting Information.

**6. SECURITIES**

| R\$ 000                                   | Consolidated  |               | Holding company |               |
|---|---------------|---------------|-----------------|---------------|
|   | Sep. 30, 2017 | Dec. 31, 2016 | Sep. 30, 2017   | Dec. 31, 2016 |
| <b>Cash investments</b>                   |               |               |                 |               |
| <b>Current</b>                            |               |               |                 |               |
| Bank certificates of deposit ( CDBs ) (1) | 40,139        | 46,011        | 257             | 4,238         |
| Financial Notes (LFs) Banks (2)           | 532,265       | 728,293       | 15,377          | 94,156        |

|                                     |                |                  |               |                |
|-------------------------------------|----------------|------------------|---------------|----------------|
| Treasury Financial Notes (LFTs) (3) | 103,954        | 192,995          | 3,003         | 24,951         |
| Debentures (4)                      | 12,737         | 45,289           | 2,204         | 9,403          |
| Other                               | 1,896          | 1,600            | 800           | 611            |
|                                     | <b>690,991</b> | <b>1,014,188</b> | <b>21,641</b> | <b>133,359</b> |
| <b>Non-current</b>                  |                |                  |               |                |
| Financial Notes Banks               |                | 14,134           |               | 1,820          |
| Debentures                          | 12,123         | 16,906           | 693           | 4,139          |
|                                     | <b>12,123</b>  | <b>31,040</b>    | <b>693</b>    | <b>5,959</b>   |
|                                     | <b>703,114</b> | <b>1,045,228</b> | <b>22,334</b> | <b>139,318</b> |

- 1) *Bank Certificates of Deposit (Certificados de Depósito Bancário, or CBDs)*, are remunerated at a percentage, varying from 100.8% to 105.25% on September 30, 2017 (the range on December 31, 2016 was from 100.5% to 111%), of the CDI Rate.
- 2) *Bank Financial Notes (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 LFs in Cemig GT's portfolio have a remuneration rate varying between 102% and 112% of the CDI in 2017 (104.25% to 112.7% at December 31, 2016).
- 3) *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 maturity.
- 4) *Debentures* are medium and long term debt securities, which give their holders a right of credit against the issuing company. The debentures have remuneration varying between 103% and 128% of the CDI rate in 2017 (104.25% to 113% at December 31, 2016).

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

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**Table of Contents****7. CONSUMERS, TRADERS AND POWER TRANSPORT CONCESSION HOLDERS**

| R\$ 000                                     | Consolidated               |                                 |                                  |                  |                  |
|---|----------------------------|---------------------------------|----------------------------------|------------------|------------------|
|   | Balances<br>not yet<br>due | Up to 90<br>days<br>past<br>due | More than<br>90 days<br>past due | Sep. 30,<br>2017 | Dec. 31,<br>2016 |
| Invoiced supply                             | 1,447,494                  | 675,175                         | 800,736                          | 2,923,405        | 2,568,823        |
| Supply not yet invoiced                     | 904,714                    |                                 |                                  | 904,714          | 919,531          |
| Other concession holders – wholesale supply | 350,748                    | 17,482                          | 10,136                           | 378,365          | 422,981          |
| CCEE (Electricity Trading Chamber)          | 40,248                     | 38,075                          | 168                              | 78,491           | 1,432            |
| Power transport concession holders          | 238,710                    | 8,519                           | 96,430                           | 343,659          | 318,723          |
| (-) Estimated loss on doubtful receivables  |                            |                                 | (851,448)                        | (851,448)        | (660,105)        |
|   | <b>2,981,914</b>           | <b>739,251</b>                  | <b>56,022</b>                    | <b>3,777,186</b> | <b>3,571,385</b> |
| <b>Current assets</b>                       |                            |                                 |                                  | <b>3,602,934</b> | <b>3,425,018</b> |
| <b>Non-current assets</b>                   |                            |                                 |                                  | <b>174,252</b>   | <b>146,367</b>   |

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

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

| R\$ 000                               | Sep. 30, 2017  | Sep. 30, 2016  |
|---------------------------------------|----------------|----------------|
| Residential                           | 358,373        | 244,964        |
| Industrial                            | 156,151        | 132,586        |
| Commercial, services and others       | 165,257        | 152,297        |
| Rural                                 | 36,956         | 23,764         |
| Public authorities                    | 40,129         | 9,672          |
| Public lighting                       | 5,008          | 5,392          |
| Public services                       | 14,900         | 15,408         |
| Charges for use of the network – TUSD | 67,762         | 67,733         |
| Other                                 | 6,912          | 8,289          |
|                                       | <b>851,448</b> | <b>660,105</b> |

The changes in the adjustment for estimated losses on doubtful receivables in the nine-month period ended in September, 30 is as follows:

|                                      | <b>R\$ 000</b> |
|--------------------------------------|----------------|
| <b>Balance on December 31, 2015</b>  | <b>625,445</b> |
| Constitution of provision            | 282,915        |
| Reversals of provisions              | (321,581)      |
| <b>Balance at September 30, 2016</b> | <b>586,779</b> |
| <b>Balance at December 31, 2016</b>  | <b>660,105</b> |
| Constitution of provision            | 191,343        |
| <b>Balance at September 30, 2017</b> | <b>851,448</b> |

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

Cemig made various transactions, with various clients, for advance payment for power supply. The amounts receivable for power not yet delivered are as follows:

| <b>R\$ 000</b>                       | <b>Consolidated</b> |
|--------------------------------------|---------------------|
| <b>Balance at December 31, 2016</b>  | <b>181,200</b>      |
| Addition                             | 282,601             |
| Supply completed                     | (189,355)           |
| Monetary updating                    | 37,666              |
| <b>Balance at September 30, 2017</b> | <b>312,112</b>      |
| Current liabilities                  | 245,367             |
| Non-current liabilities              | 66,745              |

**8. RECOVERABLE TAXES**

| <b>R\$ 000</b>       | <b>Consolidated</b>  |                      | <b>Holding company</b> |                      |
|----------------------|----------------------|----------------------|------------------------|----------------------|
|                      | <b>Sep. 30, 2017</b> | <b>Dec. 31, 2016</b> | <b>Sep. 30, 2017</b>   | <b>Dec. 31, 2016</b> |
| <b>Current</b>       |                      |                      |                        |                      |
| ICMS tax recoverable | 162,624              | 155,306              |                        |                      |
| PIS and Pasep taxes  | 12,484               | 12,480               | 20                     |                      |
| Cofins tax           | 57,659               | 57,634               | 102                    |                      |
| Other                | 14,187               | 10,864               |                        |                      |
|                      | <b>246,954</b>       | <b>236,284</b>       | <b>122</b>             |                      |
| <b>Non-current</b>   |                      |                      |                        |                      |
| ICMS tax recoverable | 184,010              | 170,551              |                        |                      |
| PIS and Pasep taxes  | 534                  | 914                  | 3                      | 4                    |
| Cofins tax           | 2,905                | 4,597                | 11                     | 16                   |
| Other                | 2,226                | 2,226                | 1,796                  | 1,796                |
|                      | <b>189,675</b>       | <b>178,288</b>       | <b>1,810</b>           | <b>1,816</b>         |
|                      | <b>436,629</b>       | <b>414,572</b>       | <b>1,932</b>           | <b>1,816</b>         |

The credits of ICMS, reported in Current assets, arise from acquisitions of property, plant and equipment and intangible assets, and can be offset over 48 months.

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The credits of the *PIS*, *Pasep* and *Cofins* taxes arise from acquisitions of property, plant and equipment and intangible assets, and can be offset immediately, according to the law 11,774/08. The transfer to Non-current was made in accordance with estimates by Management of the amounts that will be realized after September 30, 2018.

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**Table of Contents****9. INCOME AND SOCIAL CONTRIBUTION TAXES**

## a) Income and Social Contribution taxes recoverable

The balances of income tax and Social Contribution tax refer to tax credits in corporate income tax returns of previous years and to advance payments which will be offset against federal taxes payable yet to be calculated.

| R\$ 000                 | Consolidated   |                | Holding company |                |
|-------------------------|----------------|----------------|-----------------|----------------|
|                         | Sep. 30, 2017  | Dec. 31, 2016  | Sep. 30, 2017   | Dec. 31, 2016  |
| <b>Current</b>          |                |                |                 |                |
| Income tax              | 417,368        | 436,167        | 36,846          | 78,174         |
| Social Contribution tax | 139,939        | 153,352        | 1,026           |                |
|                         | 557,307        | 589,519        | 37,872          | 78,174         |
| <b>Non-current</b>      |                |                |                 |                |
| Income tax              | 49,709         | 98,132         | 49,709          | 98,132         |
| Social contribution tax | 13,930         | 13,928         | 13,930          | 13,928         |
|                         | 63,639         | 112,060        | 63,639          | 112,060        |
|                         | <b>620,946</b> | <b>701,579</b> | <b>101,511</b>  | <b>190,234</b> |

## b) Deferred income tax and Social Contribution tax

Cemig and its subsidiaries have income tax credits, constituted at the rate of 25%, and Social Contribution tax credits, at the rate of 9%, on tax losses/carryforwards and temporary differences, as follows:

| R\$ 000                                      | Consolidated  |               | Holding company |               |
|--|---------------|---------------|-----------------|---------------|
|  | Sep. 30, 2017 | Dec. 31, 2016 | Sep. 30, 2017   | Dec. 31, 2016 |
| <b>Deferred tax assets</b>                   |               |               |                 |               |
| Tax loss carryforwards                       | 357,381       | 290,272       | 196,784         | 202,797       |
| Provisions                                   | 1,048,698     | 1,027,279     | 499,064         | 547,277       |
| Post-retirement obligations                  | 1,239,740     | 1,175,074     | 129,862         | 121,973       |
| Estimated provision for doubtful receivables | 323,483       | 228,801       | 7,192           | 7,192         |
| Taxes payable suspended liability (1)        | 203,388       | 201,711       |                 |               |
| Paid concession                              | 8,152         | 8,262         |                 |               |
| Other  | 15,637        | 22,096        | 363             | 190           |

|   |                    |                    |                 |                 |
|---|--------------------|--------------------|-----------------|-----------------|
| <b>Total</b>  | <b>3,196,479</b>   | <b>2,953,495</b>   | <b>833,265</b>  | <b>879,429</b>  |
| <b>Deferred tax liabilities</b>   |                    |                    |                 |                 |
| Funding cost  | (30,864)           | (44,835)           |                 |                 |
| Deemed cost   | (277,890)          | (268,009)          |                 |                 |
| Purchase price allocation adjustments   | (468,052)          | (481,488)          | (88,237)        | (90,111)        |
| Borrowing costs capitalized   | (159,738)          | (148,559)          |                 |                 |
| Taxes on revenues not redeemed  |                    |                    |                 |                 |
| Presumed Profit accounting method   | (576)              | (1,549)            |                 |                 |
| Transmission assets: Indemnity gain   | (666,143)          | (516,985)          |                 |                 |
| Adjustment to expectation of cash flow from the indemnifiable Financial assets of the distribution concession | (264,588)          | (270,553)          |                 |                 |
| Other   | (7,477)            | (6,270)            |                 |                 |
| <b>Total</b>  | <b>(1,875,328)</b> | <b>(1,738,248)</b> | <b>(88,237)</b> | <b>(90,111)</b> |
| <b>Total, net</b>   | <b>1,321,151</b>   | <b>1,215,247</b>   | <b>745,028</b>  | <b>789,318</b>  |
| <b>Total assets</b>   | <b>2,003,908</b>   | <b>1,797,453</b>   | <b>745,028</b>  | <b>789,318</b>  |
| <b>Total liabilities</b>  | <b>(682,757)</b>   | <b>(582,206)</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>R\$ 000</b>   | <b>Consolidated</b> | <b>Holding company</b> |
|--|---------------------|------------------------|
| <b>Balance on December 31, 2015</b>                    | 809,232             | 778,120                |
| Effects allocated to Profit and loss account           | (75,940)            | 85,987                 |
| Effects allocated to Statement of comprehensive income | 38                  |                        |
| Variations in deferred tax assets and liabilities      | 73                  |                        |
| <b>Balance at September 30, 2016</b>                   | <b>733,403</b>      | <b>864,107</b>         |
| <b>Balance at December 31, 2016</b>                    | <b>1,215,247</b>    | <b>789,318</b>         |
| Effects allocated to Profit and loss account           | 101,362             | (44,290)               |
| Variations in deferred tax assets and liabilities      | 4,543               |                        |
| <b>Balance at September 30, 2017</b>                   | <b>1,321,152</b>    | <b>745,028</b>         |

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:

| <b>R\$ 000</b>  | <b>Consolidated</b> |                  | <b>Holding company</b> |               |
|---|---------------------|------------------|------------------------|---------------|
|   | <b>9M17</b>         | <b>9M16</b>      | <b>9M17</b>            | <b>9M16</b>   |
| Pre-tax profit  | 601,776             | 865,233          | 454,989                | 566,055       |
| Income and Social Contribution taxes nominal expense                                | (204,604)           | (294,179)        | (154,696)              | (192,459)     |
| Tax effects applicable to:  |                     |                  |                        |               |
| Gain (loss) in subsidiaries by equity method (net of effects of Interest on Equity) | (34,968)            | (19)             | 95,207                 | 265,726       |
| Non-deductible contributions and donations  | (2,171)             | (2,580)          |                        |               |
| Tax incentives  | 4,053               | 3,184            | 66                     | 69            |
| Difference in taxable base amount Presumed profit Vs. Real profit method            | 59,692              | 79,861           |                        |               |
| Non-deductible penalties  | (10,077)            | (12,194)         | (11)                   | (14)          |
| Excess reactive power and demand  | (9,229)             | (9,268)          |                        |               |
| Other   | (7,290)             | 10,795           | 1,195                  | 1,186         |
| <b>Income tax and Social Contribution tax effective credit (expense)</b>            | <b>(204,594)</b>    | <b>(224,400)</b> | <b>(58,239)</b>        | <b>74,508</b> |

|                       |                  |                  |                 |                 |
|-----------------------|------------------|------------------|-----------------|-----------------|
| <b>Effective rate</b> | <b>34.00%</b>    | <b>25.94%</b>    | <b>12.80%</b>   | <b>13.16%</b>   |
| <b>Current tax</b>    | <b>(305,956)</b> | <b>(148,460)</b> | <b>(13,949)</b> | <b>(11,480)</b> |
| <b>Deferred tax</b>   | <b>101,362</b>   | <b>(75,940)</b>  | <b>(44,290)</b> | <b>85,988</b>   |

| <b>R\$ 000</b>  | <b>Consolidated</b> |                  | <b>Holding company</b> |                 |
|---|---------------------|------------------|------------------------|-----------------|
|   | <b>3Q17</b>         | <b>3Q16</b>      | <b>3Q17</b>            | <b>3Q16</b>     |
| Pre-tax profit  | (93,000)            | 568,536          | (19,237)               | 485,674         |
| Income and Social Contribution taxes nominal expense                                | 31,620              | (193,302)        | 6,541                  | (165,129)       |
| Tax effects applicable to:  |                     |                  |                        |                 |
| Gain (loss) in subsidiaries by equity method (net of effects of Interest on Equity) | (44,064)            | 9,832            | (71,617)               | 112,486         |
| Non-deductible contributions and donations  | (659)               | (776)            |                        |                 |
| Tax incentives  | (2,035)             | 2,075            | 23                     | 19              |
| Tax credits not recognized  |                     | 1,586            |                        | 66              |
| Difference in taxable base amount Presumed profit Vs. Real profit method            | 20,873              | 45,575           |                        |                 |
| Non-deductible penalties  | (1,672)             | (4,612)          |                        |                 |
| Excess reactive power and demand  | (3,117)             | (3,111)          |                        |                 |
| Other   | 8,388               | 7,699            | 462                    | 281             |
| <b>Income tax and Social Contribution tax effective credit (expense)</b>            | <b>9,334</b>        | <b>(135,034)</b> | <b>(64,591)</b>        | <b>(52,277)</b> |
| <b>Effective rate</b>   | <b>10.04%</b>       | <b>23.75%</b>    | <b>335.77%</b>         | <b>10.76%</b>   |
| <b>Current tax</b>  | <b>(13,234)</b>     | <b>(69,593)</b>  | <b>(11,416)</b>        | <b>757</b>      |
| <b>Deferred tax</b>   | <b>22,568</b>       | <b>(65,441)</b>  | <b>(53,175)</b>        | <b>(53,034)</b> |

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**Table of Contents****10. RESTRICTED CASH**

The total recorded as Restricted cash, R\$ 405,494 in the Consolidated accounts and R\$ 396,038 in the Holding company accounts, refers mainly to the amount deposited with Banco Santander, in accordance with the stockholders agreement of RME and Lepsa, as guarantee for settlement of the put options, described in Note 15. The contract for the account with the depositary bank is in effect until December 15, 2017.

**11. ACCOUNTS RECEIVABLE FROM THE STATE OF MINAS GERAIS**

According to the disclosure on note 23, An agreement was reached between Cemig's management and the government of the State of Minas Gerais in the third quarter, expressed in a Debt Recognition Undertaking signed on October 25, 2017 between Cemig and the Finance Department of Minas Gerais State, in which the State undertook to reimburse the total amount of a deposit made by Cemig, with monetary updating by the IGP M index related to the administrative proceeding related to the criterium to update the amounts transferred to the State of Minas Gerais Government as advance for capital increase in previous years.

The Debt Recognition Undertaking specified that the State will make payment of R\$ 277,723, of which R\$ 238,445 refers to the original amount of the deposit, and R\$ 38,278 relates to its monetary updating to September 30, 2017 this amount will be returned to the Company by the State in 12 consecutive monthly installments, each updated by the IGP M index up to the date of actual payment, the first such payment to become due on November 10, 2017. Also, Clause 3 of this Undertaking specifies that, In the event of arrears or default by the State in payment of the agreed consecutive monthly installments, Cemig is authorized to retain dividends or Interest on Equity distributable to the State in proportion to the State's equity interest, for as long as the arrears and/or default continues.

**12. ESCROW DEPOSITS**

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

The most important escrow deposits refer to tax disputes, mainly on the Pasep and Cofins taxes in actions seeking exclude the ICMS tax itself from the taxable amount on which the Pasep and Cofins taxes are charged.

| R\$ 000                          | Consolidated   |                | Holding company |               |
|----------------------------------|----------------|----------------|-----------------|---------------|
|                                  | Sep. 30, 2017  | Dec. 31, 2016  | Sep. 30, 2017   | Dec. 31, 2016 |
| <b>Employment-law cases</b>      | <b>320,950</b> | <b>259,415</b> | <b>38,483</b>   | <b>31,231</b> |
| <b>Tax issues</b>                |                |                |                 |               |
| Income tax on Interest on Equity | 26,601         | 24,130         | 238             | 510           |
| Pasep and Cofins taxes (1)       | 750,839        | 746,340        |                 |               |
| ICMS credits on PP&E             | 37,249         | 36,657         |                 |               |
| Donations and legacy tax (ITCD)  | 48,365         | 45,620         | 47,926          | 45,181        |
| Urban property tax (IPTU)        | 64,498         | 80,345         | 53,602          | 65,694        |

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|   |                  |                  |                |                |
|---|------------------|------------------|----------------|----------------|
| Finsocial tax   | 39,083           | 37,399           | 39,083         | 37,399         |
| Income and Social Contr. Tax on the indemnity for employees Anuênio benefit | 265,178          | 255,127          | 12,745         | 12,262         |
| Other   | 80,895           | 59,247           | 30,975         | 28,702         |
|   | <b>1,312,708</b> | <b>1,284,865</b> | <b>184,569</b> | <b>189,748</b> |
| <b>Other</b>  |                  |                  |                |                |
| Monetary updating on AFAC from Minas Gerais State Government (2)            | 239,445          | 239,445          | 239,445        | 239,445        |
| Regulatory  | 51,614           | 60,227           | 29,237         | 27,374         |
| Third party   | 14,149           | 13,484           | 5,979          | 6,015          |
| Consumer relations  | 5,975            | 5,598            | 1,561          | 1,548          |
| Court embargo   | 12,348           | 7,877            | 4,071          | 3,118          |
| Other   | 25,316           | 15,968           | 1,343          | 1,389          |
|   | <b>109,402</b>   | <b>342,599</b>   | <b>42,191</b>  | <b>278,889</b> |
|   | <b>1,743,060</b> | <b>1,886,879</b> | <b>265,243</b> | <b>499,868</b> |

- (1) The payments into court relating to Pasep and Cofins taxes refer to the case challenging the constitutionality of inclusion of the ICMS tax, which *has* been charged, *within* the amount on which the Pasep and Cofins taxes are calculated. They have a corresponding provision in Taxes. See more details in Note 18.
- (2) Administrative deposit in case seeking suspension of enforceability of the credit charged by the Minas Gerais State Government for a difference in the monetary updating on the Advance against Future Capital Increase (*Adiantamento contra Futuro Aumento de Capital*, or AFAC). More details in Note 22.
- (3) See more details in Note 22 Provisions on Anuênio indemnity.

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**Table of Contents****13. REIMBURSEMENT OF TARIFF SUBSIDIES**

The subsidies applicable to tariffs charged to users of public electricity distribution service are reimbursed through payments of funds from the Energy Development Account (*Conta de Desenvolvimento Energético*, or CDE).

In 9M17 the total appropriated as incoming subsidies was R\$ 621,731 (R\$ 600,356 in 9M16). Of the amount provisioned, the Company has R\$ 73,345 receivable (R\$ 63,751 at December 31, 2016). This is recognized in Current assets.

**14. FINANCIAL ASSETS AND LIABILITIES OF THE CONCESSION**

| <b>Consolidated</b>  | <b>Sep. 30, 2017</b> | <b>Dec. 31, 2016</b> |
|--|----------------------|----------------------|
| Assets related to infrastructure (1)   |                      |                      |
| Distribution concessions   | 271,612              | 216,107              |
| Transmission concessions (1.2)   | 473,374              | 482,281              |
| Indemnity receivable Transmission (1.1)  | 1,975,775            | 1,805,230            |
| Indemnity receivable Generation (1.3)  | 1,685,958            | 546,624              |
| Concession Grant Fee Generation concessions (1.4)  | 2,321,817            | 2,253,765            |
|  | <b>6,728,536</b>     | <b>5,304,007</b>     |
| CVA ( <i>Compensation of Portion A items</i> ) Account and <i>Other Financial Components</i> in tariff adjustments (2) | 100,457              | 397,725              |
| <b>Total</b>   | <b>6,828,993</b>     | <b>5,701,732</b>     |
| <b>Current assets</b>  | <b>665,674</b>       | <b>730,488</b>       |
| <b>Non-current assets</b>  | <b>6,163,319</b>     | <b>4,971,244</b>     |

| <b>Financial liabilities of the concession</b>   | <b>Sep. 30, 2017</b> | <b>Dec. 31, 2016</b> |
|--|----------------------|----------------------|
| CVA ( <i>Compensation of Portion A items</i> ) Account and <i>Other Financial Components</i> in tariff adjustments (2) | 704,418              | 804,975              |
| <b>Current liabilities</b>   | <b>704,418</b>       | <b>481,835</b>       |
| <b>Non-current liabilities</b>   |                      | <b>323,140</b>       |

**1) Assets related to infrastructure**

The electricity distribution and transmission contracts and the gas distribution contracts of the subsidies are within the criteria for application of Technical Interpretation ICPC 01 (IFRIC 12), which governs accounting of concessions. They refer to the investment made in infrastructure that will be the subject of indemnity by the Concession-granting power, during the period and at the end of the concessions, as specified in the regulations of the electricity sector and

in the concession contracts signed by Cemig and its subsidiaries with the related concession-granting powers.

1) Transmission Indemnity receivable

Aneel Normative Resolution 589, of December 10, 2013, set the criteria for calculation of the New Replacement Value (*Valor Novo de Reposição*, or VNR) of the transmission facilities, for the purposes of indemnity.

On August 16, 2016 Aneel, by its Dispatch 2181, homologated the amount of R\$ 892,050, in currency of November 2012, for the portion of the reversible assets not yet amortized, for the purposes of indemnity to Cemig GT.

On April 22, 2016 the Mining and Energy Ministry (*Ministério de Minas e Energia*, or MME) published its Ministerial Order 120, setting the deadline and method of payment for the remaining amount of the indemnity.

The Order determined that the amounts homologated by Aneel should become part of the Regulatory Asset Base for Remuneration (*Base de Remuneração Regulatória*, or BRR) and that the cost of capital should be added to the related Permitted Annual Revenues ( RAP ).

The portions of remuneration and depreciation not paid in the period from the extensions of the concessions up to the tariff-setting process of 2017 are to be updated by the IPCA inflation index and remunerated at the real cost of capital of the transmission segment of the industry as decided by Aneel in the methodologies for Periodic Tariff Reviews of Revenues for Existing Concession Holders, currently 10.44% per year, to be paid over eight years by reimbursement through the RAP. (More details in Note 25 (g).)

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

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**Table of Contents***Indemnity for transmission assets – adjustment to Remuneration Base of the transmission assets – Aneel Technical Note 183/2017*

In the tariff review processes of Cemig GT, ratified on June 23, 2009 (backdated to July 1, 2005) and June 8, 2010 (backdated to July 1, 2009), certain conducting cables, which have been the subject of an application by the subsidiary, were not included in the tariff calculation. Cemig GT applied for inclusion of these assets in the Remuneration Assets Base and, consequently, for backdated calculation of the amounts not considered in the prior tariff reviews.

Aneel ruled in favor of Cemig GT's application, and calculated the differences between the amounts of revenue ratified in the above-mentioned tariff reviews and the new values calculated for inclusion of the said conducting cables for the period from July 2005 to December 2012. Updated, these amounts were calculated to total R\$ 149,255, at June 2017 prices, to be received by Cemig GT over the next 12 months. On September 30, 2017 the balance receivable was R\$ 111,941.

*Indemnity for transmission assets – Injunction obtained by industrial consumers:*

On April 10, 2017, an interim court remedy was granted to the Brazilian Large-scale Free Consumers Association (*Associação Brasileira de Grandes Consumidores Livres*), the Brazilian Auto Glass Industry Technical Association (*Associação Técnica Brasileira das Indústrias Automáticas de Vidro*) and the Brazilian Ferro-alloys and Silicon Metal Producers' Association (*Associação Brasileira dos Produtores de Ferroligas e de Silício Metálico*) in their legal action against Aneel and the federal government requesting suspension of the effects on their tariffs of payment of the indemnity for transmission assets payable to agents of the electricity sector who accepted the terms of Law 12783/2013.

The preventive remedy was partial, with effects related to suspension of the inclusion in the consumer tariffs paid by these associations of the portion of the indemnity corresponding to the remuneration on capital included since the date of extension of the concessions.

Cemig GT has the expectation of realization in full of the credits receivable in relation to the transmission indemnity, and has calculated the following amounts as indemnity:

|  |                |
|--|----------------|
|  | <b>R\$ 000</b> |
| Regulatory Remuneration Base (BRR) – Dispatch 2181/2016  | 1,177,488      |
| Amount of the indemnity received so far  | (285,438)      |
| <b>Net value of the assets for purposes of indemnity</b>   | <b>892,050</b> |
| Updating in accordance with MME Order 120/16 – IPCA index / Cost of capital – Period Jan. 2013 to June 2017. | 1,033,780      |
| Adjustment of the BRR of Transmission Assets – Aneel Technical Note 183/2017                                 | 149,255        |
| Monetary updating  | 25,894         |
| Amounts received   | (125,204)      |

**Total at September 30, 2017**

**1,975,775**

Normative Resolution 762, of February 21, 2017, set the procedures and criteria to be used in the calculation of the cost of capital to be added to the Permitted Annual Revenue of each transmission concession holder covered by Law 12783/2013, in harmony with Mining and Energy Ministry Order 120/2016. Under this legislation, Cemig GT began to receive this indemnity as from July, 2017.

1.2) Transmission Assets remunerated by tariff

For new assets that consist of improvements and strengthening of facilities implemented by transmission concession holders, Aneel calculates an additional portion of Permitted Annual Revenue (RAP) in accordance with a methodology specified in the Proret Tariff Regulation Procedures.

Under the Proret procedure, the revenue established in the Resolutions is payable to the transmission companies as from the date of start of commercial operation of the facilities. In the periods between reviews, the revenues associated with the improvements and strengthening of facilities are provisional. They are then definitively decided in the review immediately subsequent to the start of commercial operation of the facilities; this review then has effect backdated to the date of start of commercial operation. On September 30, 2017 the balance by the subsidiary Cemig GT receivable was R\$ 473,374.

|                    |           |           |                    |              |                     |
|--------------------|-----------|-----------|--------------------|--------------|---------------------|
| Santo              |           |           |                    | Tel.: +55 31 | Fax +55 31          |
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**Table of Contents**1.3) Generation Indemnity receivable*Plants operated under the Quotas regime as from January 1, 2016*

In July 2015 termination dates for concession periods, under Concession Contract 007/97, of several of the plants operated by the subsidiary Cemig GT were reached. As from the termination of the concession, the subsidiary held the indemnity rights of the assets not yet depreciated/amortized, as specified in that concession contract. The accounting balances corresponding to these assets, including the Deemed Cost, were transferred from Fixed assets to Financial assets on the date of termination of the concession, and total R\$ 616,876 on September 30, 2017 (R\$ 546,624 on September 30, 2017).

| <b>Generating plant</b>               | <b>Concession expiration date</b> | <b>Installed capacity (MW)</b> | <b>Net balance of assets based on historic cost R\$ 000</b> | <b>Net balance of assets based on deemed cost R\$ 000</b> |
|---------------------------------------|-----------------------------------|--------------------------------|---|---|
| <b>Lot D:</b>                         |                                   |                                |   |   |
| Três Marias Hydroelectric Plant       | July 2015                         | 396                            | 71,694  | 413,450   |
| Salto Grande Hydroelectric Plant      | July 2015                         | 102                            | 10,835  | 39,379  |
| Itutinga Hydroelectric Plant          | July 2015                         | 52                             | 3,671   | 6,589   |
| Camargos Hydroelectric Plant          | July 2015                         | 46                             | 7,818   | 23,095  |
| Piau Small Hydroelectric Plant        | July 2015                         | 18.01                          | 1,531   | 9,005   |
| Gafanhoto Small Hydroelectric Plant   | July 2015                         | 14                             | 1,232   | 10,262  |
| Peti Small Hydroelectric Plant        | July 2015                         | 9.4                            | 1,346   | 7,871   |
| Dona Rita Small Hydroelectric Plant   | Sep. 2013                         | 2.41                           | 534   | 534   |
| Tronqueiras Small Hydroelectric Plant | July 2015                         | 8.5                            | 1,908   | 12,323  |
| Joasal Small Hydroelectric Plant      | July 2015                         | 8.4                            | 1,379   | 7,622   |
| Martins Small Hydroelectric Plant     | July 2015                         | 7.7                            | 2,132   | 4,041   |
| Cajuru Small Hydroelectric Plant      | July 2015                         | 7.2                            | 3,576   | 4,252   |
| Paciência Small Hydroelectric Plant   | July 2015                         | 4.08                           | 728   | 3,936   |
| Marmelos Small Hydroelectric Plant    | July 2015                         | 4                              | 616   | 4,265   |
| <b>Other:</b>                         |                                   |                                |   |   |
| Volta Grande                          | February 2017                     | 380                            | 25,621  | 70,252  |
|                                       |                                   | <b>1.060</b>                   | <b>134,621</b>  | <b>616,876</b>  |

As specified in Aneel Normative Resolution 615/2014, the Valuation Opinions for the assets to be indemnified were delivered to Aneel in December 2015, including the Opinion for the *Volta Grande* Plant, which had a concession period expiring on February 23, 2017. The Company and its subsidiary do not expect any losses on the realization of this asset.

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From the termination of the concession contract until January 4, 2016, the plants were operated by the Company under the regime of quotas, with remuneration by a tariff only to cover costs of operation and maintenance of the assets.

In November 2015 Cemig GT took place in Auction 12/2015, and won Lot D. As from January 5, 2016, with the signature of the new concession contracts, the assets began to be operated in accordance with the terms of that Auction.

As mentioned in Note 4, on September 27, 2017 the Volta Grande Hydroelectric Plant was auctioned by the federal government. The transfer of the operational assets of the plant may not take place later than 180 days from the date of signature of the new concession contracts.

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

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## 1.4) Concession grant fee – Generation concessions

In June 2016, title to Concession Contracts 08 to 16/2016, relating to 18 hydroelectric plants of Lot D of Aneel Auction 12/2015, won by Cemig GT, was transferred to the related specific-purpose companies (SPCs), wholly-owned subsidiaries of Cemig GT, as follows:

| <b>R\$ 000</b>                  | <b>Plant</b>                   | <b>Balance at Dec. 31, 2016</b> | <b>Monetary updating</b> | <b>Amounts received</b> | <b>Balance at Sep. 30, 2017</b> |
|---------------------------------|--------------------------------|---------------------------------|--------------------------|-------------------------|---------------------------------|
| Cemig Geração Três Marias S.A.  | Três Marias                    | 1,283,197                       | 129,986                  | (92,612)                | 1,320,571                       |
| Cemig Geração Salto Grande S.A. | Salto Grande                   | 402,639                         | 40,973                   | (29,207)                | 414,405                         |
| Cemig Geração Itutinga S.A.     | Itutinga                       | 149,904                         | 17,193                   | (12,418)                | 154,679                         |
| Cemig Geração Camargos S.A.     | Camargos                       | 112,447                         | 12,809                   | (9,244)                 | 116,012                         |
| Cemig Geração Sul S.A.          | Coronel Domiciano, Joasal,     |                                 |                          |                         |                                 |
|                                 | Marmelos, Paciência, Piau      | 146,553                         | 17,884                   | (13,007)                | 151,430                         |
| Cemig Geração Leste S.A.        | Dona Rita, Ervália, Neblina,   |                                 |                          |                         |                                 |
|                                 | Peti, Sinceridade, Tronqueiras | 99,315                          | 13,424                   | (9,876)                 | 102,863                         |
| Cemig Geração Oeste S.A.        | Cajurú, Gafanhoto, Martins     | 59,710                          | 8,151                    | (6,004)                 | 61,857                          |
| <b>Total</b>                    |                                | <b>2,253,765</b>                | <b>240,420</b>           | <b>(172,368)</b>        | <b>2,321,817</b>                |

Cemig's offer for acquisition of grant of the 30-year concession for the 18 hydroelectric plants was R\$ 2,216,353. Of this fee, 65% was paid on January 4, 2016, and the remaining 35% (initially R\$ 775,724) was paid on July 1, 2016 (updated by the Selic rate to a total payment of R\$ 827,921). The amount of the concession grant fee was recognized as a financial asset, due to Cemig GT having the unconditional right to receive the amount paid, plus updating by the IPCA Index and remuneratory interest, during the period of the concession.

In 2016, all of the output of the plants was sold in the Regulated Market under the Physical Guarantee Quotas system. Starting in 2017, the second phase of the contract came into effect: 70% of this output was sold in the Regulated Market and 30% in the Free Market.

The *Miranda* and *São Simão* plants

On August 3, 2017, the Mining and Energy Ministry published Ministerial Order 291, setting the amounts of indemnity for the *São Simão* and *Miranda* Hydroelectric Plants, the concessions of which had expiry dates in January 2015 and December 2016 respectively.

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The Order specifies that the payment shall be made by December 31, 2018, after receipt by the federal government, from the auction concession winners, of the payment of the Concession Grant Fee, resulting from the competitive tender for the concessions. The amount of the indemnity will be updated by the IPCA index (Expanded Consumer Price) index, up to the date of the signature of the Concession Contract by the party that won the tender for the concession of the Plants, and also by the Selic Reference Rate for Federal securities, as from the date of signature of the Concession Contract up to the date of actual payment of the indemnity.

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The amounts of the Basic Plan of the plants were transferred to the account *Indemnity receivable*, and subjected to monetary updating, as follows:

| Plant     | Concession termination date | Net balance of assets based on Historic Cost at | Net value of assets based on Deemed Cost at | Net value of the assets of the Basic Plan based on Deemed Cost at | Adjustment (1) (B) | Amounts based on      |                       | Net balance of the assets of the Basic Plan at Sep. 30, 2017 (A)+(B)+(C) |
|-----------|-----------------------------|---|---|---|--------------------|-----------------------|-----------------------|--|
|           |                             | September 30, 2017                              | September 30, 2017                          | September 30, 2017 (A)  |                    | MME Order 291 (A)+(B) | Monetary updating (C) |  |
| Miranda   | Dec. 2016                   | 750,836   | 629,368                                     | 606,822   | 177,330            | 784,152               | 13,978                | 798,130  |
| São Simão | Jan. 2015                   | 61,959  | 205,987                                     | 202,744   | 40,855             | 243,599               | 27,353                | 270,952  |
|           |                             | <b>812,795</b>                                  | <b>835,355</b>                              | <b>809,566</b>  | <b>218,185</b>     | <b>1,027,751</b>      | <b>41,331</b>         | <b>1,069,082</b>   |

(1) Adjustment of the non-amortized balance of the concessions of the *São Simão* and *Miranda* plants, under MME Order 291/17, that plus the monetary updating of R\$41,331 correspond to the total amount of R\$259.516 . Cemig GT Is holding talks with the Mining and Energy Ministry, on the criteria used for the decision on the amounts stated in Ministerial Order 291/17, and also the fact that this Order did not take into consideration the as yet non-amortized balance of the *Jaguara* Plant in the amount of R\$ 169,822, and the balances of investments carried out to the *São Simão* and *Miranda* Plants after their coming into operation, in the amounts (before monetary updating) of R\$ 3,243 and R\$ 22,546, respectively.

The changes in Financial assets of the concession related to infrastructure are as follows:

| R\$ 000  | Distribution   | Transmission     | Generation     | Consolidated     |
|--|----------------|------------------|----------------|------------------|
| <b>Balance on December 31, 2015</b>                    | <b>135,983</b> | <b>1,501,441</b> | <b>546,424</b> | <b>2,183,848</b> |
| Additions  |                | 36,405           | 534            | 36,939           |
| Addition of Grant Fee - Plants                         |                |                  | 2,255,027      | 2,255,027        |
| Written off  | (291)          |                  |                | (291)            |
| Amounts received                                       |                | (11,327)         | (105,642)      | (116,969)        |
| Transfer between Financial Assets, PP&E and Intangible | 57,650         | (426)            |                | 57,224           |
| Updating of the Concession Grant Fee                   |                |                  | 96,911         | 6,638            |

|   |                |                  |                  |                  |
|---|----------------|------------------|------------------|------------------|
| Adjustment of expectation of cash flow from the indemnifiable Financial assets of the concession                  | 6,638          |                  |                  | 96,911           |
| Monetary updating   |                | 692,211          |                  | 698,849          |
| <b>Balance at September 30, 2016</b>  | <b>199,980</b> | <b>2,218,304</b> | <b>2,793,254</b> | <b>5,211,538</b> |
| <b>Balance at December 31, 2016</b>   | <b>216,107</b> | <b>2,287,511</b> | <b>2,800,389</b> | <b>5,304,007</b> |
| Additions   |                | 160,481          |                  | 160,481          |
| Write-offs  | (25)           | (3,232)          |                  | (3,257)          |
| Items received  |                | (142,105)        | (172,368)        | (314,473)        |
| Transfer to Financial assets of concession Indemnity on non-renewed plant <i>Volta Grande</i> hydroelectric plant |                |                  | 879,818          | 879,818          |
| Adjustment to indemnity plants not renewed (M. Order 291) including the monetary updating                         |                |                  | 259,516          | 259,516          |
| Transfer between Financial, PPE and Intangible assets   | 53,252         |                  |                  | 53,252           |
| Adjustment of expectation of cash flow from the indemnifiable Financial assets of the concession                  | 2,278          |                  |                  | 2,278            |
| Monetary updating   |                | 146,494          | 240,420          | 386,914          |
| <b>Balance at September 30, 2017</b>  | <b>271,612</b> | <b>2,449,149</b> | <b>4,007,775</b> | <b>6,728,536</b> |

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**Table of Contents****2) CVA (Compensation of Portion A items) Account and Other Financial Components in tariff adjustments**

The Amendment that extended the period of the concession of Cemig D guarantees that, in the event of extinction of the concession, for any reason, the remaining balances (assets and liabilities) of any shortfall in payment or reimbursement through the tariff must also be included by the Concession-granting power in the total of the indemnity.

The balances on (i) the CVA Account (*Compensation for Variation of Portion A items*), (ii) the account for Neutrality of Sector Charges, and (iii) *Other financial components* in the tariff calculation, refer to the positive and negative differences between the estimate of the Cemig D's non-manageable costs and the payments actually made. The variations found are the subject of monetary updating based on the Selic rate and compensated in the subsequent tariff adjustments.

The balances of these financial assets and liabilities are shown below. Please note that in the interim accounting information the balances of each line are presented at net value in assets or liabilities in accordance with the tariff adjustments homologated or to be homologated:

|  | Sep. 30, 2017  |  |                    | Dec. 31, 2016  |  |                    |
|--|--|--|--------------------|--|--|--------------------|
|  | Amounts<br>ratified by<br>Aneel in<br>the<br>last tariff<br>adjustment | Amounts<br>to<br>be ratified<br>by<br>Aneel in<br>the next tariff<br>adjustments | Total              | Amounts<br>ratified by<br>Aneel in<br>the<br>last tariff<br>adjustment | Amounts<br>to<br>be ratified<br>by<br>Aneel in<br>the next tariff<br>adjustments | Total              |
| <b>STATEMENT OF FINANCIAL POSITION R\$ 000</b> |  |  |                    |  |  |                    |
| <b>Assets</b>                                  | <b>685,966</b>   | <b>1,376,925</b>   | <b>2,062,891</b>   | <b>1,443,964</b>   | <b>924,914</b>   | <b>2,368,878</b>   |
| Current assets                                 | 685,966  | 466,625  | 1,152,591          | 1,443,964  | 547,241  | 1,991,205          |
| Non-current assets                             |  | 910,300  | 910,300            |  | 377,673  | 377,673            |
| <b>Liabilities</b>                             | <b>(1,339,692)</b>   | <b>(1,327,160)</b>   | <b>(2,666,852)</b> | <b>(1,046,239)</b>   | <b>(1,729,889)</b>   | <b>(2,776,128)</b> |
| Current liabilities                            | (1,339,692)  | (517,317)  | (1,857,009)        | (1,046,239)  | (1,029,076)  | (2,075,325)        |
| Non-current liabilities                        |  | (809,843)  | (809,843)          |  | (700,813)  | (700,813)          |
| <b>Total current, net</b>                      | <b>(653,726)</b>   | <b>(50,692)</b>  | <b>(704,418)</b>   | <b>397,725</b>   | <b>(481,835)</b>   | <b>(84,110)</b>    |
| <b>Total non-current, net</b>                  |  | <b>100,457</b>   | <b>100,457</b>     |  | <b>(323,140)</b>   | <b>(323,140)</b>   |
| <b>Total, net</b>                              | <b>(653,726)</b>   | <b>49,765</b>  | <b>(603,961)</b>   | <b>397,725</b>   | <b>(804,975)</b>   | <b>(407,240)</b>   |

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| Financial components R\$ 000  | Sep. 30, 2017   |  |                  | Dec. 31, 2016   |  |                  |
|---|---|--|------------------|---|--|------------------|
|   | Amounts ratified by Aneel in the last tariff adjustment | Amounts to be ratified by Aneel in the next tariff adjustments | Total            | Amounts ratified by Aneel in the last tariff adjustment | Amounts to be ratified by Aneel in the next tariff adjustments | Total            |
| <b>Items of Portion A</b>   |   |  |                  |   |  |                  |
| Quota for the Energy Development Account (CDE)                      | (245,409)   | (87,471)   | (332,880)        | 202,801   | (244,840)  | (42,039)         |
| Tariff for use of transmission facilities of grid participants      | 13,963  | (10,784)   | 3,179            | 1,923   | 8,103  | 10,026           |
| Tariff for transport of electricity provided by Itaipu              | 3,560   | (3,070)  | 490              | 5,254   | 3,926  | 9,180            |
| Program to encourage alternative electricity sources <i>Proinfa</i> | (8,178)   |  | (8,178)          | 13,080  | 4,247  | 17,327           |
| System Service Charges (ESS) and Reserve Energy Charge (EER)        | (64,501)  | (438,468)  | (502,969)        | (54,989)  | (189,063)  | (244,052)        |
| Electricity bought for resale (1)                                   | (138,684)   | 671,226  | 532,542          | 422,852   | (78,922)   | 343,930          |
| <b>Other financial components</b>                                   |   |  |                  |   |  |                  |
| Overcontracting of supply   | 13,372  | (49,569)   | (36,197)         | (104,671)   | (55,834)   | (160,505)        |
| Neutrality of Portion A   | (48,929)  | 70,089   | 21,160           | 78,254  | (76,367)   | 1,887            |
| Other financial items   | (178,920)   |  | (178,920)        | (166,779)   | (162,614)  | (329,393)        |
| Flag Tariff items (2)   |   | (80,986)   | (80,986)         |   | (13,611)   | (13,611)         |
| Excess demand /reactive power (3)                                   |   | (21,202)   | (21,202)         |   |  |                  |
| <b>TOTAL</b>  | <b>(653,726)</b>  | <b>49,765</b>  | <b>(603,961)</b> | <b>397,725</b>  | <b>(804,975)</b>   | <b>(407,250)</b> |

(1) Due to unfavorable hydrological conditions since July 2017, there has been less hydroelectric generation and more dispatching of thermal plants, increasing the spot price (PLD), and affecting the level of reduction of the physical power offtake guarantee of the hydroelectric plants. For the distributors, this results in higher costs of CCEAR contracts, with thermal plants, and higher hydrological risk costs for the Itaipu plant, for those that trade power supply under Physical Guarantee Quotas, and for those that sold CCEARs and renegotiated the Hydrological Risk. In view of these factors, the difference from the cost taken into account in setting the tariff is greater, resulting in an increase in the deferred asset related to purchase of power supply on September 30, 2017.

(2) Billing arising from the Flag Tariff System in Cemig D not yet homologated by Aneel.

(3) In accordance with PRORET 2.1A, from this point onward amounts of excess of demand and excess of reactive power were appropriated to sector financial liabilities, and will be amortized only at the time of homologation of

the 5th periodic tariff review cycle of Cemig D.

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Movement in balances of financial assets and liabilities:

|  | <b>R\$ 000</b>   |
|--|------------------|
| <b>Balance on December 31, 2015</b>                          | <b>1,349,656</b> |
| ( ) Net constitution of financial assets                     | (572,483)        |
| ( ) Realized   | (364,570)        |
| ( ) Payments from the Tariff Flag Funds Centralizing Account | (341,259)        |
| ( ) Transfer (1)   | (164,957)        |
| (+) Updating Selic rate (2)                                  | 206,967          |
| <b>Net liabilities on September 30, 2016</b>                 | <b>113,354</b>   |
| <b>Balance at December 31, 2016</b>                          | <b>(407,250)</b> |
| (+) Net constitution of financial assets                     | 222,233          |
| ( ) Realized   | (74,017)         |
| ( ) Payments from the Flag Tariff Centralizing Account       | (304,841)        |
| (+) Updating Selic rate                                      | (40,086)         |
| <b>Net liabilities on September 30, 2014</b>                 | <b>(603,961)</b> |

(1) The financial component constituted to be passed through to the tariff at the next tariff adjustment, arising from judgments (injunctions/provisional remedy) in court actions challenging part of the amount of the CDE (Energy Development Account) charge, was reclassified to Other credits, and will be amortized with counterpart in deductions from the monthly CDE charges to be paid to Eletrobras, in accordance with a Dispatch issued by Aneel in 2016.

(2) Includes adjustment for homologation of the CVA by Aneel which took place in May 2016.

**Payments from the Flag Tariff Funds Centralizing Account**

The Flag Account (*Conta Centralizadora de Recursos de Bandeiras Tarifárias* CCRBT or *Conta Bandeira*) manages the funds that are collected from captive customers of distribution concession and permission holders operating in the national grid and have been paid, on behalf of the CDE, directly to the Flag Account. The resulting funds are passed through by the Wholesale Trading Chamber (CCEE) to distribution agents, based on the differences between (i) realized costs of thermal generation and exposure to short-term market prices, and (ii) the amounts covered by the tariff.

In 9M17 funds passed through by the Flag Account totaled R\$ 304,841 (R\$ 341,259 in 9M16), and were recognized as a partial realization of CVA receivables constituted.

The amount referred to above includes the receipt of the Flag tariff amounts for December 2016, totalling R\$ 2,406, which was posted in sector Financial liabilities only in January 2017 when approved by Aneel. The remaining balance of R\$ 302,435 refers to the periods of January through August 2017.

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**Table of Contents****15. INVESTMENTS**

This table shows the investments in affiliates, subsidiaries and jointly-controlled subsidiaries.

| Investments                                    | Control            | Consolidated     |                  | Holding company  |                  |
|--|--------------------|------------------|------------------|------------------|------------------|
|  |                    | Sep. 30,<br>2017 | Dec. 31,<br>2016 | Sep. 30,<br>2017 | Dec. 31,<br>2016 |
| Cemig Geração e Transmissão                    | Subsidiarie        |                  |                  | 5,161,385        | 4,583,195        |
| Hidrelétrica Cachoeirão                        | Jointly-controlled | 56,720           | 50,411           |                  |                  |
| Guanhães Energia                               | Jointly-controlled | 25,172           |                  |                  |                  |
| Hidrelétrica Pipoca                            | Jointly-controlled | 33,753           | 31,809           |                  |                  |
| Retiro Baixo                                   | Jointly-controlled | 159,126          | 161,848          |                  |                  |
| Aliança Norte (Belo Monte Plant)               | Jointly-controlled | 567,829          | 527,498          |                  |                  |
| Madeira Energia (Santo Antônio Plant)          | affiliate          | 559,337          | 643,890          |                  |                  |
| FIP Melbourne (Santo Antônio Plant)            | affiliate          | 603,973          | 677,182          |                  |                  |
| Lightger                                       | Jointly-controlled | 41,254           | 41,543           |                  |                  |
| Baguari Energia                                | Jointly-controlled | 145,719          | 162,106          |                  |                  |
| Renova   | Jointly-controlled | 622,725          | 688,625          |                  |                  |
| Aliança Geração                                | Jointly-controlled | 1,307,456        | 1,319,055        |                  |                  |
| Central Eólica Praias de Parajuru              | Jointly-controlled | 61,608           | 63,307           |                  |                  |
| Central Eólica Volta do Rio                    | Jointly-controlled | 75,789           | 81,228           |                  |                  |
| Central Eólica Praias de Morgado               | Jointly-controlled | 55,595           | 59,586           |                  |                  |
| Amazônia Energia (Belo Monte Plant)            | Jointly-controlled | 850,743          | 781,022          |                  |                  |
| Usina Hidrelétrica Itaocara S.A.               | Jointly-controlled | 2,733            | 2,782            |                  |                  |
| Cemig Distribuição                             | Subsidiarie        |                  |                  | 1,961,175        | 2,499,867        |
| Light  | Jointly-controlled | 1,068,712        | 1,070,477        | 1,068,712        | 1,070,477        |
| Taesa  | Jointly-controlled | 1,576,156        | 1,582,633        | 1,576,156        | 1,582,633        |
| CemigTelecom                                   | Subsidiarie        |                  |                  | 190,823          | 191,515          |
| Ativas Data Center                             | affiliate          | 17,794           | 17,741           |                  |                  |
| Gasmig   | Subsidiarie        |                  |                  | 1,410,047        | 1,419,492        |
| Rosal Energia                                  | Subsidiarie        |                  |                  | 102,163          | 141,038          |
| Sá Carvalho                                    | Subsidiarie        |                  |                  | 106,840          | 106,111          |
| Horizontes Energia                             | Subsidiarie        |                  |                  | 55,714           | 52,396           |
| Usina Térmica Ipatinga                         | Subsidiarie        |                  |                  | 3,928            | 4,009            |
| Cemig PCH                                      | Subsidiarie        |                  |                  | 95,708           | 91,969           |
| Lepsa  | Jointly-controlled | 342,033          | 343,802          | 342,033          | 343,802          |
| RME  | Jointly-controlled | 338,249          | 340,063          | 338,249          | 340,063          |
| Companhia Transleste de Transmissão            | Jointly-controlled | 24,394           | 21,588           | 24,394           | 21,588           |
| UTE Barreiro                                   | Subsidiarie        |                  |                  | 37,790           | 39,266           |
| Companhia Transudeste de Transmissão           | Jointly-controlled | 23,600           | 20,505           | 23,600           | 20,505           |
| Empresa de Comercialização de Energia Elétrica | Jointly-controlled |                  |                  | 9,386            | 20,154           |

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|  |                                   |                  |                  |                   |                   |
|--|-----------------------------------|------------------|------------------|-------------------|-------------------|
| Companhia Transirapé de Transmissão<br>Efficientia             | Jointly-controlled<br>Subsidiarie | 27,567           | 23,952           | 27,567            | 23,952            |
| Cemig Comercializadora de Energia<br>Incentivada               | Subsidiarie                       |                  |                  | 2,342             | 1,867             |
| Companhia de Transmissão Centroeste de<br>Minas                | Jointly-controlled                | 19,355           | 21,171           | 19,355            | 21,171            |
| Cemig Trading  | Subsidiarie                       |                  |                  | 14,953            | 28,635            |
| Axxiom Soluções Tecnológicas                                   | Jointly-controlled                | 12,734           | 19,264           | 12,734            | 19,264            |
| Cemig Overseas (*)   | Subsidiarie                       |                  |                  | 141               | 20                |
| <b>Total of investments</b>                                    |                                   | <b>8,620,126</b> | <b>8,753,088</b> | <b>12,605,561</b> | <b>12,627,857</b> |
| Guanhães Uncovered liabilities of<br>jointly-controlled entity | Jointly-controlled                |                  | (59,071)         |                   |                   |
| <b>Total</b>   |                                   | <b>8,620,126</b> | <b>8,694,017</b> | <b>12,605,561</b> | <b>12,627,857</b> |

(\*) Cemig Overseas: company formed in Spain for assessment of investment opportunities outside Brazil. As of September 30, 2017, it has no operations.

The Company's investees that are not consolidated are jointly-controlled entities, with the exception of the interest in the *Santo Antônio* power plant, and Ativas Data Center, which are affiliated companies in which the Company has significant influence: the subsidiaries Cemig GT and Cemig Telecom, respectively. It was as from the fourth quarter of 2016 that Ativas Data Center became an investee in which Cemig has significant influence.

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In the process of allocation of the acquisition price of the jointly-controlled subsidiaries, a valuation was made of the intangible assets relating to the right to operate the regulated activity. This asset is presented jointly with the historic value of the investments in the table above. These assets will be amortized over the remaining period of the concessions on the straight-line basis.

| <b>Holding company R\$ 000</b>        | <b>Dec. 31,<br/>2015</b> | <b>Amortization</b> | <b>Sep. 30,<br/>2016</b> | <b>Dec. 31,<br/>2016</b> | <b>Amortization</b> | <b>Sep. 30,<br/>2017</b> |
|---------------------------------------|--------------------------|---------------------|--------------------------|--------------------------|---------------------|--------------------------|
| Renova (1)                            | 805,458                  | (32,076)            | 773,382                  |                          |                     |                          |
| Retiro Baixo                          | 30,706                   | (888)               | 29,818                   | 29,525                   | (888)               | 28,637                   |
| Central Eólica Praias de Parajuru     | 20,868                   | (1,146)             | 19,722                   | 19,341                   | (1,146)             | 18,195                   |
| Central Eólica Volta do Rio           | 14,818                   | (756)               | 14,062                   | 13,807                   | (756)               | 13,051                   |
| Central Eólica Praias de Morgado      | 29,461                   | (1,542)             | 27,919                   | 27,406                   | (1,542)             | 25,864                   |
| Madeira Energia (Santo Antônio Plant) | 163,296                  | (4,467)             | 158,829                  | 157,340                  | (4,467)             | 152,873                  |
| Aliança Norte (Belo Monte Plant)      | 58,489                   | (1,479)             | 57,010                   | 56,518                   | (1,479)             | 55,039                   |
| <b>Total, Cemig GT</b>                | <b>1,123,096</b>         | <b>(42,354)</b>     | <b>1,080,742</b>         | <b>303,937</b>           | <b>(10,278)</b>     | <b>293,659</b>           |
| Taesa                                 | 414,774                  | (13,982)            | 400,792                  | 288,146                  | (10,170)            | 277,976                  |
| Light                                 | 231,163                  | (16,772)            | 214,391                  | 208,800                  | (16,772)            | 192,028                  |
| Gasmig                                | 215,410                  | (5,934)             | 209,476                  | 207,498                  | (5,934)             | 201,564                  |
| Lepsa                                 |                          |                     |                          | 48,429                   | (3,798)             | 44,631                   |
| RME                                   |                          |                     |                          | 48,429                   | (3,798)             | 44,631                   |
| <b>OVERALL TOTAL</b>                  | <b>1,984,443</b>         | <b>(79,042)</b>     | <b>1,905,401</b>         | <b>1,105,239</b>         | <b>(50,750)</b>     | <b>1,054,489</b>         |

(1) At December 31, 2016 there was a downward adjustment of Intangible assets of the concession as a result of the financial difficulties of Renova.

| <b>Consolidated R\$ 000</b> | <b>Dec. 31,<br/>2015</b> | <b>Amortization</b> | <b>Sep. 30,<br/>2016</b> | <b>Dec. 31,<br/>2016</b> | <b>Amortization</b> | <b>Sep. 30,<br/>2017</b> |
|-----------------------------|--------------------------|---------------------|--------------------------|--------------------------|---------------------|--------------------------|
| Taesa                       | 414,774                  | (13,982)            | 400,792                  | 288,146                  | (10,170)            | 277,976                  |
| Light                       | 231,163                  | (16,772)            | 214,391                  | 208,800                  | (16,772)            | 192,028                  |
| Gasmig                      | 215,410                  | (5,934)             | 209,476                  | 207,498                  | (5,934)             | 201,564                  |
| Lepsa                       |                          |                     |                          | 48,429                   | (3,798)             | 44,631                   |
| RME                         |                          |                     |                          | 48,429                   | (3,798)             | 44,631                   |

|       |         |          |         |         |          |         |
|-------|---------|----------|---------|---------|----------|---------|
| TOTAL | 861,347 | (36,688) | 824,659 | 801,302 | (40,472) | 760,830 |
|-------|---------|----------|---------|---------|----------|---------|

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b) This table shows changes in investments in subsidiaries and jointly-controlled subsidiaries:

| <b>Holding company R\$ 000</b>                    | <b>Dec. 31,<br/>2016</b> | <b>Equity<br/>method<br/>gain<br/>(Profit<br/>and loss<br/>account)</b> | <b>Equity<br/>method<br/>gain<br/>(Other<br/>comprehensive<br/>income)</b> | <b>Dividends</b> | <b>Injections<br/>/ AFAC<br/>Other</b> | <b>Sep. 30,<br/>2017</b> |                   |
|---|--------------------------|---|--|------------------|--|--------------------------|-------------------|
| Cemig Geração e Transmissão                       | 4,583,195                | 525,407   | (33,852)   |                  | 100,000                                | 5,174,750                |                   |
| Cemig Distribuição                                | 2,499,867                | (538,692)   |  |                  |  | 1,961,175                |                   |
| CemigTelecom                                      | 191,515                  | (12)  | (680)  |                  |  | 190,823                  |                   |
| Rosal Energia                                     | 141,038                  | (7,907)   |  | (30,968)         |  | 102,163                  |                   |
| Sá Carvalho                                       | 106,111                  | 19,360  |  | (18,631)         |  | 106,840                  |                   |
| Gasmig  | 1,419,492                | 88,634  |  | (98,079)         |  | 1,410,047                |                   |
| Horizontes Energia                                | 52,396                   | 11,136  |  | (7,818)          |  | 55,714                   |                   |
| Usina Térmica Ipatinga                            | 4,009                    | 254   |  | (335)            |  | 3,928                    |                   |
| Cemig PCH   | 91,969                   | 13,804  |  | (10,065)         |  | 95,708                   |                   |
| Lepsa   | 343,802                  | 234   | (1,876)  |                  | (127)                                  | 342,033                  |                   |
| RME   | 340,063                  | 128   | (1,815)  |                  | (127)                                  | 338,249                  |                   |
| Companhia Transleste de<br>Transmissão            | 21,588                   | 4,071   |  | (1,265)          |  | 24,394                   |                   |
| UTE Barreiro                                      | 39,266                   | (2,400)   |  | 924              |  | 37,790                   |                   |
| Companhia Transudeste de<br>Transmissão           | 20,505                   | 3,095   |  |                  |  | 23,600                   |                   |
| Empresa de Comercialização<br>de Energia Elétrica | 20,154                   | 26,679  |  | (37,447)         |  | 9,386                    |                   |
| Companhia Transirapé de<br>Transmissão            | 23,952                   | 3,615   |  |                  |  | 27,567                   |                   |
| Efficientia                                       | 4,868                    | 3,304   |  | (1,171)          |  | 7,001                    |                   |
| Cemig Comercializadora de<br>Energia Incentivada  | 1,867                    | 559   |  | (84)             |  | 2,342                    |                   |
| Companhia de Transmissão<br>Centroeste de Minas   | 21,171                   | 3,828   |  | (5,644)          |  | 19,355                   |                   |
| Light   | 1,070,477                | 3,677   | (5,442)  |                  |  | 1,068,712                |                   |
| Cemig Trading                                     | 28,635                   | 41,873  |  | (55,555)         |  | 14,953                   |                   |
| Axxiom Soluções<br>Tecnológicas                   | 19,264                   | (6,530)   |  |                  |  | 12,734                   |                   |
| Taesa   | 1,582,633                | 126,862   |  | (133,339)        |  | 1,576,156                |                   |
| Cemig Overseas                                    | 20                       |   |  |                  | 121                                    | 141                      |                   |
|   | <b>12,627,857</b>        | <b>320,979</b>  | <b>(43,665)</b>  | <b>(399,477)</b> | <b>100,121</b>                         | <b>(254)</b>             | <b>12,605,561</b> |

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| <b>Consolidated R\$ 000</b>                        | <b>Dec. 31,<br/>2016</b> | <b>Equity<br/>method<br/>gain<br/>(Profit<br/>and loss<br/>account)</b> | <b>Equity<br/>method<br/>gain<br/>(Other<br/>comprehensive<br/>income)</b> | <b>Dividends</b> | <b>Injections<br/>/<br/>acquisitions</b> | <b>Other</b> | <b>Sep. 30,<br/>2017</b> |
|--|--------------------------|---|--|------------------|--|--------------|--------------------------|
| Companhia Transleste de Transmissão                | 21,588                   | 4,071   |  | (1,265)          |  |              | 24,394                   |
| Companhia Transudeste de Transmissão               | 20,505                   | 3,095   |  |                  |  |              | 23,600                   |
| Companhia Transirapé de Transmissão                | 23,952                   | 3,615   |  |                  |  |              | 27,567                   |
| Companhia de Transmissão Centroeste de Minas Light | 21,171                   | 3,828   |  | (5,644)          |  |              | 19,355                   |
| Axxiom Soluções Tecnológicas                       | 1,070,477                | 3,677   | (5,442)  |                  |  |              | 1,068,712                |
| Lepsa  | 19,264                   | (6,530)   |  |                  |  |              | 12,734                   |
| RME  | 343,802                  | 234   | (1,876)  |                  |  | (127)        | 342,033                  |
| Hidrelétrica Cachoeirão                            | 340,063                  | 128   | (1,815)  |                  |  | (127)        | 338,249                  |
| Guanhães Energia (1)                               | 50,411                   | 8,950   |  | (2,641)          |  |              | 56,720                   |
| Hidrelétrica Pipoca                                |                          | (2,037)   |  |                  | 86,280                                   | (59,071)     | 25,172                   |
| Madeira Energia (Santo Antônio Plant)              | 31,809                   | 3,228   |  | (1,284)          |  |              | 33,753                   |
| FIP Melbourne (Santo Antônio Plant)                | 643,890                  | (84,553)  |  |                  |  |              | 559,337                  |
| Lightger   | 677,182                  | (73,209)  |  |                  |  |              | 603,973                  |
| Baguari Energia                                    | 41,543                   | 2,280   |  | (2,569)          |  |              | 41,254                   |
| Central Eólica Praias de Parajuru                  | 162,106                  | 13,887  |  | (30,274)         |  |              | 145,719                  |
| Central Eólica Volta do Rio Morgado                | 63,307                   | (1,293)   |  | (406)            |  |              | 61,608                   |
| Central Eólica Praias de Morgado                   | 81,228                   | (5,439)   |  |                  |  |              | 75,789                   |
| Amazônia Energia (Belo Monte Plant)                | 59,586                   | (3,991)   |  |                  |  |              | 55,595                   |
| Ativas Data Center                                 | 781,022                  | (6,965)   |  |                  | 76,686                                   |              | 850,743                  |
| Taes   | 17,741                   | (1,950)   |  |                  |  | 2,003        | 17,794                   |
| Renova   | 1,582,633                | 126,862   |  | (133,339)        |  |              | 1,576,156                |
| Usina Hidrelétrica Itaocara S.A.                   | 688,625                  | (50,048)  | (33,852)   |                  | 18,000                                   |              | 622,725                  |
| Aliança Geração                                    | 2,782                    | (581)   |  |                  | 532                                      |              | 2,733                    |
| Aliança Norte (Belo Monte Plant)                   | 1,319,055                | 39,977  |  | (51,576)         |  |              | 1,307,456                |
|  | 527,498                  | (6,376)   |  |                  | 46,707                                   |              | 567,829                  |

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|   |                  |                 |                 |                  |                |                 |                  |
|---|------------------|-----------------|-----------------|------------------|----------------|-----------------|------------------|
| Retiro Baixo  | 161,848          | 8,460           |                 | (11,182)         |                |                 | 159,126          |
| <b>Total of investments</b>                                     | <b>8,753,088</b> | <b>(20,680)</b> | <b>(42,985)</b> | <b>(240,180)</b> | <b>228,205</b> | <b>(57,322)</b> | <b>8,620,126</b> |
| Guanhães Uncovered liabilities of jointly-controlled entity (1) | (59,071)         |                 |                 |                  |                | 59,071          |                  |
| <b>Total</b>  | <b>8,694,017</b> | <b>(20,680)</b> | <b>(42,985)</b> | <b>(240,180)</b> | <b>228,205</b> | <b>1,749</b>    | <b>8,620,126</b> |

(1) Transfer of uncovered liabilities;

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 Av. Barbacena 1200 Agostinho 30190-131 Belo Horizonte, MG Brazil  
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c) This table gives the principal information on the subsidiaries and jointly-controlled subsidiaries, not adjusted for the percentage represented by the Company's ownership interest:

| Company R\$ '000                                  | Number of shares | Cemig interest % | Sep. 30, 2017 |                     | Cemig interest % | Dec. 31, 2016 |                     |
|---|------------------|------------------|---------------|---------------------|------------------|---------------|---------------------|
|   |                  |                  | Share capital | Stockholders equity |                  | Share capital | Stockholders equity |
| Cemig Geração e Transmissão Hidrelétrica          | 2,896,785,358    | 100.00           | 1,837,710     | 5,161,385           | 100.00           | 1,837,710     | 4,583,195           |
| Cachoeirão  | 35,000,000       | 49.00            | 35,000        | 115,755             | 49.00            | 35,000        | 102,880             |
| Guanhães Energia Hidrelétrica Pipoca              | 330,536,000      | 49.00            | 330,536       | 51,371              | 49.00            | 185,647       |                     |
| Retiro Baixo                                      | 41,360,000       | 49.00            | 41,360        | 68,884              | 49.00            | 41,360        | 64,916              |
| Aliança Norte (Belo Monte Plant)                  | 222,850,000      | 49.90            | 222,850       | 261,501             | 49.90            | 222,850       | 263,680             |
| Madeira Energia (Santo Antônio Plant)             | 38,261,538,617   | 49.00            | 1,109,355     | 1,046,510           | 49.00            | 1,014,111     | 1,076,527           |
| Lightger  | 9,730,201,137    | 18.13            | 9,546,672     | 5,573,287           | 18.13            | 10,151,952    | 6,418,617           |
| Baguari Energia S.A. (1)                          | 79,078,937       | 49.00            | 79,232        | 84,192              | 49.00            | 79,232        | 84,781              |
| Renova  | 26,157,300,278   | 69.39            | 186,573       | 210,000             | 69.39            | 186,573       | 247,662             |
| Aliança Geração Central Eólica Praias de Parajuru | 417,197,244      | 36.23            | 2,960,776     | 1,718,810           | 34.15            | 2,856,255     | 1,955,598           |
| Central Eólica Volta do Rio                       | 1,291,582,500    | 45.00            | 1,291,488     | 2,905,457           | 45.00            | 1,291,488     | 1,972,519           |
| Central Eólica Praias de Morgado                  | 70,560,000       | 49.00            | 70,560        | 88,598              | 49.00            | 70,560        | 88,897              |
| Amazônia Energia (Belo Monte Plant) (1)           | 117,230,000      | 49.00            | 117,230       | 128,037             | 49.00            | 117,230       | 136,886             |
| Usina Hidrelétrica Itaocara S.A.                  | 52,960,000       | 49.00            | 52,960        | 60,676              | 49.00            | 52,960        | 65,128              |
| Cemig Distribuição Light                          | 1,176,194,023    | 74.50            | 1,218,672     | 1,141,937           | 74.50            | 1,115,739     | 1,048,351           |
| Cemig Telecom                                     | 5,677,000        | 49.00            | 6,762         | 5,578               | 49.00            | 5,677         | 5,677               |
| Rosal Energia Sá Carvalho                         | 2,359,113,452    | 100.00           | 2,771,998     | 1,961,175           | 100.00           | 2,361,998     | 2,499,867           |
| Gasmig  | 203,934,060      | 26.06            | 2,225,822     | 3,364,098           | 26.06            | 2,225,822     | 3,353,796           |
| Horizontes Energia Usina Térmica Ipatinga         | 397,683,385      | 100.00           | 241,742       | 190,823             | 100.00           | 241,742       | 191,515             |
|   | 46,944,467       | 100.00           | 46,944        | 102,163             | 100.00           | 46,944        | 141,038             |
|   | 361,200,000      | 100.00           | 36,833        | 106,840             | 100.00           | 36,833        | 106,111             |
|   | 409,255,483      | 99.57            | 665,429       | 1,213,702           | 99.57            | 665,429       | 1,425,622           |
|   | 39,257,563       | 100.00           | 39,258        | 55,714              | 100.00           | 39,258        | 52,396              |
|   | 174,281          | 100.00           | 174           | 3,928               | 100.00           | 174           | 4,009               |

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|  |               |        |           |           |        |           |           |
|--|---------------|--------|-----------|-----------|--------|-----------|-----------|
| Cemig PCH                                      | 35,952,000    | 100.00 | 35,952    | 95,708    | 100.00 | 35,952    | 91,969    |
| Lepsa  | 1,379,839,905 | 66.62  | 437,638   | 446,415   | 66.62  | 437,638   | 443,370   |
| RME  | 1,365,421,406 | 66.27  | 433,770   | 443,063   | 66.27  | 433,770   | 440,069   |
| Companhia Transleste de Transmissão            | 49,569,000    | 25.00  | 49,569    | 97,576    | 25.00  | 49,569    | 81,293    |
| UTE Barreiro                                   | 30,902,000    | 100.00 | 30,902    | 37,790    | 100.00 | 30,902    | 39,266    |
| Companhia Transudeste de Transmissão           | 30,000,000    | 24.00  | 30,000    | 98,333    | 24.00  | 30,000    | 85,438    |
| Empresa de Comercialização de Energia Elétrica | 486,000       | 100.00 | 486       | 9,386     | 100.00 | 486       | 20,154    |
| Companhia Transirapé de Transmissão            | 22,340,490    | 24.50  | 22,340    | 112,518   | 24.50  | 22,340    | 97,763    |
| Efficientia                                    | 6,051,994     | 100.00 | 6,052     | 7,001     | 100.00 | 6,052     | 4,868     |
| Cemig Comercializadora de Energia Incentivada  | 1,000,000     | 100.00 | 1,000     | 2,342     | 100.00 | 1,000     | 1,867     |
| Companhia de Transmissão Centroeste de Minas   | 28,000,000    | 51.00  | 28,000    | 37,951    | 51.00  | 28,000    | 41,512    |
| Cemig Trading                                  | 1,000,000     | 100.00 | 1,000     | 14,953    | 100.00 | 1,000     | 28,635    |
| Axxiom Soluções Tecnológicas                   | 17,200,000    | 49.00  | 46,600    | 25,988    | 49.00  | 46,600    | 39,314    |
| Taesa  | 1,033,496,721 | 31.54  | 3,042,034 | 4,115,980 | 31.54  | 3,042,034 | 4,307,588 |

(1) Control shared under a Stockholders Agreement.

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On September 30, 2017, the current liabilities of some jointly-controlled entries were higher than their current assets, as follows:

**Light:** On September 30, 2017, Light had consolidated negative net working capital of R\$ 1,960,665 (R\$ 1,258,928 on December 31, 2016). Light has been negotiating renewal of its short-term loans and financings, and is engaged in lengthening its debt profile. It also expects greater operational cash flow as from the periodic tariff review, which took place on March 15, 2017 and resulted in an average increase in consumer electricity bills of 10.45%. The management of Light believes that success in these phases will reverse the present situation of negative net working capital; and that there is no material uncertainty such as might put operational continuity in doubt.

**Madeira Energia ( Mesa ):** The excess of current liabilities over current assets, equal to R\$ 2,164,237, arises mainly from the account lines Suppliers, Other liabilities, Loans and financings, and Contingency provisions. To deal with the situation of negative working capital, Mesa has the benefit of a favorable decision by Aneel to revert, in liabilities, the FID (Availability Factor) account, and release of funds from the debt servicing reserve account which will be replaced by a bank guarantee, with generation of operational cash flow and normalization of funds subscribed by certain stockholders under a decision by the EGM and which are, thus, not demandable immediately.

**Renova Energia:** In the nine-month period ended September 30, 2017, Renova Energia reported accumulated losses of R\$ 1,255,587, and current liabilities R\$ 1,273,273 in excess of current assets (consolidated), and has a need to obtain capital to comply with the construction commitments of wind and solar generating plants. The main reasons for this situation are: a) significant investments that are being allocated in construction of the wind farms of the Alto Sertão III complex; and b) delay in release of the long-term financing with the Brazilian Development Bank (BNDES).

In response to this scenario, the management of Renova is taking a range of measures to rebalance its liquidity structure and cash flow. Renova's actions and plan are as follows:

- (1) On August 3, 2017, with completion of the sale of the Alto Sertão II wind farm complexes to AES Tietê Energia, Renova settled the balance of the debentures and transferred the balance of the debt of those complexes (R\$ 1,115,750, at June 30, 2017), reducing its indebtedness by R\$ 1,480,684.
- (2) Renova is in negotiations with the BNDES for signature of a long-term financing contract for approximately R\$ 900,000, which will replace the existing bridge loan reported in Current liabilities up to September 30, 2017 of R\$ 860,149 (principal plus interest). The remainder will be used for works related to the Alto Sertão III complex Phase A. As soon as the long-term financing is contracted, part of current liabilities will be reclassified to non-current. So far a total of R\$ 2.1 billion has been invested in Phase A of Alto Sertão III corresponding to 87% (information not reviewed by external auditors) of physical completion, without there having been any release of a long-term financing from the BNDES.
- (3) The stockholders continue to be engaged in providing financial support, to enable Renova to achieve rebalancing of liquidity. In 2017 they provided cash injections of R\$ 62,764.

(4) Optimization of the portfolio of contracts with permanent cancellation of projects totaling 210 MW average.

(5) Possible routes for feasibility of new funding include: optimization of the portfolio; sale of projects and/or operational assets; and entry of new stockholders.

The Management of Renova Energia believes that with the success of these measures it will be possible to recover the Company's equilibrium in economic and financial terms and in terms of liquidity.

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

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**Investment in the *Santo Antônio* Hydroelectric Plant, through Madeira Energia S.A. (Mesa) and FIP Melbourne**

The Company has direct and indirect investments in Madeira Energia S.A. (which holds an investment in Santo Antônio Energia S.A.), of R\$ 1,163,310 at September 30, 2017 (R\$ 1,321,072 at December 31, 2016).

Madeira Energia S.A. ( Mesa ) and its subsidiary Santo Antônio Energia S.A. ( Saesa ) are incurring establishment costs related to the construction of the Santo Antônio Hydroelectric Plant. The property, plant and equipment asset constituted by these expenditures totaled R\$ 21,850,585 (Mesa, consolidated) on September 30, 2017, and this amount, in accordance with financial projections prepared by its management, is to be absorbed by future revenues generated as from January 2017, when the plant began operating with all its generator rotors.

Investigations and other legal measures are in progress, conducted by the Federal Public Attorneys Office, which involve other indirect shareholders of Madeira Energia S.A. and certain executives of those other indirect shareholders.

**Arbitration proceedings**

In 2014, SAAG Investimentos S.A. (SAAG) and Cemig GT opened arbitration proceedings, *in camera* (in confidentiality), in the Market Arbitration Chamber, challenging the following: (a) the increase approved in the capital of Mesa of approximately R\$ 750,000 partially destined to payment of the claims by the Santo Antonio Construction Consortium ( CCSA ), based on absence of quantification of the amounts supposedly owed, and absence of prior approval by the Board of Directors, as required by the bylaws and Stockholders Agreement of Mesa; and also on the existence of credits owed to Mesa by CCSA, able to be offset, in an amount greater than the claims; and (b) the adjustment for impairment carried out by the Executive Board of Mesa, in the amount of R\$ 750 million, relating to certain credits owed to Mesa by CCSA, on the grounds that those credits are owed in their totality by express provision of contract.

In 2016 the arbitration judgment by the Market Arbitration Chamber recognized the right of Cemig GT and SAAG in full, and ordered annulment of the acts being impugned. As a consequence of this decision, Mesa reversed the *impairment*, and posted a provision for receivables in the amount of R\$ 678.551 in its Interim Accounting Information at September 30, 2017.

To resolve the question of the liability of the CCSA consortium to reimburse the costs of re-establishment of the collateral and use of the contractual limiting factor, the Subsidiary applied to open arbitration proceedings with the International Chamber of Commerce (ICC) against CCSA, which are in progress. Under the Arbitration Regulations of the ICC, this procedure is taking place *in camera* (in secret).

**Investment in the *Belo Monte* Plant through Amazônia Energia S.A. and Aliança Norte**

Amazônia Energia and Aliança Norte are shareholders 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, and manages that interest.

Through the jointly-controlled entities referred to above, Cemig GT owns an indirect equity interest in Nesa of 11.74%.

Nesa will still require significant funds for costs of organization, development and pre-operational costs for completion of the plant. According to estimates and forecasts these costs will be repaid by the revenues from future operations.

On April 7, 2015, Nesa was awarded interim judgment ordering Aneel to abstain, until hearing of the application for an injunction made in the origin case, from applying to Appellant any penalties or sanctions in relation to the Belo Monte Hydroelectric Plant not coming into operation on the date established in the original timetable for the project, including those specified in Aneel Normative Resolution 595/2013 and in the Concession Contract 01/2010-MME, of the Belo Monte Hydroelectric Plant . The legal advisers of Nesa have classified the probability of loss as possible , and the value of the estimated loss in Belo Monte up to September 30, 2017 is R\$ 250,316.

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

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Investigations and other legal measures are in progress, conducted by the Federal Public Attorneys Office, which involve other shareholders of Norte Energia S.A. and certain executives of those other shareholders.

The effects of any alterations to the existing scenario will be reflected in the Company's accounting statements.

## **Investment in Renova**

### **Investment in TerraForm Global**

The indirectly jointly-controlled entity Renova had investments in class A (GLBL) shares in TerraForm (the TERG Shares), which were designated as financial assets available for sale, reported at fair value, based on the market trading price on the NASDAQ exchange. Gains and losses arising from variations in the share price were reported directly into Stockholders' equity under Other comprehensive income.

In 9M17 there was a positive adjustment of R\$ 73,224 (the effect on Cemig was R\$ 26,470), recognized in Other comprehensive income in Renova Energia. In 9M16, the investee posted a loss of R\$ 271,509 (the impact on Cemig GT was R\$ 74,258), reflecting the negative volatility in the stock price of TerraForm in the period, based on the market price of the shares.

On May 15, 2017 Renova and Brookfield Asset Management (Brookfield), through its vehicle Orion US Holding 1 L.P., signed a share purchase agreement for the shares that the investee held in TerraForm Global Inc. On May 26, 2017, Renova published a material announcement reporting sale of its shares in TerraForm to Brookfield. The total price of the acquisition was R\$ 305,766 for completion on July 3, 2017, after compliance with certain conditions precedent.

In June, 2017, Renova entered into an agreement with TerraForm Global (SUNEDISON) in which the parties agree to terminate the arbitration proceedings by compensating Renova for R\$ 48,559, which was paid together with the financial settlement of the sale of Terraform shares.

### **Adjustment for impairment**

For the period of 9M17, Renova posted an impairment to its PP&E assets, which resulted in a loss of R\$ 119,681 (impact on Cemig: R\$ 52,276) for Phase A of the Alto Sertão III wind farms complex. This was posted in the Profit and loss account for the period.

## **Grant of exclusivity**

At its meeting of its Board of Directors on July 17, 2017, Cemig GT oriented vote by its representatives in the meeting of the Board of Directors of the investee Renova Energia S.A. (Renova), also held on July 17, 2017, in favor of approval of grant of exclusivity to Brookfield Energia Renovável S.A., including realization of due diligence and negotiation of final documents for a primary subscription in Renova and the sale of the interest held by Light Energia in Renova, as proposed in a non-binding offer. The period of exclusivity of 60 days from July 17, 2017, subsequently extended for 30 days, ended on October 17, 2017. This does not alter the stage of negotiation with Brookfield for the transaction referred to.

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

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**Table of Contents****Sale of assets Umburanas wind complex**

On August 23, 2017 Renova signed a Contract for Assignment of Rights and Obligations of the Umburanas Wind Power Complex, with total installed capacity of 605 MW, with Engie Brasil S.A. ( Engie ). The base price of the transaction was R\$ 15,000, subject to adjustments if certain conditions precedent of the transaction are satisfied.

On October 24, 2017, the 40th Public Meeting of the Council of Aneel (the electricity regulator) approved the transfer of the Umburanas Wind Complex to Engie.

However, since the negotiation involved an application for cancellation of four concession grants in this Complex, it was decided: (i) to apply a penalty fine of R\$ 3.8 million to Renova; and (ii) to suspend Renova's right to contract with or participate in tenders/competitive bids held by Aneel for a period of one year. The decision does not affect the controlling stockholders of Renova.

**Put options**

The Company has granted certain put options for which it calculates the fair value of the option based on the *Black and Scholes Merton* (BSM) model, in which the following variables are taken into account: exercise price of the option; closing price of the underlying asset on September 30, 2017; the risk-free interest rate; the volatility of the price of the underlying asset; and the time to maturity of the option.

Analytically, calculation of the exercise price of the options, the risk-free interest rate and the time to maturity is primarily deterministic, so that the main divergence in the put options takes place in the measurement of the closing price and the volatility of the underlying asset.

At September 30, 2017 the Company was party to the following options:

| <b>Consolidated</b>                | <b>Balance on<br/>Sep. 30, 2017</b> | <b>Balance on<br/>Dec. 31, 2016</b> |
|------------------------------------|-------------------------------------|-------------------------------------|
| Put option RME and LEPSA           | 1,242,818                           | 1,149,881                           |
| SAAG put option                    | 264,138                             | 196,173                             |
| Put / Call option Ativas and Sonda | (4,483)                             | (4,586)                             |
|                                    | <b>1,502,473</b>                    | <b>1,341,468</b>                    |

**Put options in shares of RME and Lepsa**

Cemig granted a put option, to Fundo de Participações Redentor ( Redentor ), a stockholder of both Luce Empreendimentos e Participações S.A. (Lepsa) and RME (Rio Minas Energia Participações S.A.), giving Redentor the right to sell to Cemig all of Redentor's shares in Parati (which following a reorganization are now shares in RME and Lepsa), exercisable in May 2016. The exercise price of the option is calculated from the sum of the value of the amounts injected by the Fund into Parati, plus the running expenses of the fund, less Interest on Equity, and dividends, distributed by Parati.

The exercise price is subject to monetary updating by the CDI (Interbank CD) Rate plus financial remuneration at 0.9% per year.

RME and Lepsa own common and preferred shares in Light, and at present exercise joint control, with the Company, over the activities for that company. This being so, this option has been considered to be a derivative instrument, accounted at fair value through profit or loss.

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In the second quarter of 2016 Amendments were signed to the shareholders Agreement of Parati. The principal changes arising from these amendments are as follows:

- 1) The maturity of the Put Option granted in 2011 by Cemig in favor of the unit holders of FIP Redentor, initially specified to be May 31, 2016, was postponed, to two separate exercise dates:
  - a) First option exercise window: The intention to exercise may be stated by any direct shareholder/s who decide to do so, independently of the exercise of the Put Option by the other direct shareholders, up to September 23, 2016, inclusive, and shall cover only preferred shares in Parati, up to a limit of 153,634,195 shares, representing 14.30% of the total shares in Parati held by the other direct shareholders.

On September 6, 2016 Cemig received from Banco BTG Pactual ( BTG Pactual ) Notice of Intention to Exercise a Put Option, informing irrevocable exercise of BTG Pactual s right to sell to Cemig 153,634,195 preferred shares representing its stockholding in Parati ( Shares subject of the Put Option ).

In October 2016, due to the extinction of Parati, the Put Option was divided between RME and Lepsa in the proportion of 50% each, with all the conditions of the original Put Option being maintained, except the items modified in the amendments, including alteration to their bylaws.

On November 30, 2016, Cemig paid R\$ 221.8 million for the portion of BTG Pactual in RME and Lepsa, under exercise of the first window of the put.

- b) Second payment window: The intention to exercise may be stated by any direct shareholder/s who decide to do so, independently of the exercise of the Put Option by the other direct shareholders, up to September 23, 2017, inclusive, and may cover the totality of the shares in Parati, being independent of any exercise, or not, of the Put Option in the first payment window. Cemig must make payment by November 30, 2017.

On September 15, 2017 Cemig received Notices of Intention to Exercise Put Options, under the Second Exercise Window , from

BB Banco de Investimento S.A. ( BB-BI ),

BV Financeira S.A. Crédito, Financiamento e Investimento ( BV Financeira ), and

Banco Santander (Brasil) S.A. ( Santander )

(jointly, the Stockholder Banks ), giving notice of irrevocable decision to exercise their right to sell to Cemig the totality of their holdings of common and preferred shares ( the Shares Subject of the Put Option ), comprising the totality of their equity interests, in RME and Lepsa.

- 2) The Put Option may now be exercised not only by FIP Redentor, but also by the direct shareholders of Parati, including but not limited to the unit holders of FIP Redentor, and/or their affiliates, who shall become holders of a Put Option and/or of the rights arising therefrom, under which each one of the direct shareholders shall individually have the right to sell any shares in Parati that they own.
- 3) Conditions were included for bringing forward the date of exercise of the put option: in the event of any occurrence resulting in bringing forward of the option referred to, any direct shareholder may present to Cemig a notice of bringing forward of the option, at which moment the option shall be considered exercised by all the direct shareholders, over the totality of their shares.
- 4) As guarantee for the full payment of the Put Option, on May 31, 2016 Cemig offered to the holders of the Put Option 55,234,637 common shares and 110,469,274 preferred shares in Transmissora Aliança de Energia S.A. (Taesa), and as further guarantee, 53,152,298 shares that Cemig directly holds in Light.

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**Table of Contents***Amount of the Company's exposure*

The change in the value of the options – the difference between the estimated fair value for the assets and the corresponding exercise price, in the nine-month periods ended September 30, 2017 and 2016, has been as follows:

|                                      | <b>R\$ 000</b>   |
|--------------------------------------|------------------|
| <b>Balance at December 31, 2016</b>  | <b>1,149,881</b> |
| Variation in fair value              | 100,957          |
| Reversals                            | (8,020)          |
| <b>Balance at September 30, 2017</b> | <b>1,242,818</b> |
| <b>Balance on December 31, 2015</b>  | <b>1,245,103</b> |
| Variation in fair value              | 267,585          |
| <b>Balance at September 30, 2016</b> | <b>1,512,688</b> |

In the calculation of the fair value of the option based on the Black-Scholes-Merton analysis, the following variables are taken into account: exercise price of the option; closing price of the stock of Light on September 30, 2017 (as a reference for the value of the indirect equity interest held by the direct stockholders of RME and Lepsa in Light); the risk-free interest rate; the volatility of the price of the underlying asset; and the time to maturity of the option.

The Company has made an analysis of the sensitivity of the exercise price of the option, varying the risk-free interest rate and the volatility, keeping the other variables of the model unchanged. In this context, scenarios for the risk-free interest rate at 6.6% p.a. to 16.4% p.a., and for volatility between 15% and 63.2% p.a., were used, resulting in estimates of minimum and maximum price for the put option of R\$ 1,116,760 and R\$ 1,180,151, respectively.

**SAAG Put options**

Option Contracts ( the Put Option ) were signed between Cemig GT and the private pension entities that participate in the investment structure of SAAG (comprising FIP Melbourne, Parma Participações S.A. and FIP Malbec, jointly, the Investment Structure ), giving those entities the right to sell units in the entities that comprise the Investment Structure, which may be exercised at the option of the private pension plan entities, in the 84th (eighty-fourth) month from June 2014. The exercise price of the put options will correspond to the amount invested by each private pension plan in the Investment Structure, updated *pro rata temporis* by the Expanded National Consumer Price (IPCA) index published by the IBGE, plus interest at 7% per year, less such dividends and Interest on Equity as shall have been paid by SAAG to the pension plan entities. This option was considered to be a derivative instrument, accounted at fair value through profit or loss.

|           |                              |        |              |            |
|-----------|------------------------------|--------|--------------|------------|
| Santo     | 30190-131 Belo Horizonte, MG | Brazil | Tel.: +55 31 | Fax +55 31 |
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In the fourth quarter of 2016 Cemig GT altered the methodology used in measuring the fair value of the put option of SAAG, and adopted the Black-Scholes-Merton (BSM) model, replacing the model of discounted cash flow less the exercise price of the option. This change is in line with best market practices, since the BSM method not only calculates the difference between the exercise price of the option and the share price, brought to present value, but also incorporates an important random component that weights these amounts.

The assumption was made that the future expenditures of FIP Malbec and FIP Melbourne are insignificant, so that the options are valued as if they were direct equity interests in Mesa. However, neither SAAG nor Mesa are traded on a securities exchange, so that some adaptations are necessary for calculation of the price of the asset and its volatility for application of the BSM model. The closing price of the share of Mesa on September 30, 2017 is ascertained on the basis of *Free cash flow to equity holders* (FCFE), with its equivalence in indirect equity interests held by the FIPs. Volatility, in turn, is measured as an average of historic volatility (based on the hypothesis that the series of the difference of continuously capitalized returns follows a normal distribution) of comparable companies in the electricity generation sector that are traded on the Bovespa.

Based on the studies made, a liability of R\$ 264,138 is recorded in the Company's Interim accounting information, for the difference between the exercise price and the estimated fair value of the assets (R\$ 196,173 at December 31, 2016).

The movement in the value of the options in the nine-month periods ended September 30, 2015 and 2016 is as follows:

|                                      | <b>R\$ 000</b> |
|--------------------------------------|----------------|
| <b>Balance at December 31, 2016</b>  | <b>196,173</b> |
| Variation in fair value              | 73,299         |
| Reversals                            | (5,334)        |
| <b>Balance at September 30, 2017</b> | <b>264,138</b> |
| <b>Balance on December 31, 2015</b>  | <b>147,614</b> |
| Variation in fair value              | 29,488         |
| <b>Balance at September 30, 2016</b> | <b>177,102</b> |

Cemig GT has made an analysis of the sensitivity of the exercise price of the option, varying the risk-free interest rate and the volatility, keeping the other variables of the model unchanged. In this context, scenarios for the risk-free interest rate at 6.19% p.a. to 10.19% p.a., and for volatility between 16% and 76% p.a., were used, resulting in estimates of minimum and maximum price for the put option of R\$ 226,188 and R\$ 341,307, respectively.

|                 |                              |        |                           |                         |
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**Table of Contents****16. PROPERTY, PLANT AND EQUIPMENT**

| Consolidated R\$ 000                     | Sep. 30, 2017    |                          |                  | Dec. 31, 2016     |                          |                  |
|--|------------------|--------------------------|------------------|-------------------|--------------------------|------------------|
|  | Historic cost    | Accumulated depreciation | Net value        | Historic cost     | Accumulated depreciation | Net value        |
| <b>In service</b>                        |                  |                          |                  |                   |                          |                  |
| Land                                     | 225,081          | (13,126)                 | 211,955          | 286,368           | (7,718)                  | 278,650          |
| Reservoirs, dams and watercourses        | 3,324,692        | (2,068,844)              | 1,255,848        | 5,347,448         | (3,586,435)              | 1,761,013        |
| Buildings, works and improvements        | 1,102,157        | (766,382)                | 335,775          | 1,789,111         | (1,370,631)              | 418,480          |
| Machinery and equipment                  | 2,939,964        | (2,069,474)              | 870,490          | 4,518,403         | (3,347,214)              | 1,171,189        |
| Vehicles                                 | 28,816           | (25,431)                 | 3,385            | 28,816            | (24,586)                 | 4,230            |
| Furniture and utensils                   | 15,830           | (12,669)                 | 3,161            | 15,781            | (12,373)                 | 3,408            |
|  | <b>7,636,540</b> | <b>(4,955,926)</b>       | <b>2,680,614</b> | <b>11,985,927</b> | <b>(8,348,957)</b>       | <b>3,636,970</b> |
| <b>Under construction</b>                | <b>116,577</b>   |                          | <b>116,577</b>   | <b>138,106</b>    |                          | <b>138,106</b>   |
| <b>Net property, plant and equipment</b> | <b>7,753,117</b> | <b>(4,955,926)</b>       | <b>2,797,191</b> | <b>12,124,033</b> | <b>(8,348,957)</b>       | <b>3,775,076</b> |

This table shows the movement in property, plant and equipment:

| Consolidated R\$ 000              | Balance at Dec. 31, 2016 | Jaguara, Miranda and Volta Grande |                  |                | Written off Depreciation | Transfers / capitalizations | Balance at Sep. 30, 2017 |
|-----------------------------------|--------------------------|-----------------------------------|------------------|----------------|--------------------------|-----------------------------|--------------------------|
|                                   |                          | Addition                          | Plants (1)       |                |                          |                             |                          |
| <b>In service</b>                 |                          |                                   |                  |                |                          |                             |                          |
| Land                              | 278,650                  |                                   | (61,287)         |                | (5,408)                  |                             | 211,955                  |
| Reservoirs, dams and watercourses | 1,761,013                |                                   | (440,923)        | 300            | (64,913)                 | 371                         | 1,255,848                |
| Buildings, works and improvements | 418,480                  | 39                                | (68,971)         |                | (14,546)                 | 773                         | 335,775                  |
| Machinery and equipment           | 1,171,189                | 253                               | (297,471)        | -              | (69,864)                 | 71,726                      | 870,490                  |
| Vehicles                          | 4,230                    |                                   |                  |                | (845)                    |                             | 3,385                    |
| Furniture and utensils            | 3,408                    | 58                                |                  |                | (305)                    |                             | 3,161                    |
|                                   | <b>3,636,970</b>         | <b>350</b>                        | <b>(868,652)</b> | <b>(5,043)</b> | <b>(155,881)</b>         | <b>72,870</b>               | <b>2,680,614</b>         |

|  |                  |               |                  |                |                  |                  |
|--|------------------|---------------|------------------|----------------|------------------|------------------|
| <b>Under construction</b>                | 138,106          | 53,533        | (130)            | (2,062)        | (72,870)         | 116,577          |
| <b>Net property, plant and equipment</b> | <b>3,775,076</b> | <b>53,883</b> | <b>(868,782)</b> | <b>(7,105)</b> | <b>(155,881)</b> | <b>2,797,191</b> |

(1) Amounts transferred to the account line Generation concession assets, for the Jaguará and Miranda Plants, (more details in Note 4) and to Financial assets of the concession, for the Volta Grande Plant (more details in Note 13).

| <b>Consolidated R\$ 000</b>              | <b>Balance at Dec. 31, 2015</b> | <b>Addition</b> | <b>Written off</b> | <b>Depreciation</b> | <b>Transfers / capitalizations</b> | <b>Balance at Sep. 30, 2016</b> |
|--|---------------------------------|-----------------|--------------------|---------------------|------------------------------------|---------------------------------|
| <b>In service</b>                        |                                 |                 |                    |                     |                                    |                                 |
| Land                                     | 278,609                         |                 | (351)              | (2,248)             | 89                                 | 276,099                         |
| Reservoirs, dams and watercourses        | 1,830,045                       |                 | (3)                | (74,450)            | 26,852                             | 1,782,444                       |
| Buildings, works and improvements        | 437,311                         |                 | (697)              | (17,823)            | 4,348                              | 423,139                         |
| Machinery and equipment                  | 1,192,099                       |                 | (23,128)           | (76,748)            | 83,647                             | 1,175,870                       |
| Vehicles                                 | 8,082                           |                 | (58)               | (1,943)             | (1,518)                            | 4,563                           |
| Furniture and utensils                   | 4,473                           |                 | (1)                | (240)               | (713)                              | 3,519                           |
|  | <b>3,750,619</b>                |                 | <b>(24,238)</b>    | <b>(173,452)</b>    | <b>112,705</b>                     | <b>3,665,634</b>                |
| <b>Under construction</b>                | 189,704                         | 61,332          | (6,237)            |                     | (112,279)                          | 132,520                         |
| <b>Net property, plant and equipment</b> | <b>3,940,323</b>                | <b>61,332</b>   | <b>(30,475)</b>    | <b>(173,452)</b>    | <b>426</b>                         | <b>3,798,154</b>                |

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

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The average annual depreciation rate for the year 2017 is 3.51% (3.39% in 2016). By activity, the average annual depreciation rates are:

|                                 |                           |                             |                 |
|---------------------------------|---------------------------|-----------------------------|-----------------|
| <b>Hydroelectric generation</b> | <b>Thermal generation</b> | <b>Management and other</b> | <b>Telecoms</b> |
| 3.30%                           | 3.85%                     | 10.04%                      | 4.61%           |

The Company has not identified any evidence of impairment of its Property, plant and equipment assets. The generation concession contracts provide that at the end of each concession the Concession-granting power shall determine the amount to be indemnified to the Company and its subsidiaries. Management believes that the indemnity of these assets will be greater than the amount of: their historic cost after depreciation over their useful lives.

Under the Brazilian regulatory framework Aneel, the regulator, is responsible for establishing the useful economic life of the generation and transmission assets in the electricity sector, and for periodically reviewing the estimates. The rates established by Aneel are used in the processes of reviewing tariff rates and calculating of the indemnity due at the end of the concession period, and are recognized as a reasonable estimate of the useful life of the assets of the concession. Thus, these rates were used as the basis for depreciation of the Company's property, plant, and equipment assets.

The residual value of the assets is the remaining balance of the assets at the end of the concession. As established in the contract signed between the Company, and its subsidiaries, and the Nation, at the end of the concession the assets will revert to the Nation, which in turn will indemnify the Company for those assets that have not yet been totally depreciated. In cases where there is no indemnity, or there is uncertainty related to the indemnity, at the end of the concession, such as thermal generation, and hydroelectric generation as an independent power producer, no residual value is recognized, and the depreciation rates are adjusted so that all the assets are depreciated within the concession.

**Consortium**

Cemig GT is a partner in the electricity generation consortium for the *Queimado* plant, for which no separate company with independent legal existence was formed to manage the object of the concession, the controls being kept in Fixed assets and Intangible assets. Cemig GT's portion in the consortium is recorded and controlled individually in the respective categories of PP&E and Intangible assets.

| <b>Consolidated R\$ '000</b> | <b>Stake in power output, %</b> | <b>Average annual depreciation rate %</b> | <b>Sep. 30, 2017</b> | <b>Dec. 31, 2016</b> |
|------------------------------|---------------------------------|---|----------------------|----------------------|
| <b>In service</b>            |                                 |   |                      |                      |
| Queimado plant               | 82.50                           | 3.73                                      | 217,061              | 217,061              |
| Accumulated depreciation     |                                 |   | (86,260)             | (81,911)             |
| <b>Total in operation</b>    |                                 |   | <b>130,801</b>       | <b>135,150</b>       |
| <b>Under construction</b>    |                                 |   |                      |                      |
| Queimado plant               | 82.50                           |   | 233                  | 233                  |

|                                 |            |            |
|---------------------------------|------------|------------|
| <b>Total under construction</b> | <b>233</b> | <b>233</b> |
|---------------------------------|------------|------------|

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

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**Table of Contents****17. INTANGIBLE ASSETS****a) Composition of the balance at September 30, 2017 and December 31, 2016**

| Consolidated R\$ 000         | Sep. 30, 2017     |                          |                   | Dec. 31, 2016     |                          |                   |
|------------------------------|-------------------|--------------------------|-------------------|-------------------|--------------------------|-------------------|
|                              | Historic cost     | Accumulated amortization | Residual value    | Historic cost     | Accumulated amortization | Residual value    |
| <b>In service</b>            |                   |                          |                   |                   |                          |                   |
| Useful life defined          |                   |                          |                   |                   |                          |                   |
| Temporary easements          | 11,749            | (1,820)                  | 9,929             | 11,749            | (1,315)                  | 10,434            |
| Paid concession              | 19,169            | (11,082)                 | 8,087             | 19,169            | (10,572)                 | 8,597             |
| Assets of concession         | 17,388,860        | (7,437,712)              | 9,951,148         | 16,287,763        | (7,039,840)              | 9,247,923         |
| Other                        | 79,171            | (63,832)                 | 15,339            | 76,864            | (59,434)                 | 17,430            |
|                              | <b>17,498,949</b> | <b>(7,514,446)</b>       | <b>9,984,503</b>  | <b>16,395,545</b> | <b>(7,111,161)</b>       | <b>9,284,384</b>  |
| <b>Under construction</b>    | 1,073,182         |                          | 1,073,182         | 1,535,296         |                          | 1,535,296         |
| <b>Net intangible assets</b> | <b>18,572,131</b> | <b>(7,514,446)</b>       | <b>11,057,685</b> | <b>17,930,841</b> | <b>(7,111,161)</b>       | <b>10,819,680</b> |

| Holding company R\$ 000      | Average amortization rate | Sep. 30, 2017 |                          |                | Dec. 31, 2016 |                          |                |
|------------------------------|---------------------------|---------------|--------------------------|----------------|---------------|--------------------------|----------------|
|                              |                           | Historic cost | Accumulated amortization | Residual value | Historic cost | Accumulated amortization | Residual value |
| <b>In service</b>            |                           |               |                          |                |               |                          |                |
| Useful life defined          |                           |               |                          |                |               |                          |                |
| Software use rights          | 20%                       | 3,789         | (3,724)                  | 65             | 3,789         | (3,649)                  | 140            |
| Brands and patents           | 10%                       | 9             | (7)                      | 2              | 9             | (7)                      | 2              |
|                              |                           | <b>3,798</b>  | <b>(3,731)</b>           | <b>67</b>      | <b>3,798</b>  | <b>(3,656)</b>           | <b>142</b>     |
| <b>Under construction</b>    |                           | <b>1,710</b>  |                          | <b>1,710</b>   | <b>1,710</b>  |                          | <b>1,710</b>   |
| <b>Net intangible assets</b> |                           | <b>5,508</b>  | <b>(3,731)</b>           | <b>1,777</b>   | <b>5,508</b>  | <b>(3,656)</b>           | <b>1,852</b>   |

**b) Changes in Intangible assets**

| Consolidated R\$ 000         | Balance at Dec. 31, 2016 | Addition       | Write-off of Special Obligations | Joflari, Volta Grande Minas Plantoff | Written Amortization | Transfer (1)     | Balance at Sep. 30, 2017 |
|------------------------------|--------------------------|----------------|----------------------------------|--------------------------------------|----------------------|------------------|--------------------------|
| <b>In service</b>            |                          |                |                                  |                                      |                      |                  |                          |
| Useful life defined          |                          |                |                                  |                                      |                      |                  |                          |
| Temporary easements          | 10,434                   |                |                                  |                                      | (505)                |                  | 9,929                    |
| Paid concession              | 8,597                    |                |                                  |                                      | (510)                |                  | 8,087                    |
| Assets of concession         | 9,247,923                |                | 17,069                           | (5,878)                              | (455,379)            | 1,147,413        | 9,951,148                |
| Other                        | 17,430                   |                | (80)                             |                                      | (4,508)              | 2,497            | 15,339                   |
|                              | <b>9,284,384</b>         |                | <b>17,069</b>                    | <b>(80)</b>                          | <b>(5,878)</b>       | <b>(460,902)</b> | <b>9,984,503</b>         |
| <b>Under construction</b>    | 1,535,296                | 747,868        |                                  |                                      | (6,820)              | (1,203,162)      | 1,073,182                |
| <b>Net intangible assets</b> |                          |                |                                  |                                      |                      |                  |                          |
| <b>Consolidated</b>          | <b>10,819,680</b>        | <b>747,868</b> | <b>17,069</b>                    | <b>(80)</b>                          | <b>(12,698)</b>      | <b>(460,902)</b> | <b>(53,252)</b>          |
|                              |                          |                |                                  |                                      |                      |                  | <b>11,057,685</b>        |

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| <b>Consolidated R\$ 000</b>  | <b>Balance at<br/>Dec. 31,<br/>2015</b> | <b>Addition</b> | <b>Written off</b> | <b>Amortization</b> | <b>Transfer (1)</b> | <b>Balance at<br/>Sep. 30,<br/>2016</b> |
|------------------------------|---|-----------------|--------------------|---------------------|---------------------|---|
| <b>In service</b>            |   |                 |                    |                     |                     |   |
| Useful life defined          |   |                 |                    |                     |                     |   |
| Temporary easements          | 10,434                                  |                 |                    |                     |                     | 10,434                                  |
| Paid concession              | 9,275                                   |                 |                    | (509)               |                     | 8,766                                   |
| Assets of concession         | 8,965,474                               | 75              | (19,501)           | (422,948)           | 613,564             | 9,136,664                               |
| Other                        | 15,290                                  |                 | (6,225)            | (4,288)             | 12,810              | 17,587                                  |
|                              | <b>9,000,473</b>                        | <b>75</b>       | <b>(25,726)</b>    | <b>(427,745)</b>    | <b>626,374</b>      | <b>9,173,451</b>                        |
| <b>Under construction</b>    | 1,274,631                               | 899,785         | (5,440)            |                     | (684,024)           | 1,484,952                               |
| <b>Net intangible assets</b> |   |                 |                    |                     |                     |   |
| <b>Consolidated</b>          | <b>10,275,104</b>                       | <b>899,860</b>  | <b>(31,166)</b>    | <b>(427,745)</b>    | <b>(57,650)</b>     | <b>10,658,403</b>                       |

(1) The residual balance of transfer refers to balances transferred to the Financial assets.

The average annual depreciation rate for the year 2017 is 3.81% (4.12% in 2016). The average rates of annual amortization, by activity, set by the legislation for the sector, are:

| <b>Hydroelectric generation</b> | <b>Thermal generation</b> | <b>Distribution</b> | <b>Management and<br/>other</b> | <b>Telecoms</b> |
|---------------------------------|---------------------------|---------------------|---------------------------------|-----------------|
| 20.00%                          | 19.35%                    | 3.85%               | 23.29%                          | 11.56%          |

The Company has found no indications of impairment of its intangible assets that have defined useful lives. The Company has no intangible assets with non-defined useful life. Among the additions made in the nine-month period ended in September 30, 2017, in the amount of R\$747.868, is included R\$ 56,851 (R\$ 120,398 in 9M16) under the heading Capitalized Financial Costs, as presented in Note 20.

**18. SUPPLIERS**

| <b>R\$ 000</b>                         | <b>Consolidated</b> |             |
|--|---------------------|-------------|
|  | <b>9M17</b>         | <b>9M16</b> |
| Electricity on spot market CCEE        | 237,732             | 167,860     |
| Charges for use of electricity network | 156,323             | 78,407      |
| Electricity purchased for resale       | 1,037,427           | 676,563     |

|                        |                  |                  |
|------------------------|------------------|------------------|
| Itaipu Binacional      | 246,453          | 206,827          |
| Gas bought for resale  | 216,954          | 461,589          |
| Materials and services | 291,559          | 348,347          |
|                        | <b>2,186,448</b> | <b>1,939,593</b> |

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**Table of Contents****19. TAXES, INCOME TAX AND SOCIAL CONTRIBUTION TAX****a) Taxes**

| R\$ 000                       | Consolidated     |                  | Holding company |               |
|-------------------------------|------------------|------------------|-----------------|---------------|
|                               | 9M17             | 9M16             | 9M17            | 9M16          |
| Current                       |                  |                  |                 |               |
| ICMS tax (I)                  | 828,897          | 501,535          |                 |               |
| Cofins tax                    | 93,452           | 128,030          | 1,965           | 32,332        |
| Pasep tax                     | 20,012           | 27,701           | 319             | 6,987         |
| Social security contributions | 15,368           | 24,865           | 1,869           | 1,933         |
| Other                         | 26,264           | 111,456          | 788             | 42,382        |
|                               | <b>983,993</b>   | <b>793,587</b>   | <b>4,941</b>    | <b>83,634</b> |
| Non-current                   |                  |                  |                 |               |
| Cofins tax (II)               | 593,296          | 594,866          |                 |               |
| Pasep tax (II)                | 128,806          | 129,056          |                 |               |
|                               | <b>722,102</b>   | <b>723,922</b>   |                 |               |
|                               | <b>1,706,095</b> | <b>1,517,509</b> | <b>4,941</b>    | <b>83,634</b> |

(I) The Tax Credits Regularization Plan (*Plano de Regularização de Créditos Tributários* - PRCT): During 3Q17 the subsidiaries Cemig D and Cemig GT recognized in their Profit and loss accounts the effects of adherence to the Minas Gerais State Tax Credits Regularization Plan (PRCT), for settlement of ICMS tax totaling R\$ 557,673 and R\$ 29,951, respectively.

The main tax issue that led to the decision of Cemig D to subscribe to the PRCT relates to ICMS tax on the CDE subvention over the period January 2013 to October 2016, and also the classification of residential condominiums in the *commercial* category, which has a different ICMS rate, generating disagreement with the tax authority on interpretation, over the period 2013 to 2015. The amount of ICMS claimed from Cemig D will be settled, under the PRCT, in six installments, with value updated at 50% of the Selic rate and a reduction of 90% on fine and interests. The first instalment, of R\$ 93,539, was settled on October 31, 2017.

The issue that led to Cemig GT adopting the PRCT relates to ICMS tax on transfers of power supply received from a consortium, where there was a difference in understanding between the Company and the tax authority in relation to the moment of payment. The amount claimed from Cemig GT, under the PRCT, was R\$ 29,951, and was settled in full on October 31, 2017 and represented a reduction of 95% on fine and interests.

- (II) The non-current obligations for *Pasep* and *Cofins* taxes refer to the legal proceedings challenging the constitutionality of inclusion of the ICMS tax as *part* of the taxable amount for calculation of the amounts of *Pasep* and *Cofins* taxes payable, and seeking authorization to offset the amounts paid over the last ten years. The Company and its subsidiaries Cemig D (Distribution) and Cemig GT (Generation and Transmission) obtained interim relief from the court allowing them not to make the payment, and authorizing payment through court deposits (starting in 2008), and maintained this procedure until July 2011. After that date, while continuing to challenge the basis of the calculation in court, they opted to pay the taxes monthly.
- (III) On March 15, 2017, the Federal Supreme Court (*Supremo Tribunal Federal*, or STF) issued a ruling, with the status of general precedent ( *repercussão geral* ) governing all similar cases, in favor of the Company's argument. The Company and its subsidiaries await the results of any changes arising from the decision by the Supreme Court before measuring these effects and reflecting them in its financial statements.

**b) Income tax and Social Contribution tax**

| R\$ 000                 | Consolidated  |               |
|-------------------------|---------------|---------------|
|                         | 9M17          | 9M16          |
| <b>Current</b>          |               |               |
| Income tax              | 73,762        | 18,381        |
| Social contribution tax | 25,922        | 8,485         |
|                         | <b>99,684</b> | <b>26,866</b> |

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**Table of Contents****20. LOANS, FINANCINGS AND DEBENTURES**

|                                 |          |                                   |          | <b>Consolidated</b> |               |               |               |
|---------------------------------|----------|-----------------------------------|----------|---------------------|---------------|---------------|---------------|
| Financing source                | maturity | Principal Annual financial cost % | Currency | September 30, 2017  |               |               | Dec. 31, 2016 |
|                                 |          |                                   |          | Current             | Non-current   | Total         | Total         |
| <b>FOREIGN CURRENCY</b>         |          |                                   |          |                     |               |               |               |
| Banco do Brasil:                |          |                                   |          |                     |               |               |               |
| Various Bonds (1)               | 2024     | Various                           | US\$     | 3,021               | 20,169        | 23,190        | 23,049        |
| KfW                             | 2019     | 1,78                              | Euros    | 3,967               | 2,162         | 6,129         | 7,416         |
| <b>Debt in foreign currency</b> |          |                                   |          | <b>6,988</b>        | <b>22,331</b> | <b>29,319</b> | <b>30,465</b> |
| <b>BRAZILIAN CURRENCY</b>       |          |                                   |          |                     |               |               |               |
| Banco do Brasil                 | 2017     | 108.33% of the CDI Rate           | R\$      |                     |               |               | 72,242        |
| Banco do Brasil                 | 2017     | 108.00% of CDI                    | R\$      | 153,650             |               | 153,650       | 150,683       |
| Banco do Brasil                 | 2018     | 112.00% of CDI Rate               | R\$      | 295,581             | 270,000       | 565,581       | 554,748       |
| Banco do Brasil                 | 2017     | 111.00% of CDI                    | R\$      |                     |               |               | 50,308        |
| Banco do Brasil                 | 2020     | 114.00% of the CDI Rate           | R\$      | 185,319             | 329,144       | 514,463       | 501,352       |
| Banco do Brasil                 | 2018     | 132.90% of CDI                    | R\$      | 290,442             | 149,317       | 439,759       | 583,043       |
| BNDES                           | 2026     | TJLP+2.34%                        | R\$      | 8,065               | 61,361        | 69,426        | 74,095        |
| Caixa Econômica Federal         |          |                                   |          |                     |               |               |               |
|                                 | 2018     | 119.00% of CDI                    | R\$      | 33,407              |               | 33,407        | 108,792       |
| Caixa Econômica Federal         |          |                                   |          |                     |               |               |               |
|                                 | 2020     | 132.14% of CDI                    | R\$      | 272,631             | 411,457       | 684,088       | 681,417       |
| Eletrobras                      |          |                                   |          |                     |               |               |               |
|                                 | 2023     | UFIR; RGR + 6.00 to 8.00%         | R\$      | 16,886              | 37,449        | 54,335        | 68,043        |
| Large consumers                 | 2024     | Various                           | R\$      | 1,860               | 2,305         | 4,165         | 6,317         |
| Finep                           |          |                                   |          |                     |               |               |               |
|                                 | 2018     | TJLP + 5% and TJLP + 8%           | R\$      | 3,145               |               | 3,145         | 5,505         |
| Pipoca Consortium               |          |                                   |          |                     |               |               |               |
|                                 | 2018     | IPCA                              | R\$      | 185                 |               | 185           | 185           |
| Promissory Notes                |          |                                   |          |                     |               |               |               |
| 7th Issue                       | 2017     | 128.00% of CDI                    | R\$      | 588,319             |               | 588,319       | 667,143       |
| Banco da Amazônia S.A.          |          |                                   |          |                     |               |               |               |
|                                 | 2018     | CDI + 1.90%                       | R\$      | 13,786              | 119,961       | 133,747       | 121,601       |
| Sonda (4)                       | 2021     | 110% of CDI                       | R\$      | 50,482              | 40,904        | 91,386        | 83,238        |
| ( ) FIC Pampulha:               |          |                                   |          | (49,936)            |               | (49,936)      |               |
| Securities of                   |          |                                   |          |                     |               |               |               |

subsidiary  
companies (6)

|   |      |  |     |                  |                  |                  |                  |
|---|------|--|-----|------------------|------------------|------------------|------------------|
| <b>Debt in Brazilian currency</b>             |      |  |     | <b>1,863,822</b> | <b>1,421,898</b> | <b>3,285,720</b> | <b>3,728,712</b> |
| <b>Total of loans and financings</b>          |      |  |     | <b>1,870,810</b> | <b>1,444,229</b> | <b>3,315,039</b> | <b>3,759,177</b> |
| Debtures 3rd Issue, 1st series (2)            | 2017 | CDI Rate + 0.90%                       | R\$ |                  |                  |                  | 543,208          |
| Debtures 3rd Issue, 2nd series (2)            | 2019 | IPCA + 6.00%                           | R\$ | 152,272          | 141,923          | 294,195          | 293,122          |
| Debtures 3rd Issue, 3rd series (2)            | 2022 | IPCA + 6.20%                           | R\$ | 35,809           | 950,808          | 986,617          | 983,506          |
| Debtures 5th Issue, 1st series (2)            | 2018 | CDI + 1.70%                            | R\$ | 844,159          | 700,000          | 1,544,159        | 1,411,295        |
| Debtures 6th Issue, 1st series (2)            | 2018 | CDI + 1.60%                            | R\$ | 495,573          |                  | 495,573          | 1,037,973        |
| Debtures 6th Issue, 2nd series (2)            | 2020 | IPCA +8.07%                            | R\$ | 475              | 30,658           | 31,133           | 31,117           |
| Debtures 7th Issue, 1st series (2)            | 2021 | 140.00% of CDI Rate                    | R\$ | (5,042)          | 2,210,853        | 2,205,811        | 2,196,841        |
| Debtures, 2nd Issue (3)                       | 2017 | IPCA + 7.96%                           | R\$ | 253,769          |                  | 253,769          | 235,136          |
| Debtures 3rd Issue, 2nd Series (3)            | 2021 | IPCA + 4.70%                           | R\$ | 41,685           | 1,464,025        | 1,505,710        | 1,495,108        |
| Debtures 3rd Issue, 3rd Series (3)            | 2025 | IPCA + 5.10%                           | R\$ | 27,041           | 873,250          | 900,291          | 894,918          |
| Debtures 3rd Issue, 1st series (3)            | 2018 | CDI + 0.69%                            | R\$ | 438,571          |                  | 438,571          | 463,880          |
| Debtures, 4th Issue (3)                       | 2018 | CDI + 4.05%                            | R\$ | 988,160          | 804,371          | 1,792,531        | 1,597,690        |
| Debtures (5)                                  | 2018 | CDI + 1.60%                            | R\$ | 412              | 100,000          | 100,412          | 100,629          |
| Debtures (5)                                  | 2018 | CDI + 0.74%                            | R\$ | 33,351           |                  | 33,351           | 66,706           |
| Debtures (5)                                  | 2022 | TJLP+1.82% (75%);<br>Selic+1.82% (25%) | R\$ | 27,593           | 129,963          | 157,556          | 133,502          |
| Debtures (4)                                  | 2019 | 128.50% of CDI                         | R\$ | 8,605            | 17,887           | 26,492           |                  |
| ( ) FIC Pampulha:<br>Securities of subsidiary |      |  |     | (13,772)         | (11,863)         | (25,635)         | (64,528)         |

companies (6)

|                                       |                  |                  |                   |                   |
|---------------------------------------|------------------|------------------|-------------------|-------------------|
| <b>Total,<br/>debentures</b>          | <b>3,328,661</b> | <b>7,411,875</b> | <b>10,740,536</b> | <b>11,420,103</b> |
| <b>Overall total<br/>Consolidated</b> | <b>5,199,471</b> | <b>8,856,104</b> | <b>14,055,575</b> | <b>15,179,280</b> |

(1) Net balance of the Restructured Debt comprising the bonds at par and discounted, with balance of R\$ 144,396, less the amounts given as Deposits in guarantee, with balance of R\$ 121,206. Interest rates vary from 2 to 8% p.a.; six-month Libor plus spread of 0.81% to 0.88% p.a.

(2) Cemig Geração e Transmissão

(3) Cemig Distribuição

(4) CemigTelecom

(5) Gasmig;

(6) FIC Pampulha has financial investments in securities issued by subsidiary companies of the Company. For more information and characteristics of the fund, see Note 27.

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

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**Table of Contents****Guarantees**

The debtor balance of loans and financings is guaranteed as follows:

| <b>R\$ 000</b>                | <b>Sep. 30,<br/>2017</b> |
|-------------------------------|--------------------------|
| Promissory Notes and Sureties | 10,310,897               |
| Receivables                   | 1,399,655                |
| Shares                        | 1,947,197                |
| Without guarantee             | 397,826                  |
| <b>TOTAL</b>                  | <b>14,055,575</b>        |

The composition of loans, financings and debentures, by currency and indexor, with the respective amortization, is as follows:

| <b>Consolidated R\$ 000</b>        | <b>2017</b>      | <b>2018</b>      | <b>2019</b>      | <b>2020</b>      | <b>2021</b>      | <b>2022</b>    | <b>2023</b>    | <b>After 2023</b> | <b>Total</b>      |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|----------------|----------------|-------------------|-------------------|
| <b>Currency</b>                    |                  |                  |                  |                  |                  |                |                |                   |                   |
| US dollar                          | 3,021            |                  |                  |                  |                  |                |                | 20,169            | 23,190            |
| Euros                              | 1,997            | 3,939            | 193              |                  |                  |                |                |                   | 6,129             |
| <b>Total, currency denominated</b> | <b>5,018</b>     | <b>3,939</b>     | <b>193</b>       |                  |                  |                |                | <b>20,169</b>     | <b>29,319</b>     |
| <b>Indexors</b>                    |                  |                  |                  |                  |                  |                |                |                   |                   |
| IPCA index (1)                     | 369,476          | 141,642          | 640,175          | 812,065          | 811,619          | 541,688        | 218,379        | 436,856           | 3,971,900         |
| Ufir / RGR (2)                     | 4,806            | 16,357           | 12,912           | 11,210           | 3,407            | 3,264          | 2,379          |                   | 54,333            |
| CDI Rate (3)                       | 3,197,710        | 3,694,695        | 1,163,134        | 951,657          | 758,533          |                |                |                   | 9,765,722         |
| RTJ / TJLP (4)                     | 7,609            | 40,809           | 38,455           | 38,647           | 38,202           | 38,336         | 7,833          | 20,236            | 230,127           |
| GP DI (5)                          | 1,486            | 375              | 377              | 603              | 54               | 508            | 508            | 254               | 4,166             |
| <b>Total governed by indexors</b>  | <b>3,581,087</b> | <b>3,893,878</b> | <b>1,855,053</b> | <b>1,814,182</b> | <b>1,611,815</b> | <b>583,796</b> | <b>229,099</b> | <b>457,346</b>    | <b>14,026,250</b> |
| <b>Overall total</b>               | <b>3,586,105</b> | <b>3,897,817</b> | <b>1,855,246</b> | <b>1,814,182</b> | <b>1,611,815</b> | <b>583,796</b> | <b>229,099</b> | <b>477,515</b>    | <b>14,055,575</b> |

(1) Expanded National Consumer Price (IPCA) Index.

(2) Fiscal Reference Unit (Ufir / RGR).

(3) CDI: Interbank Rate for Certificates of Deposit.

(4) URTJ: Interest rate reference unit.

(5) IGP-DI ( General Domestic Availability ) Price Index.

The principal currencies and indexors used for monetary updating of loans and financings had the following variations:

| Currency  | Accumulated variation | Accumulated variation | Indexor | Accumulated variation | Accumulated variation |
|-----------|-----------------------|-----------------------|---------|-----------------------|-----------------------|
|           | in 9M17, %            | in 9M16, %            |         | in 9M17, %            | in 9M16, %            |
| US dollar | (2.80)                | (16.87)               | IPCA    | 1.78                  | 5.51                  |
| Euros     | 8.86                  | (14.16)               | CDI     | 8.03                  | 10.42                 |

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Changes in loans, financings and debentures were as follows:

| <b>R\$ 000</b>                                       | <b>Consolidated</b> |
|--|---------------------|
| <b>Balance on December 31, 2015</b>                  | <b>15,166,537</b>   |
| Loans and financings obtained                        | 2,933,271           |
| Transaction costs                                    | (74,627)            |
| Financings obtained net of transaction costs         | 2,858,644           |
| Monetary and exchange rate variation                 | 216,243             |
| Borrowing costs provisioned                          | 1,504,865           |
| Amortization of transaction cost                     | 47,471              |
| Borrowing costs paid                                 | (1,320,119)         |
| Amortization of financings                           | (2,106,248)         |
| <b>Subtotal</b>                                      | <b>16,368,031</b>   |
| ( ) FIC Pampulha: Securities of subsidiary companies | (98,980)            |
| <b>Balance at September 30, 2016</b>                 | <b>16,269,051</b>   |
| <b>Balance at December 31, 2016</b>                  | <b>15,179,280</b>   |
| Loans and financings obtained                        | 60,870              |
| Transaction costs                                    | (762)               |
| Financings obtained net of transaction costs         | 60,108              |
| Monetary and exchange rate variation                 | 73,833              |
| Borrowing costs provisioned                          | 1,217,735           |
| Amortization of transaction cost                     | 41,090              |
| Borrowing costs paid                                 | (998,967)           |
| Amortization of financings                           | (1,506,459)         |
| <b>Subtotal</b>                                      | <b>14,066,620</b>   |
| ( ) FIC Pampulha: Securities of subsidiary companies | (11,045)            |
| <b>Balance at September 30, 2017</b>                 | <b>14,055,575</b>   |

**Borrowing costs capitalized**

The subsidiaries transferred to Intangible assets the costs of loans and financings linked to works, as follows:

| <b>R\$ 000</b>                                   | <b>9M17</b> | <b>9M16</b> |
|--|-------------|-------------|
| Costs of loans and financings                    | 1,217,735   | 1,504,865   |
| Financial costs transferred to Intangible assets | (56,851)    | (120,398)   |

|                              |           |           |
|------------------------------|-----------|-----------|
| Net effect in Profit or loss | 1,160,884 | 1,384,467 |
|------------------------------|-----------|-----------|

The value of the charges capitalized, R\$ 56,851 (R\$ 120,398 in 2016), has been excluded from the Statement of cash flows, in the additions to Cash flow from investment activities, because it does not represent an outflow of cash for acquisition of the related asset.

The average rate applied to capitalization of the loans and financings whose costs were transferred to works was 11.07% in 9M17 and 13.13% in 9M16.

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**Table of Contents****Funding raised**

This table shows the funding raised, on Consolidated basis, in 9M17:

| Financing source          | Signature date   | Principal maturity | Annual financial cost, % | Amount(*)     |
|---------------------------|------------------|--------------------|--------------------------|---------------|
|                           |                  |                    |                          | R\$ 000       |
| <b>Brazilian currency</b> |                  |                    |                          |               |
| Debentures (1)            | November 4, 2013 | 2022               | CDI + 0.74%              | 33,870        |
| Debentures (2)            | April 22, 2017   | 2019               | 128.50% of CDI           | 26,238        |
| <b>Total raised</b>       |                  |                    |                          | <b>60,108</b> |

\* Net of funding cost.

(1) Subscription by BNDESPar of Gasmig's fourth Debenture Issue, in June 2017, to support the plan for investment in expansion of the gas distribution network.

(2) Cemig Telecom completed its second issue of non-convertible debentures in May 2017 with real guarantees and additional surety, in a single series, to roll over debt and strengthen cash position.

**Debentures**

The debentures issued by the Company's subsidiaries are not convertible into shares, and have the following characteristics:

| Issuer                         | Type of guarantee     | Annual cost, %      | Maturity | Sep. 30, 2017 | Dec. 31, 2016 |
|--------------------------------|-----------------------|---------------------|----------|---------------|---------------|
| Cemig GT 3rd Issue 1st Series  | Unsecured             | CDI Rate + 0.90%    | 2017     |               | 543.208       |
| Cemig GT 3rd Issue 2nd Series  | Unsecured             | IPCA + 6.00%        | 2019     | 294.195       | 293.122       |
| Cemig GT 3rd Issue 3rd Series  | Unsecured             | IPCA + 6.20%        | 2022     | 986.617       | 983.506       |
| Cemig GT 5th Issue, 1st Series | Unsecured             | CDI + 1.70%         | 2018     | 1.544.159     | 1.411.295     |
| Cemig D 6th Issue 1st Series   | Surety                | CDI + 1.60%         | 2018     | 495.573       | 1.037.973     |
| Cemig D 6th Issue 2nd Series   | Surety                | IPCA + 8.07%        | 2020     | 31.133        | 31.117        |
| Cemig GT 7th Issue 1st Series  | Receivables (Revenue) | 140.00% of CDI Rate | 2021     | 2.205.811     | 2.196.841     |



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|  |               |             |                   |      |                   |                   |
|--|---------------|-------------|-------------------|------|-------------------|-------------------|
| Cemig D  | 2nd Issue     | None        | IPCA + 7.96%      | 2017 | 253.769           | 235.136           |
| Cemig D Series   | 3rd Issue 2nd | Surety      | IPCA + 4.70%      | 2021 | 1.505.710         | 1.495.108         |
| Cemig D Series   | 3rd Issue 3rd | Surety      | IPCA + 5.10%      | 2025 | 900.291           | 894.918           |
| Cemig D Series   | 3rd Issue 1st | Surety      | CDI + 0.69%       | 2018 | 438.571           | 463.880           |
| Cemig D  | 4th Issue     | Surety      | CDI + 4.05%       | 2018 | 1.792.531         | 1.597.690         |
| Gasmig   |               | Unsecured   | CDI + 1.60%       | 2018 | 100.412           | 100.629           |
| Gasmig   |               | Unsecured   | CDI + 0.74%       | 2018 | 33.351            | 66.706            |
| Gasmig   |               |             | TJLP+1.82% (75%); |      |                   |                   |
|  |               | Unsecured   | Selic+1.82% (25%) | 2022 | 157.556           | 133.502           |
| CemigTelecom   |               | Receivables | 128.50% of CDI    | 2019 | 26.492            |                   |
| <b>Subtotal</b>  |               |             |                   |      | <b>10.766.171</b> | <b>11.484.631</b> |
| ( ) FIC Pampulha:<br>Securities of subsidiary<br>companies |               |             |                   |      | (25.635)          | (64.528)          |
| <b>TOTAL</b>   |               |             |                   |      | <b>10.740.536</b> | <b>11.420.103</b> |

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For the debentures issued by the Company, there are no renegotiation clauses, nor debentures held in treasury. There is an early maturity clause for cross-default in the event of non-payment of any pecuniary obligation with individual or aggregate value greater than R\$ 50 million.

**Restrictive covenants**

The Company has contracts with covenants linked to financial indices, as follows:

| <b>Title</b>   | <b>Parameter</b>   | <b>Issuer ratio required</b>   | <b>Ratio required<br/>Cemig<br/>(guarantor)</b>                                      | <b>Required compliance frequency</b> |
|--|--|--|--|--------------------------------------|
| BNDES financing GT (1)   | Stockholders equity of Guarantor / Total assets of Guarantor                 | Maximum:<br>5.5 in 2017<br>5.0 in 2018<br>4.5 in 2019                                | 30% or more<br>Maximum:<br>4.5 in 2017<br>4.25 in 2018<br>3.5 in 2019                | Annual                               |
| Banco do Brasil Credit Note and fixed credit line Cemig GT (2) | Net debt / (Ebitda + Dividends received)                                     | 3.0 in 2020<br>2.5 in 2021-<br>Maximum:<br>5.5 in 2017<br>5.0 in 2018<br>4.5 in 2019 | 3.0 in 2020<br>2.5 in 2021<br>Maximum:<br>4.5 in 2017<br>4.25 in 2018<br>3.5 in 2019 | Half-yearly, from December 2017      |
| 7th debenture issue GT (3)                                     | Net debt / (Ebitda + Dividends received)<br>Total liabilities / Total assets | 3.0 in 2020<br>2.5 in 2021<br>Less than 0.6  | 3.0 in 2020<br>2.5 in 2021   | Half-yearly, from June 2017          |
| Debentures (Gasmig) (4)  | Ebitda / Debt servicing  | 1.3 or more  |  | Annual                               |

- (1) If the Company does not achieve the required ratio, it will have six months from the end of the business year in which the ratio was found, to:
    - (i) constitute real guarantees which in the assessment of the BNDES represent 130.00% of the value of the debtor balance of the contract; or
    - (ii) present an interim balance sheet, by a CVM-registered auditor, indicating return to the index required.
  - (2) Through contractual amendments, a further early maturity clause was added to Cemig GT's Bank Credit Notes and Fixed Credit Line with Banco do Brasil S.A., requiring compliance with a financial ratio similar to that demanded by the 7th Debenture Issue.
  - (3) 7<sup>th</sup> Issue of Debentures by Cemig GT, in December 2016, of R\$ 2,240,000.
  - (4) If Gasmig does not achieve the required ratio, Cemig shall, within 120 days from the date of notice in writing from BNDES or BNDESPar, constitute guarantees acceptable to the debenture holders for the total amount of the debt, subject to the rules of the National Monetary Council (CMN), unless the required ratios are restored within that period. Cross-default: Certain contractually specified situations can cause early maturity of other debts.
- The covenant requiring half-yearly compliance relating to the financial ratio for GT (issuer) and Cemig (guarantor) was complied with on June 30, 2017.

The covenants requiring compliance annually were complied with on December 31, 2016.

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**Table of Contents****21. REGULATORY CHARGES**

| <b>R\$ 000</b>   | <b>Consolidated</b> |                |
|--|---------------------|----------------|
|  | <b>9M17</b>         | <b>9M16</b>    |
| <b>Current assets</b>                                  |                     |                |
| Credits owed by Eletrobras (1)                         |                     | 48,379         |
|  |                     | <b>48,379</b>  |
| <b>Liabilities</b>                                     |                     |                |
| Global Reversion Reserve (RGR)                         | 46,217              | 34,659         |
| Energy Development Account (CDE)                       | 180,823             | 189,330        |
| Aneel inspection charge                                | 2,171               | 2,877          |
| Energy Efficiency                                      | 337,251             | 287,571        |
| Research and development                               | 271,228             | 233,560        |
| Energy System Expansion Research                       | 1,419               | 2,724          |
| National Scientific and Technological Development Fund | 2,546               | 5,146          |
| Proinfra Alternative Energy Program                    | 6,778               | 7,720          |
| Royalties for use of water resources                   | 16,244              | 23,404         |
| Emergency capacity charge                              | 30,996              | 30,996         |
| Consumer charges Flag Tariff amounts                   | 16                  | 17,224         |
|  | <b>895,689</b>      | <b>835,211</b> |
| <b>Current liabilities</b>                             | <b>351,246</b>      | <b>380,586</b> |
| <b>Non-current liabilities</b>                         | <b>544,443</b>      | <b>454,625</b> |

(1) Cemig GT requested from Aneel a review of the amounts paid for the RGR Contribution in previous business years, due to the basis of calculation used at the time for calculation of the charge. Cemig GT recognized the right to recover the amount paid in excess, to be offset against RGR payable, only after the conclusion, in 2016, of a judgment by Aneel, as per Aneel Technical Note 162/2016, which accepted Cemig GT's claim. On September 30, 2017 the RGR payable is presented net of the remaining balance receivable, of R\$ 15,073.

**22. POST-RETIREMENT OBLIGATIONS**

Changes in net liabilities were as follows:

| <b>Holding company R\$ 000</b> | <b>Total</b> |
|--------------------------------|--------------|
|--------------------------------|--------------|

|   | <b>Pension plans and retirement supplement plans</b> | <b>Health Plan</b> | <b>Dental Plan</b> | <b>Life insurance</b> |                   |
|---|--|--------------------|--------------------|-----------------------|-------------------|
| <b>Net liabilities on December 31, 2015</b>   | <b>199,183</b>                                       | <b>74,034</b>      | <b>1,958</b>       | <b>28,016</b>         | <b>303,191</b>    |
| Expense recognized in Profit and loss account | 20,817   | 7,604              | 206                | 2,831                 | 31,458            |
| Contributions paid                            | (4,664)  | (4,172)            | (104)              | (536)                 | (9,476)           |
| <b>Net liabilities on September 30, 2016</b>  | <b>215,336</b>                                       | <b>77,466</b>      | <b>2,060</b>       | <b>30,311</b>         | <b>325,173</b>    |
| <b>Net liabilities on December 31, 2016</b>   | <b>257,933</b>                                       | <b>95,655</b>      | <b>2,452</b>       | <b>41,424</b>         | <b>397,464</b>    |
| Expense recognized in Profit and loss account | 20,338   | 7,828              | 207                | 3,490                 | 31,863            |
| Contributions paid                            | (5,838)  | (4,898)            | (118)              | (278)                 | (11,132)          |
| <b>Net liabilities on September 30, 2017</b>  | <b>272,433</b>                                       | <b>98,585</b>      | <b>2,541</b>       | <b>44,636</b>         | <b>418,195</b>    |
|   |  |                    |                    | <b>30/09/2017</b>     | <b>31/12/2016</b> |
| <b>Current liabilities</b>                    |  |                    |                    | 12,584                | 11,143            |
| <b>Non-current liabilities</b>                |  |                    |                    | 405,611               | 386,321           |

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| Consolidated R\$ 000                             | Pension plans and retirement<br>supplement plans | Health<br>Plan   | Dental<br>Plan | Life<br>insurance | Total             |
|--|--|------------------|----------------|-------------------|-------------------|
| <b>Net liabilities on December 31,<br/>2015</b>  | <b>1,346,388</b>                                 | <b>1,323,516</b> | <b>30,090</b>  | <b>553,377</b>    | <b>3,253,371</b>  |
| Expense recognized in Profit and<br>loss account | 139,289  | 136,805          | 3,111          | 56,160            | 335,365           |
| Contributions paid                               | (94,770)   | (68,034)         | (1,681)        | (9,246)           | (173,731)         |
| <b>Net liabilities on September 30,<br/>2016</b> | <b>1,390,907</b>                                 | <b>1,392,287</b> | <b>31,520</b>  | <b>600,291</b>    | <b>3,415,005</b>  |
| <b>Net liabilities on December 31,<br/>2016</b>  | <b>1,679,154</b>                                 | <b>1,710,787</b> | <b>37,549</b>  | <b>813,921</b>    | <b>4,241,411</b>  |
| Expense recognized in Profit and<br>loss account | 130,471  | 141,947          | 3,128          | 66,472            | 342,018           |
| Contributions paid                               | (118,638)  | (76,868)         | (1,816)        | (5,768)           | (203,090)         |
| <b>Net liabilities on September 30,<br/>2017</b> | <b>1,690,987</b>                                 | <b>1,775,866</b> | <b>38,861</b>  | <b>874,625</b>    | <b>4,380,339</b>  |
|  |  |                  |                | <b>30/09/2017</b> | <b>31/12/2016</b> |
| <b>Current liabilities</b>                       |  |                  |                | 224,137           | 198,867           |
| <b>Non-current liabilities</b>                   |  |                  |                | 4,156,202         | 4,042,544         |

The amounts recorded as Current liabilities refer to the contributions to be made by Cemig and its subsidiaries in the next 12 months for amortization of the actuarial liabilities.

The amounts reported as expenses in the Consolidated profit and loss account refer to the tranches of post-employment obligations, totaling R\$ 293,617 (R\$ 248,583 for 9M16), plus the financial costs and monetary updating on the debt agreed with Forluz, in the amount of R\$ 48,401 (R\$ 86,782 in 9M16).

**Contract for solution to the deficit on Forluz Pension Plan A**

In May 2017 Forluz and the sponsors Cemig, Cemig GT and Cemig D signed an Instrument of Assumption of Debt for Coverage of Deficit in accordance with the deficit solution plan for Plan A (the Retirement Benefits Balances Plan) approved by the Governing Council of Forluz on December 15, 2016.

On September 30, 2017 the total amount payable by Cemig and its subsidiaries as a result of the deficit found in Plan A is R\$ 284,166, with monthly amortizations up to June 2031, calculated by the system of constant installments (known as the Price Table ).

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Remuneratory interest applicable to the outstanding balance is 6% p.a., plus the effect of the IPCA (Expanded National Consumer Price) index published by the IBGE.

If the plan reaches actuarial balance before the full period of amortization of the contract, the Company is dispensed from payment of the remaining installments and the contract is extinguished.

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**Table of Contents****23. PROVISIONS**

The Company and its subsidiaries are parties in certain legal and administrative proceedings before various courts and government bodies, arising in the normal course of business, regarding employment-law, civil, tax, environmental and regulatory matters, and other issues.

The Company and its subsidiaries have made provisions as follows for contingencies relating to legal actions in which the Company and its legal advisors have assessed the chances of loss as probable (i.e. an outflow of funds to settle the obligation will be necessary):

| R\$ 000              | Consolidated   |                |                  |                 | Sep. 30, 2017  |
|----------------------|----------------|----------------|------------------|-----------------|----------------|
|                      | Dec. 31, 2016  | Additions      | Reversals        | Settled         |                |
| Employment-law cases | 349,273        | 191,670        | (3,657)          | (47,727)        | 489,559        |
| Civil cases          |                |                |                  |                 |                |
| Consumer relations   | 14,741         | 11,856         | (1,320)          | (11,855)        | 13,422         |
| Other civil actions  | 40,443         | 7,844          | (238)            | (4,274)         | 43,775         |
|                      | <b>55,184</b>  | <b>19,700</b>  | <b>(1,558)</b>   | <b>(16,129)</b> | <b>57,197</b>  |
| Tax                  | 69,922         | 6,033          | (3,632)          | (588)           | 71,735         |
| Environmental        | 39             | 4              |                  |                 | 43             |
| Regulatory           | 43,100         | 2,833          | (13,811)         | (766)           | 31,356         |
| Corporate            | 239,445        |                | (239,445)        |                 |                |
| Other                | 58,054         | 8,863          |                  | (2,834)         | 64,083         |
| <b>Total</b>         | <b>815,017</b> | <b>229,103</b> | <b>(262,103)</b> | <b>(68,044)</b> | <b>713,973</b> |

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| <b>R\$ 000</b>       | <b>Consolidated</b>  |                  |                  |                 |                      |
|----------------------|----------------------|------------------|------------------|-----------------|----------------------|
|                      | <b>Dec. 31, 2015</b> | <b>Additions</b> | <b>Reversals</b> | <b>Settled</b>  | <b>Sep. 30, 2016</b> |
| Employment-law cases | 289,841              | 73,343           | (3,380)          | (34,613)        | 325,191              |
| Civil cases          |                      |                  |                  |                 |                      |
| Consumer relations   | 17,378               | 12,900           | (490)            | (10,860)        | 18,928               |
| Other civil actions  | 28,792               | 16,398           | (76)             | (3,461)         | 41,653               |
|                      | 46,170               | <b>29,298</b>    | <b>(566)</b>     | <b>(14,321)</b> | <b>60,581</b>        |
| Tax                  | 69,014               | 3,832            | (1,216)          | (763)           | 70,867               |
| Environmental        | 60                   | 38               | (59)             | (1)             | 38                   |
| Regulatory           | 45,180               | 5,475            | (1,611)          | (1,995)         | 47,049               |
| Corporate            | 268,953              |                  | (29,502)         |                 | 239,451              |
| Other                | 35,355               | 33,133           | (4,038)          | (7,359)         | 57,091               |
| <b>Total</b>         | <b>754,573</b>       | <b>145,119</b>   | <b>(40,372)</b>  | <b>(59,052)</b> | <b>800,268</b>       |

| <b>R\$ 000</b>       | <b>Holding company</b> |                  |                  |                |                      |
|----------------------|------------------------|------------------|------------------|----------------|----------------------|
|                      | <b>Dec. 31, 2016</b>   | <b>Additions</b> | <b>Reversals</b> | <b>Settled</b> | <b>Sep. 30, 2017</b> |
| Employment-law cases | 34,928                 | 15,569           | (3,016)          | (6,039)        | 41,442               |
| Civil cases          |                        |                  |                  |                |                      |
| Consumer relations   | 1,435                  | 8                | (26)             | (8)            | 1,409                |
| Other civil actions  | 3,238                  | 771              | (31)             | (44)           | 3,934                |
|                      | <b>4,673</b>           | <b>779</b>       | <b>(57)</b>      | <b>(52)</b>    | <b>5,343</b>         |
| Tax                  | 8,869                  | 4,170            | (2,817)          | (255)          | 9,967                |
| Regulatory           | 21,614                 |                  | (4,241)          |                | 17,373               |
| Corporate            | 239,445                |                  | (239,445)        |                |                      |
| Other                | 466                    | 714              | (1)              | (45)           | 1,134                |
| <b>Total</b>         | <b>309,995</b>         | <b>21,232</b>    | <b>(249,577)</b> | <b>(6,391)</b> | <b>75,259</b>        |

| <b>R\$ 000</b>       | <b>Holding company</b> |                  |                  |                |                      |
|----------------------|------------------------|------------------|------------------|----------------|----------------------|
|                      | <b>Dec. 31, 2015</b>   | <b>Additions</b> | <b>Reversals</b> | <b>Settled</b> | <b>Sep. 30, 2016</b> |
| Employment-law cases | 29,169                 | 11,463           |                  | (5,578)        | 35,054               |
| Civil cases          |                        |                  |                  |                |                      |
| Consumer relations   | 3,294                  | 5                | (491)            |                | 2,808                |
| Other civil actions  | 1,289                  | 2,208            | (75)             | (45)           | 3,377                |
|                      | <b>4,583</b>           | <b>2,213</b>     | <b>(566)</b>     | <b>(45)</b>    | <b>6,185</b>         |

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|              |                |               |                 |                |                |
|--------------|----------------|---------------|-----------------|----------------|----------------|
| Tax          | 10,306         | 1,283         | (1,078)         | (681)          | 9,830          |
| Regulatory   | 21,696         | 1,157         | (1,611)         | (89)           | 21,153         |
| Corporate    | 268,953        |               | (29,502)        |                | 239,451        |
| Other        | 427            | 87            | (1)             | (24)           | 489            |
| <b>Total</b> | <b>335,134</b> | <b>16,203</b> | <b>(32,758)</b> | <b>(6,417)</b> | <b>312,162</b> |

In view of the long periods involved in, and the manner of working of, the Brazilian judiciary, tax and regulatory systems, the managements of the Company and its subsidiaries believe that it is not possible in practice to supply information that would be useful to the users of these interim financial statements about the time when any cash outflows, or any reimbursements, might take place in fact. The Company and its subsidiaries believe that any disbursements in excess of the amounts provisioned, when the respective processes are completed, will not significantly affect the Company's result of operations or financial position.

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The details on the principal provisions and contingent liabilities are given below, these being the best estimates of expected future disbursements for these contingencies:

**Provisions, made for legal actions in which the chances of loss have been assessed as probable ; and Contingent liabilities, for actions in which the chances of loss are assessed as possible .**

### Employment-law cases

The Company and its subsidiaries are parties in various legal actions brought by its employees and by employees of service providing companies. Most of these claims relate to overtime and additional pay, severance payments, various benefits, salary adjustments and the effects of such items on a supplementary retirement plan. In addition to these actions, there are others relating to outsourcing of labor, complementary additions to or re-calculation of retirement pension payments by Forluz, and salary adjustments.

The aggregate amount of these contingencies is approximately R\$ 1,556,075 (R\$ 1,543,946 on December 31, 2016), of which R\$ 489,559 (R\$ 349,273 on December 31, 2016) has been provisioned the amount estimated as probably necessary for settlement of these disputes.

### Consumer relations

The Company and its subsidiaries are parties in various civil actions relating to indemnity for pain and suffering and for material damages, arising, principally, from allegations of irregularity in measurement of consumption, and claims of undue charging, in the normal course of business, totaling R\$ 38,765 (R\$ 33,178 on December 31, 2016), of which R\$ 13,422 (R\$ 14,741 on December 31, 2016) has been provisioned this being the probable estimate for funds needed to settle these disputes.

### Other civil cases

Cemig and its subsidiaries are parties in various civil actions claiming indemnity for pain and suffering and for material damages, among others, arising from incidents occurring in the normal course of business, in the amount of R\$ 241,156 (R\$ 227,043 on December 31, 2016), of which R\$ 43,775 (R\$ 40,443 on December 31, 2016) has been provisioned the amount estimated as probably necessary for settlement of these disputes.

### Tax

The Company and its subsidiaries are parties in numerous administrative and court actions relating to taxes, including, among other matters, subjects relating to the ICMS (Value Added) tax on goods and services; the Urban Property Tax (*Imposto sobre a Propriedade Territorial Urbana*, or IPTU); the Rural Property Tax (ITR); the Tax on Donations and Legacies (ITCD); the Social Integration Program (*Programa de Integração Social*, or PIS); the Contribution to Finance Social Security (*Contribuição para o Financiamento da Seguridade Social*, or Cofins); Corporate Income Tax (*Imposto de Renda Pessoa Jurídica*, or IRPJ); the Social Contribution Tax (*Contribuição Social sobre o Lucro Líquido*, or CSLL); and applications to stay execution on tax matters. The aggregate amount of the contingency is approximately R\$ 338,287 (R\$ 295,373 on December 31, 2016), of which R\$ 71,735 (R\$ 69,922 on December 31, 2016) has been provisioned the amount estimated as probably necessary for settlement of these disputes.

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### Environmental

The Company and its subsidiaries are involved in environmental matters, in which the subjects include protected areas, environmental licenses, recovery of environmental damage, and other matters, in the approximate total amount of R\$ 14,312 (R\$ 34,031 on December 31, 2016), of which R\$ 43 (R\$ 39 on December 31, 2016) has been provisioned the amount estimated as probably necessary for settlement of these disputes.

### Regulatory

The Company and its subsidiaries are parties in numerous administrative and court proceedings, challenging, principally: (i) tariff charges in invoices for use of the distribution system by a self-producer; (ii) alleged violation of targets for continuity indicators in retail supply of electricity; and (iii) the tariff increase made during the federal government's economic stabilization plan referred to as the Cruzado Plan, in 1986. The aggregate amount of the contingency is approximately R\$ 242,386 (R\$ 235,886 on December 31, 2016), of which R\$ 31,356 (R\$ 43,100 on December 31, 2016) has been provisioned the amount estimated as probably necessary for settlement of these disputes.

### Corporate

#### *Difference of monetary updating on the Advance against Future Capital Increase (AFAC) made by the Minas Gerais State Government*

On December 19, 2014 the Finance Secretary of Minas Gerais State sent an Official Letter to Cemig requesting recalculation of the amounts relating to the Advances against Future Capital Increase made in 1995, 1996, and 1998, which were returned to Minas Gerais State in December 2011, for review of the criterion used by the Company for monetary updating, arguing that application of the Selic rate would be more appropriate, replacing the IGP-M index.

On December 29, 2014 the Company made an administrative deposit applying for suspension of enforceability of the credit being requested by the state, and for its non-inclusion in the Register of Debts owed to the state and in the Registry of Defaulted Payments owed to the State (Cadin).

In the nine-month period ended on September 30, 2017, the management developed negotiations with the State of Minas Gerais and on October 25, 2017, a Debt Recognition Undertaking was signed with the State of Minas Gerais, through its Financial Department, and by Cemig, under which the State undertook to return to the company the total amount deposited, with monetary updating by the IGP-M inflation index. In view of this new situation, the probability of loss was reassessed to remote. Therefore, the Company made a reversion provision of R\$239,445 considering there is no expectation related to future outflows to settle the obligation that was previously recorded in the future. More details on note 11.

### Other legal actions in the normal course of business

#### *Breach of contract Power line pathways and accesses cleaning services contract*

The Company and its subsidiaries are parties in disputes alleging losses suffered as a result of supposed breaches of contract at the time of provision of services of cleaning of power line pathways and firebreaks. The amount

provisioned is R\$ 30,808 (R\$ 28,389 at December 31, 2016), this being estimated as the likely amount of funds necessary to settle this dispute.

*Other legal actions*

The Company and its subsidiaries are parties in a lawsuit disputing the removal of residents in areas of access to transmission lines or under transmission line towers. The amount provisioned is R\$ 23,286 (R\$ 21,407 at December 31, 2016), estimated as the likely amount of funds necessary to settle this dispute, based on the opinion of the Company's legal advisors.

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

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In addition to the issues described above, the Company is involved, on plaintiff or defendant side, in other cases, of smaller scale, related to the normal course of its operations, with an estimated total amount of R\$ 170,045 (R\$ 129,563 on December 31, 2016), of which R\$ 9,989 (R\$ 8,297 on December 31, 2016) the amount estimated as probably necessary for settlement of these disputes has been provisioned. Management believes that it has appropriate defense for these actions, and does not expect these issues to give rise to significant losses that could have an adverse effect on the Company's financial position or profit.

**Contingent liabilities for cases in which the chances of loss are assessed as possible, and the company believes it has arguments of merit for legal defense**

**Tax and similar charges**

The Company and its subsidiaries are parties in numerous administrative and court proceedings in relation to taxes. Below are details of the principal cases:

*Indemnity of employees future benefit (the Anuênio)*

In 2006 the Company paid an indemnity to its employees, totaling R\$ 177,686, in exchange for rights to future payments (referred to as the Anuênio) for time of service, which would otherwise be incorporated, in the future, into salaries. The Company and its subsidiaries did not pay income tax nor Social Security contributions in relation to these amounts because it considered that those obligations are not applicable to amounts paid as an indemnity. However, to avoid the risk of a future fine, the Company decided to apply for orders of *mandamus*, which permitted payment into Court of R\$ 121,834, which updated now represents the amount of R\$265,178 (R\$ 255,127 at December 31, 2016). This was posted in Escrow deposits in litigation. The updated amount of the contingency is R\$ 307,446 (R\$ 290,216 on December 31, 2016) and, based on the arguments above, management has classified the chance of loss as possible.

*Social Security contributions*

The Brazilian federal tax authority (*Secretaria da Receita Federal*) has brought administrative proceedings under various headings: employee profit shares; the Workers Food Program (*Programa de Alimentação do Trabalhador*, or PAT); education benefit; food benefit; Special Additional Retirement payment; overtime payments; hazardous occupation payments; matters related to Sest/Senat (transport workers support programs); and fines for non-compliance with accessory obligations. The Company and its subsidiaries have presented defenses and await judgment. The amount of the contingency is approximately R\$ 1,689,042 (R\$ 1,509,940 on December 31, 2016). Management has classified the chance of loss as possible, also taking into account assessment of the chance of loss in the judicial sphere (the cases mentioned are in the administrative sphere), based on the evaluation of the claims and the related case law.

*Non-homologation of offsetting of tax credit*

The federal tax authority did not ratify the Company's declared offsetting, in Corporate income tax returns, of carryforwards and undue or excess payment of federal taxes IRPJ, CSLL, PIS and Cofins identified by official tax deposit receipts (DARFs and DCTFs). The Company and its subsidiaries are contesting the non-homologation of the amounts offset. The amount of the contingency is R\$ 242,839 (R\$ 317,032 on December 31, 2016). The Company has

assessed the chance of loss as possible , since the relevant requirements of the National Tax Code (CTN) have been complied with.

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**Table of Contents***Corporate tax return (DIPJ) restitution and offsetting*

The Company was a party in an administrative case involving requests for restitution and compensation of credits arising from tax carryforward balances indicated in the corporate tax returns for the calendar years from 1997 to 2000, and also for excess payments identified by the corresponding tax payment receipts (DARFs and DCTFs). Due to completion of all appeals in the administrative sphere, an ordinary legal action has been filed, for the approximate total amount of R\$ 568,910 (R\$ 535,465 on December 31, 2016). The chances of loss in this action are assessed as possible, due to nullities in the conduct of the administrative proceedings and the understanding that mistaken assumptions were used by the inspectors in the administrative judgment, and also based on analysis of the Company's argument and documents of proof.

*Income tax withheld at source (IRRF) on a capital gain in a stockholding transaction*

The federal tax authority issued an infringement notice on Cemig as a jointly responsible party with its jointly-controlled entity Parati S.A. Participações em Ativos de Energia Elétrica (Parati), relating to withholding income tax (*Imposto de Renda Retido na Fonte*, or IRRF) allegedly applicable to returns paid by reason of a capital gain in a stockholding transaction relating to the purchase by Parati, and sale, by Enlighted, on July 7, 2011, of 100.00% of the equity interests in Luce LLC (a company with head office in Delaware, USA), holder of 75.00% of the shares in the Luce Brasil equity investment fund (FIP Luce), which was indirect holder, through Luce Empreendimentos e Participações S.A., of approximately 13.03% of the total and voting shares of Light S.A. (Light). The amount of the contingency is approximately R\$ 209,739 (R\$ 197,911 on December 31, 2016). The chance of loss has been assessed as possible.

*The Social Contribution tax on net profit (CSLL)*

The federal tax authority issued a tax infringement claim against the Company for the business years 2012 and 2013, alleging undue non-addition, or deduction, by the Company, of amounts relating to the following items in calculating the Social Contribution tax on net profit: (i) taxes with liability suspended; (ii) donations and sponsorship (Law 8313/91); and (iii) fines for various alleged infringements. The amount of this contingency is R\$ 276,810 (R\$ 279,914 on December 31, 2016). The Company has classified the chances of loss as possible, in accordance with the analysis of the case law on the subject.

*ICMS (value added) Tax*

The tax authority of Minas Gerais state has opened several administrative actions against Cemig D, raising a supposed divergence in the classification, for tax purposes, of certain consumers in the years 2011 through 2015. The amount of this contingency is R\$ 88,904 (R\$ 82,130 on December 31, 2016). The subsidiary has classified the chance of loss as possible, because it believes that it has arguments on the merit for defense in the court, and because of the absence of case law precedent.

**Regulatory matters***Public Lighting Contribution (CIP)*

Cemig and Cemig D are defendants in several public civil actions (class actions) claiming nullity of the clause in the Electricity Supply Contracts for public illumination signed between the Company and the various municipalities of its concession area, and restitution by the Company of the difference representing the amounts charged in the last 20 years, in the event that the courts recognize that these amounts were unduly charged. The actions are grounded on a supposed error by Cemig in the estimate of the period of time that was used in calculation of the consumption of electricity for public illumination, funded by the Public Lighting Contribution (*Contribuição para Iluminação Pública*, or CIP).

The Company and its subsidiaries believe they have arguments of merit for defense in these claims, since the charge at present made is grounded on Aneel Normative Resolution 456/2000. As a result it has not constituted a provision for this action, the amount of which is estimated at R\$ 1,239,409 (R\$ 1,304,705 on December 31, 2015). The Company has assessed the chances of loss in this action as possible, due to the Consumer Defense Code (*Código de Defesa do Consumidor*, or CDC) not being applicable, because the matter is governed by the specific regulation of the electricity sector, and because Cemig complied with Aneel Resolutions 414 and 456, which deal with the subject.

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**Table of Contents***Accounting of electricity sale transactions in the Electricity Trading Chamber (CCEE)*

In an action dating from August 2002, AES Sul Distribuidora challenged in the courts the criteria for accounting of electricity sale transactions in the wholesale electricity market (*Mercado Atacadista de Energia*, or MAE) (predecessor of the present Electricity Trading Chamber *Câmara de Comercialização de Energia Elétrica*, or CCEE), during the period of rationing, in 2001-2. It obtained an interim judgment in its favor in February 2006, which ordered Aneel, working with the CCEE, to comply with the claim by AES Sul and recalculate the settlement of the transactions during the rationing period, leaving out of account Aneel's Dispatch 288 of 2002. This was to be put into effect in the CCEE as from November 2008, resulting in an additional disbursement for Cemig GT, referring to the expense on purchase of electricity in the spot market on the CCEE, in the approximate amount of R\$ 279,904 (R\$ 263,847 on December 31, 2016). On November 9, 2008 Cemig GT obtained an interim remedy in the Regional Federal Appeal Court (Tribunal Regional Federal, or TRF) suspending the obligatory nature of the requirement to pay into court the amount that would have been owed under the Special Financial Settlement made by the CCEE.

Cemig GT has classified the chance of loss as possible, since this action deals with the General Agreement for the Electricity Sector, in which it has the full documentation to support its arguments.

*System Service Charges (ESS) – Resolution of the National Energy Policy Council*

Resolution 3 of the National Energy Policy Council (*Conselho Nacional de Política Energética*, or CNPE) of March 6, 2013 established new criteria for the prorating of the cost of additional dispatch of thermal plants. Under the new criteria, the costs of the System Service Charges for Electricity Security (*Encargos do Serviço do Sistema*, or ESS), which were previously prorated in full between Free Consumers and Distributors, was now to be prorated between all the agents participating in the National Grid System, including generators and traders.

In May 2013, the Brazilian Independent Electricity Producers Association (*Associação Brasileira dos Produtores Independentes de Energia Elétrica*, or Apine), of which Cemig GT is a member, obtained an interim court remedy suspending the effects of Articles 2 and 3 of CNPE Resolution 3, exempting generators from payment of the ESS under that Resolution.

As a result of the interim remedy, the CCEE carried out the financial settlement for transactions in April through December 2013 using the criteria prior to the said Resolution. As a result, Cemig GT recorded the costs of the ESS in accordance with the criteria for financial settlement published by the CCEE, without the effects of CNPE Resolution 3.

The applications by the plaintiff (Apine) were granted in the first instance, confirming the interim remedy granted in favor of its members, which include Cemig GT and its subsidiaries. This decision was the subject of an appeal, distributed to the 7th Panel of the Regional Federal Court (*Tribunal Federal Regional*, or TRF) of the 1st Region, in which judgment is awaited.

The amount of the contingency is approximately R\$ 195,280 (R\$ 182,232 on December 31, 2016). In spite of the successful judgment at first instance, the Association's legal advisers still considered the chances of loss in this contingency as possible. The Company agrees with this, since there are not yet elements to make it possible to foresee the outcome of the Appeal filed by the federal government.

Tariff increases

*Exclusion of consumers inscribed as low-income*

The Federal Public Attorneys Office filed a class action against the Company and Aneel, to avoid exclusion of consumers from classification in the *Low-income* Residential Tariff sub-category, requesting an order for Cemig D to pay 200% of the amount allegedly paid in excess by consumers. Judgment was given in favor of the plaintiffs, but the Company and Aneel have filed an interlocutory appeal and await judgment. The amount of the contingency is approximately R\$ 268,489 (R\$ 253,731 on December 31, 2016). Cemig D has classified the chances of loss as possible due to other favorable judgments on this theme.

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

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**Table of Contents***Periodic Tariff Adjustment – Neutrality of – Portion A*

The Municipal Association for Protection of the Consumer and the Environment (*Associação Municipal de Proteção ao Consumidor e ao Meio Ambiente*, or Amprocom) filed a class action against Cemig D and Aneel, requiring identification of all consumers allegedly damaged in the processes of Periodic Review and Annual Adjustment of tariffs in the period 2002 to 2009, and restitution, through credits on electricity bills, of any amounts unduly charged arising from non-inclusion in the distributor's non-manageable costs components (– Portion A – costs) of the impact of future variations in consumer electricity demand, and the allegedly undue inclusion of these gains in the distributor's manageable costs (– Portion B – costs), causing economic/financial imbalance of the contract. This is an action that could affect all distribution concession holders, which could thus lead to a new Electricity Sector Agreement.

As a result of a judgment being given in favor of Cemig D, and no appeal being made against that decision, the case has been written off (on December 31, 2016 the amount of the action was R\$ 316,675).

**Environmental issues***Impact arising from construction of power plants*

The Public Attorneys of Minas Gerais State, together with an association and individuals, have brought class actions requiring the Company to invest at least 0.5% of the annual gross operating revenue of the *Emborcação, Pissarrão, Funil, Volta Grande, Poquim, Paraúna, Miranda, Nova Ponte, Rio de Pedras* and *Peti* plants in environmental protection and preservation of the water tables of the counties where these power plants are located, and proportional indemnity for allegedly irrecoverable environmental damage caused, arising from omission to comply with Minas Gerais State Law 12503/1997. Cemig GT has filed appeals to the Higher Appeal Court (STJ) and the Federal Supreme Court (STF). Based on the opinions of its legal advisers, Cemig GT believes that this is a matter involving legislation at infra-constitutional level (there is a Federal Law with an analogous object) and thus a constitutional matter, on the issue of whether the state law is constitutional or not, so that the final decision is one for the national Higher Appeal Court (STJ) and the Federal Supreme Court (STF). No provision has been made, since based on the opinion of its legal advisors management has classified the chance of loss as – possible –. The amount of the contingency is R\$ 127,358 (R\$ 112,704 on December 31, 2016).

The Public Attorneys' Office of Minas Gerais State has filed class actions requiring the formation of a Permanent Preservation Area (APP) around the reservoir of the *Capim Branco* hydroelectric plant, suspension of the effects of the environmental licenses, and recovery of alleged environmental damage. Based on the opinion of its legal advisors in relation to the changes that have been made in the new Forest Code and in the case law on this subject, Cemig GT has classified the chance of loss in this dispute as – possible –. The estimated value of the contingency is R\$ 77,372 (R\$ 73,169 on December 31, 2016).

**Other contingent liabilities***Early settlement of the CRC (Earnings Compensation) Account*

The Company is a party in an administrative proceeding before the Audit Court of the State of Minas Gerais which challenges: (i) a difference of amounts relating to the discount offered by Cemig for early repayment of the credit owed to Cemig by the State under the Receivables Assignment Contract in relation to the CRC Account (*Conta de*

*Resultados a Compensar*, or Earnings Compensation Account) this payment was completed in the first quarter of 2013; and also (ii) possible undue financial burden on the State after the signature of the Amendments that aimed to re-establish the economic and financial balance of the Contract. The amount of the contingency is approximately R\$ 395,797 (R\$ 390,307 on December 31, 2016), and, based on the Opinion of the Public Attorneys Office of the Audit Board of the State of Minas Gerais, the Company believes that it has met the legal requirements. Thus, it has assessed the chances of loss as possible, since it believes that the adjustment was made in faithful obedience to the legislation applicable to the case.

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

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**Table of Contents***Contractual imbalance*

Cemig D is a party in disputes alleging losses suffered by third parties as a result of supposed breach of contract at the time of implementation of part of the rural electrification program known as *Luz para Todos* ( Light for Everyone ). The estimated amount is R\$ 253,279 (R\$ 236,703 on December 31, 2016). No provision has been made. Cemig D has classified the chances of loss as possible as a result of the analysis that has been made of the argument and documentation used by the contracted parties in attempting to make the Company liable for any losses that allegedly occurred.

The Parent company is also a party in other disputes arising from alleged non-compliance with contracts in the normal course of business, for an estimated total of R\$ 77,176 (R\$ 71,396 on December 31, 2016). Cemig D has classified the chance of loss as possible , after analysis of the case law on this subject.

*Irregularities in competitive tender proceedings*

Cemig D is a party in a dispute alleging irregularities in competitive tender proceedings, governed by an online invitation to bid. The estimated amount is R\$ 26,011 (R\$ 25,650 on December 31, 2016). No provision has been made. Cemig D has classified the chance of loss as possible , after analysis of the case law on this subject.

*Alteration of the monetary updating index of employment-law cases*

The Higher Employment-Law Appeal Court (*Tribunal Superior do Trabalho*, or TST), considering a position adopted by the Federal Supreme Court (*Supremo Tribunal Federal*, STF) in two actions on constitutionality that dealt with the index for monetary updating of federal debts, decided on August 4, 2015 that employment-law debts in actions not yet decided that discuss debts subsequent to June 30, 2009 should be updated based on the variation of the IPCA-E (Expanded National Consumer Price Index), rather than of the TR reference interest rate. On October 16, 2015 an interim injunction was given by the STF that suspended the effects of the TST decision, on the grounds that decisions on matters of general constitutional importance should be decided exclusively by the STF.

The estimated value of the difference between the monetary updating indices of the employment-law cases is R\$ 174,351 (R\$ 175,839 on December 31, 2016). No additional provision has been made, since the Company and its subsidiaries, based on the assessment by its legal advisers, has assessed the chances of loss in the action as possible , as a result of the decision by the STF, and of there being no established case law, nor analysis by legal writers on the subject after the injunction given by the Federal Supreme Court.

**24. EQUITY AND REMUNERATION TO STOCKHOLDERS**

The Company's registered share capital on September 30, 2017 is R\$ 6,294,208, in 420,764,708 common shares and 838,076,946 preferred shares, all with nominal value of R\$ 5.00.

**Profit (loss) per share**

The number of shares used in the calculation of basic and diluted profit (loss) per share is as follows:

| <b>Number of shares</b> | <b>9M17</b>          | <b>9M16</b>          | <b>3Q17</b>          | <b>3Q16</b>          |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
| Common shares           | 420,764,708          | 420,764,708          | 420,764,708          | 420,764,708          |
| Preferred shares        | 838,076,946          | 838,076,946          | 838,076,946          | 838,076,946          |
|                         | 1,258,841,654        | 1,258,841,654        | 1,258,841,654        | 1,258,841,654        |
| Shares in treasury      | (560,718)            | (560,718)            | (560,718)            | (560,718)            |
| <b>Total</b>            | <b>1,258,280,936</b> | <b>1,258,280,936</b> | <b>1,258,280,936</b> | <b>1,258,280,936</b> |

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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The following is the calculation of the basic and diluted profit per share:

|  | 9M17          | 9M16          | 3Q17          | 3Q16          |
|--|---------------|---------------|---------------|---------------|
| Net profit (loss) (A)                            | 397,182       | 640,833       | (83,666)      | 433,502       |
| Total number of shares (B)                       | 1,258,280,936 | 1,258,280,936 | 1,258,280,936 | 1,258,280,936 |
| <b>Basic and diluted profit (loss) per share</b> |               |               |               |               |
| <b>(A/B) R\$</b>                                 | 0.32          | 0.51          | (0.06)        | 0.34          |

The purchase and sale options of investments described in Note 14 could potentially dilute basic profit per share in the future; however, they have not caused dilution of profit per share in the periods presented here.

**Equity valuation adjustments**

|  | Consolidated     |                  |
|--|------------------|------------------|
|  | Sep. 30,<br>2017 | Dec. 31,<br>2016 |
| <b>Equity valuation adjustments R\$ 000</b>  |                  |                  |
| Adjustments to actuarial liabilities Employee benefits Parent company                              | (169,719)        | (169,719)        |
| Other comprehensive income in subsidiary and jointly-controlled entity                             |                  |                  |
| Deemed cost of PP&E  | 641,414          | 685,339          |
| Variation in the fair value of a financial asset available for sale in a jointly-controlled entity | 140              | 38,273           |
| Cumulative translation adjustments   | 397              | 398              |
| Adjustments to actuarial liabilities Employee benefits   | (1,048,192)      | (1,042,663)      |
| Cash flow hedge instruments  | 87               | 87               |
|  | (406,154)        | (318,566)        |
| <b>Equity valuation adjustments</b>  | <b>(575,873)</b> | <b>(488,285)</b> |

**Reserves**

The account lines Capital reserves and Profit reserves are made up as follows:

|  | Sep. 30,<br>2017 | Dec. 31,<br>2016 |
|--|------------------|------------------|
| <b>Capital reserves and shares in Treasury R\$ 000</b> |                  |                  |
| Investment-related subsidies                           | 1,856,628        | 1,856,628        |
| Goodwill on issuance of shares                         | 69,230           | 69,230           |
| Monetary updating of capital                           | 7                | 7                |

|                    |                  |                  |
|--------------------|------------------|------------------|
| Shares in treasury | (1,362)          | (1,362)          |
|                    | <b>1,924,503</b> | <b>1,924,503</b> |

The Reserve for investment-related donations and subsidies basically refers to the compensation by the federal government for the difference between the profitability obtained by Cemig up to March 1993 and the minimum return guaranteed by the legislation in effect at the time.

The reserve for treasury shares refers to the pass-through by Finor of shares arising from funds applied in Cemig projects in the area covered by Sudene (the development agency for the Northeast) under tax incentive programs.

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

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|  | <b>Sep. 30,<br/>2017</b> | <b>Dec. 31,<br/>2016</b> |
|--|--------------------------|--------------------------|
| <b>Profit reserves R\$ 000</b>                   |                          |                          |
| Legal Reserve                                    | 853,018                  | 853,018                  |
| Reserve under the by-laws                        | 57,214                   | 57,214                   |
| Retained Earnings reserve                        | 2,812,943                | 2,812,943                |
| Tax incentives reserve                           | 56,834                   | 56,834                   |
| Reserve for obligatory dividends not distributed | 1,419,846                | 1,419,846                |
|  | <b>5,199,855</b>         | <b>5,199,855</b>         |

**Legal reserve**

Constitution of the Legal Reserve is obligatory, up to the limits established by law. The purpose of the Reserve is to ensure the security of the share capital, its use being allowed only for offsetting of losses or increase in the share capital. The Company did not deposit in the Legal Reserve in 2013 due to its having reached its legal limit.

**Reserve under the by-laws**

The Reserve under the By-laws is for future payment of extraordinary dividends, in accordance with Clause 28 of the by-laws.

**Retained Earnings reserve**

The Retained Earnings reserve refers to profits not distributed in prior years, to guarantee execution of the Company's Investment Program, and amortizations of loans and financings. The retentions are supported by capital budgets approved by the Board of Directors in the periods in question.

**Reserve for obligatory dividends not distributed**

|  | <b>Sep. 30,<br/>2017</b> |
|--|--------------------------|
| Dividends withheld, arising from the profit for 2015 | 622,530                  |
| Dividends withheld, arising from the profit for 2014 | 797,316                  |
|  | <b>1,419,846</b>         |

These dividends were retained in Stockholders' equity, in the business years 2015 and 2014, in the account Reserve for obligatory dividends not distributed; and as per the proposal approved in the Annual General Meetings of 2016 and 2015, the dividends retained will be paid as soon as the Company's financial situation permits.

**Tax incentives reserve**

The federal tax authority (*Receita Federal*) recognized the Company's right to reduction of 75% in income tax, including the tax paid at the additional rate, calculated on the basis of the operating profit in the region of Sudene (the Development Agency for the Northeast), for 10 years starting in 2014. The amount of the Tax incentives reserve on September 30, 2017 was R\$ 56,834. This reserve cannot be used for payment of dividends.

Interest on capital and dividends

On June 27, 2017, the Company paid dividends and interest on capital in the amount of R\$270,261 that were approved on Ordinary and extraordinary shareholders meetings held on May 12, 2017. On September 30, 2017 remained the balance of R\$196,302 to be paid.

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**Table of Contents****25. REVENUE**

| <b>R\$ 000</b>  | <b>Consolidated</b> |                   |
|---|---------------------|-------------------|
|   | <b>9M17</b>         | <b>9M16</b>       |
| Revenue from supply of electricity (a)  | 17,387,754          | 17,315,733        |
| Revenue from use of the electricity distribution systems (TUSD) (b)<br><i>CVA, and Other financial components in tariff increases (c)</i> | 1,230,623           | 1,348,132         |
| Transmission revenue  |                     |                   |
| Transmission concession revenue (d)   | 221,422             | 228,030           |
| Transmission construction revenue (e)   | 11,226              | 36,405            |
| Transmission indemnity revenue (g)  | 295,749             | 692,211           |
| Generation Indemnity revenue (h)  | 259,516             |                   |
| Distribution construction revenue (e)   | 725,528             | 881,450           |
| Adjustment to expectation of cash flow from the indemnifiable Financial assets of the<br>distribution concession (j)                      | 2,277               | 6,638             |
| Gain on financial updating of the Concession Grant Fee (f)  | 240,420             | 212,185           |
| Transactions in electricity on the CCEE (i)   | 536,507             | 138,870           |
| Supply of gas   | 1,305,636           | 1,037,126         |
| Other operating revenues (k)  | 1,097,001           | 1,080,945         |
| (h) Taxes and charges applied to Revenue  | (8,308,094)         | (7,933,934)       |
| <b>Net operating revenue</b>  | <b>15,153,781</b>   | <b>14,106,738</b> |

| <b>R\$ 000</b>  | <b>Consolidated</b> |             |
|---|---------------------|-------------|
|   | <b>3Q17</b>         | <b>3Q16</b> |
| Revenue from supply of electricity (a)  | 5,815,621           | 5,787,568   |
| Revenue from use of the electricity distribution systems (TUSD) (b)<br><i>CVA, and Other financial components in tariff increases (c)</i> | 330,147             | 511,552     |
| Transmission revenue  |                     |             |
| Transmission concession revenue (d)   | 43,985              | 80,261      |
| Transmission construction revenue (e)   | 4,201               | 4,771       |
| Transmission indemnity revenue (g)  | 25,894              | 99,742      |
| Generation Indemnity revenue (h)  | 259,516             |             |
| Distribution construction revenue (e)   | 291,519             | 329,351     |
| Adjustment to expectation of cash flow from the indemnifiable Financial assets of the<br>distribution concession (j)                      | 766                 | 1,313       |
| Gain on financial updating of the Concession Grant Fee (f)  | 89,944              | 63,491      |
| Transactions in electricity on the CCEE (i)   | 111,330             | 87,198      |
| Supply of gas   | 484,491             | 339,634     |
| Other operating revenues (k)  | 379,369             | 374,093     |

|  |                  |                  |
|--|------------------|------------------|
| (h) Taxes and charges applied to Revenue | (3,181,073)      | (2,509,870)      |
| <b>Net operating revenue</b>             | <b>5,135,822</b> | <b>4,895,606</b> |

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

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**Table of Contents****a) Revenue from supply of electricity**

This table shows supply of electricity, and revenue from it, by type of consumer:

|  | MWh (1)           |                   | R\$ 000           |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 9M17              | 9M16              | 9M17              | 9M16              |
| Residential                                      | 7,489,980         | 7,406,095         | 5,797,313         | 5,818,783         |
| Industrial                                       | 13,162,944        | 14,541,717        | 3,633,866         | 4,042,707         |
| Commercial, Services and Others                  | 5,581,213         | 4,907,884         | 3,218,839         | 3,270,334         |
| Rural  | 2,769,082         | 2,699,294         | 1,203,749         | 1,073,290         |
| Public authorities                               | 644,621           | 659,997           | 389,945           | 404,713           |
| Public lighting                                  | 1,030,199         | 1,012,312         | 397,147           | 395,771           |
| Public services                                  | 977,757           | 930,708           | 430,943           | 404,743           |
| Subtotal   | <b>31,655,796</b> | <b>32,158,007</b> | <b>15,071,802</b> | <b>15,410,341</b> |
| Own consumption                                  | 26,946            | 27,614            |                   |                   |
| Supply not yet invoiced                          |                   |                   | (44,741)          | (105,308)         |
|  | <b>31,682,742</b> | <b>32,185,621</b> | <b>15,027,061</b> | <b>15,305,033</b> |
| Wholesale supply to other concession holders (2) | 9,167,876         | 8,813,064         | 1,289,188         | 1,884,424         |
| Wholesale supply not yet invoiced, net           |                   |                   | 1,071,505         | 126,276           |
| Total  | <b>40,850,618</b> | <b>40,998,685</b> | <b>17,387,754</b> | <b>17,315,733</b> |

|                                 | MWh (1)           |                   | R\$ 000          |                  |
|---------------------------------|-------------------|-------------------|------------------|------------------|
|                                 | 3Q17              | 3Q16              | 3Q17             | 3Q16             |
| Residential                     | 2,456,908         | 2,389,353         | 1,878,293        | 1,859,109        |
| Industrial                      | 4,458,794         | 5,031,850         | 1,210,358        | 1,379,561        |
| Commercial, Services and Others | 1,776,377         | 1,522,936         | 982,345          | 985,574          |
| Rural                           | 1,016,897         | 1,015,555         | 424,366          | 394,504          |
| Public authorities              | 207,967           | 208,314           | 120,600          | 128,652          |
| Public lighting                 | 354,299           | 338,892           | 132,691          | 129,015          |
| Public services                 | 338,415           | 318,605           | 144,190          | 136,068          |
| Subtotal                        | <b>10,609,657</b> | <b>10,825,505</b> | <b>4,892,843</b> | <b>5,012,483</b> |
| Own consumption                 | 8,896             | 8,528             | 0                |                  |
| Supply not yet invoiced         |                   |                   | -10,305          | 13,261           |

|  |                   |                   |                  |                  |
|--|-------------------|-------------------|------------------|------------------|
|  | <b>10,618,553</b> | <b>10,834,033</b> | <b>4,882,538</b> | <b>5,025,744</b> |
| Wholesale supply to other concession holders (2) | 3,427,498         | 3,006,675         | 401,091          | 677,340          |
| Wholesale supply not yet invoiced, net           |                   |                   | 531,992          | 84,484           |
| <b>Total</b>                                     | <b>14,046,051</b> | <b>13,840,708</b> | <b>5,815,621</b> | <b>5,787,568</b> |

(1) Information not reviewed by the external auditors.

(2) Includes a CCEAR (Regulated Market Sales Contract), bilateral contracts with other agents, and the revenues from to management of generation assets (GAG) for the 18 hydroelectric plants of Lot D of Auction no 12/2015.

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

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**b) Revenue from Use of Distribution Systems (the TUSD charge)**

A significant part of the large industrial consumers in the concession areas of Cemig D are now Free Consumers. Free Consumers energy is sold to them by the Cemig group's generation and transmission company, Cemig GT, as well as other generators. When these users became Free Consumers, they began to pay separate charges for use of the distribution network. This line ( TUSD ) records those charges.

**c) The CVA Account (*Portion A Costs Variation Compensation Account*), and Other financial components, in tariff adjustments**

The gains arising from variations in (i) the CVA Account ( *Portion A Costs Variation Compensation Account* ), and in (ii) *Other financial components* in calculation of tariffs, refer to the positive and negative differences between the estimate of non-manageable costs of the subsidiary Cemig D and the payments actually made. The amounts recognized arise from balances constituted in the current period, homologated or to be homologated in tariff adjustment processes. For more information see Note 14.

**d) Transmission Concession revenue**

Transmission revenue comprises the amount received from agents of the electricity sector for operation and maintenance of transmission lines of the national grid, represented by the Permitted Annual Revenue (*Receita Anual Permitida*, or RAP).

**e) Construction Revenue**

Construction Revenue is substantially offset by Construction costs, and corresponds to the investments of the Company's subsidiaries in assets of the transmission and distribution concessions in the period.

**f) Gain on financial updating of the Concession Grant Fee**

Represents updating by the IPCA index, plus remuneratory interest, on the Concession Grant Fee for the concession awarded as Lot D of Auction 12/2015. For more details see Note 14.

**g) Transmission Indemnity revenue**

In 9M17 the Company recognized revenue of R\$ 295,749, of which R\$ 146,494 corresponded to updating, by the IPCA index, of the balance of indemnity existing at December 2016, and R\$ 149,255 relating to the adjustment to the BRR (Remuneration Base of Assets) of the transmission assets, as per Aneel Technical Note 183/2017. For more details see Note 14.

**h) Generation Indemnity revenue**

In 9M17 the Company recognized revenue of R\$ 259,516, for the adjustment to the balance of non-amortized indemnities for the concessions of the *São Simão* and *Miranda* Hydroelectric Plants, as per Ministerial Order 291/17, also taking into account the updating of the amounts. For more details see Notes 4 and 14.

**i) Revenue from transactions in electricity in the CCEE (Wholesale Trading Chamber)**

The revenue from transactions in the Electricity Trading Chamber (*Câmara de Comercialização de Energia Elétrica*, or CCEE) is the monthly positive net balance of settlements of transactions for purchase and sale of electricity in the Spot Market, through the CCEE.

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**Table of Contents****j) Adjustment to expectation of cash flow from the indemnifiable Financial assets of the distribution concession**

Gain on Adjustment to expectation of cash flow from the indemnifiable Financial asset of the distribution concession, due to monetary updating of the Regulatory Remuneration Base of assets

**k) Other operating revenues**

| <b>R\$ 000</b>     | <b>Consolidated</b> |                  |
|--------------------|---------------------|------------------|
|                    | <b>9M17</b>         | <b>9M16</b>      |
| Charged service    | 7,723               | 4,533            |
| Telecoms services  | 111,342             | 117,906          |
| Services rendered  | 116,167             | 120,149          |
| Subsidies (*)      | 769,505             | 757,213          |
| Rental and leasing | 88,869              | 73,423           |
| Other              | 3,395               | 7,721            |
|                    | <b>1,097,001</b>    | <b>1,080,945</b> |

| <b>R\$ 000</b>     | <b>Consolidated</b> |                |
|--------------------|---------------------|----------------|
|                    | <b>3Q17</b>         | <b>3Q16</b>    |
| Charged service    | 3,124               | 1,593          |
| Telecoms services  | 38,520              | 59,608         |
| Services rendered  | 40,635              | 39,127         |
| Subsidies (*)      | 266,485             | 246,636        |
| Rental and leasing | 30,531              | 24,582         |
| Other              | 74                  | 2,547          |
|                    | <b>379,369</b>      | <b>374,093</b> |

(\*) Revenue recognized for the tariff subsidies applied to users of distribution services, including low-income subsidies, which are reimbursed by Eletrobras.

Av. Barbacena 1200 Santo  
Agostinho

Tel.: +55 31 3506-5024 Fax +55 31  
3506-5025 3506-5025

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**Table of Contents****l) Taxes and charges reported as deductions from revenue**

| <b>R\$ 000</b>   | <b>Consolidated</b> |                  |
|--|---------------------|------------------|
|  | <b>9M17</b>         | <b>9M16</b>      |
| <b>Taxes on revenue</b>  |                     |                  |
| ICMS tax   | 4,470,557           | 3,873,741        |
| Cofins tax   | 1,654,269           | 1,529,044        |
| PIS and Pasep taxes  | 359,137             | 331,964          |
| Other  | 5,942               | 5,238            |
|  | <b>6,489,905</b>    | <b>5,739,987</b> |
| <b>Charges to the consumer</b>                                 |                     |                  |
| Global Reversion Reserve (RGR) (Recovery of expense)           | 9,418               | (26,420)         |
| Energy Efficiency Program                                      | 37,422              | 44,873           |
| Energy Development Account (CDE)                               | 1,326,946           | 1,596,577        |
| Research and Development (R&D)                                 | 26,914              | 35,936           |
| National Scientific and Technological Development Fund (FNDCT) | 26,914              | 35,936           |
| Energy System Expansion Research (EPE of MME)                  | 13,457              | 17,968           |
| Consumer charges Proinfra alternative sources program          | 29,626              | 31,385           |
| Electricity Services Inspection Charge                         | 22,983              | 26,149           |
| Royalties for use of water resources                           | 66,449              | 88,754           |
| Consumer charges the Flag Tariff system                        | 258,060             | 342,789          |
|  | <b>1,818,189</b>    | <b>2,193,947</b> |
|  | <b>8,308,094</b>    | <b>7,933,934</b> |

| <b>R\$ 000</b>   | <b>Consolidated</b> |                  |
|--|---------------------|------------------|
|  | <b>3Q17</b>         | <b>3Q16</b>      |
| <b>Taxes on revenue</b>  |                     |                  |
| ICMS tax (1)   | 1,819,209           | 1,259,453        |
| Cofins tax   | 584,676             | 516,259          |
| PIS and Pasep taxes  | 126,932             | 112,078          |
| Other  | 2,115               | 1,794            |
|  | <b>2,532,932</b>    | <b>1,889,584</b> |
| <b>Charges to the consumer</b>                                 |                     |                  |
| Global Reversion Reserve (RGR) (Recovery of expense)           | 9,468               | (42,033)         |
| Energy Efficiency Program                                      | 11,732              | 10,978           |
| Energy Development Account (CDE)                               | 467,576             | 571,148          |
| Research and Development (R&D)                                 | 7,927               | 11,240           |
| National Scientific and Technological Development Fund (FNDCT) | 7,927               | 11,240           |

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|   |                  |                  |
|---|------------------|------------------|
| Energy System Expansion Research (EPE of MME)         | 3,963            | 5,620            |
| Consumer charges Proinfra alternative sources program | 10,049           | 11,363           |
| Electricity Services Inspection Charge                | 6,347            | 8,467            |
| Royalties for use of water resources                  | 21,527           | 32,692           |
| Consumer charges the Flag Tariff system               | 101,625          | (429)            |
|   | <b>648,141</b>   | <b>620,286</b>   |
|   | <b>3,181,073</b> | <b>2,509,870</b> |

(1) In 3Q17 the subsidiaries Cemig GT and Cemig D adhered to the terms of the Minas Gerais State Tax Credits Regularization Plan (*Plano de Regularização de Créditos Tributários*, or PRCT). For more information see Note 19.

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

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**Table of Contents****26. OPERATING COSTS AND EXPENSES**

| <b>R\$ 000</b>   | <b>Consolidated</b> |                   | <b>Holding company</b> |                |
|--|---------------------|-------------------|------------------------|----------------|
|  | <b>9M17</b>         | <b>9M16</b>       | <b>9M17</b>            | <b>9M16</b>    |
| Personnel (a)  | 1,275,667           | 1,217,201         | 38,796                 | 26,587         |
| Employees and managers profit shares                   | 25,777              | 30,417            | 1,195                  | (3,024)        |
| Post-retirement obligations                            | 293,617             | 248,583           | 29,482                 | 27,188         |
| Materials  | 43,248              | 40,935            | 89                     | 52             |
| Raw materials and inputs for production of electricity | 58                  | 35                |                        |                |
| Outsourced services (b)                                | 680,569             | 601,806           | 6,796                  | 6,226          |
| Electricity bought for resale (c)                      | 7,685,392           | 6,126,458         |                        |                |
| Depreciation and amortization                          | 616,783             | 601,197           | 351                    | 382            |
| Operational provisions (reversals) (d)                 | 558,793             | 714,237           | 104,037                | 280,532        |
| Charges for use of the national grid                   | 791,339             | 741,416           |                        |                |
| Gas bought for resale                                  | 789,861             | 623,503           |                        |                |
| Construction costs (e)                                 | 736,754             | 917,855           |                        |                |
| Other operational expenses, net (f)                    | 311,581             | 372,298           | 6,940                  | 11,646         |
|  | <b>13,809,439</b>   | <b>12,235,941</b> | <b>187,686</b>         | <b>349,589</b> |

| <b>R\$ 000</b>   | <b>Consolidated</b> |                  | <b>Holding company</b> |                  |
|--|---------------------|------------------|------------------------|------------------|
|  | <b>3Q17</b>         | <b>3Q16</b>      | <b>3Q17</b>            | <b>3Q16</b>      |
| Personnel (a)  | 358,505             | 373,986          | 17,730                 | 9,430            |
| Employees and managers profit shares                   | 886                 | 24,217           | 233                    | 1,210            |
| Post-retirement obligations                            | 101,589             | 89,306           | 10,010                 | 9,380            |
| Materials  | 16,185              | 17,057           | 23                     | 7                |
| Raw materials and inputs for production of electricity | 13                  | 8                |                        |                  |
| Outsourced services (b)                                | 233,805             | 201,023          | 3,194                  | 2,397            |
| Electricity bought for resale (c)                      | 2,942,974           | 2,170,348        |                        |                  |
| Depreciation and amortization                          | 205,983             | 202,480          | 115                    | 122              |
| Operational provisions (reversals) (d)                 | 188,875             | (19,375)         | 88,726                 | (165,669)        |
| Charges for use of the national grid                   | 387,078             | 215,504          |                        |                  |
| Gas bought for resale                                  | 304,698             | 196,494          |                        |                  |
| Construction costs (e)                                 | 295,720             | 334,122          |                        |                  |
| Other operational expenses, net (f)                    | 124,127             | 132,206          | (979)                  | 1,683            |
|  | <b>5,160,438</b>    | <b>3,937,376</b> | <b>119,052</b>         | <b>(141,440)</b> |

**a) Personnel expenses**  
**Programmed Voluntary Retirement Plan (PDVP)**

In March 2017, the Company created the 2017 Employee Voluntary Severance Program ( the 2017 PDVP ). Those eligible to take part were any employees who will have worked with Cemig for 25 years or more by December 31, 2017. The period for acceptance of the 2017 PDVP was April 3 through October 17, 2017. It provided for payment of an additional premium of five monthly salaries to employees who join in April 2017, to leave the Company in May 2017; the premium diminished progressively depending on the month of acceptance. Thus, for employees who adhered to the program only in August 2017, for voluntary retirement in September 2017, the corresponding premium payment was only one month s salary. For those who joined as from September 1, 2017, there was no premium. The program also paid the standard legal severance payments including: payment for the period of notice, and especially, an amount equal to the penalty payment of 40% of the Base Value of the employee s FGTS fund, as well as the other payments specified by the legislation. On September 30, 2017 the amount appropriated as expense on the premium for retirement under the 2017 PDVP, including the severance amounts, was R\$ 197,326, corresponding to acceptance, up to that date, by 1,151 employees.

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

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**Table of Contents****b) Outsourced services**

| <b>R\$ 000</b>  | <b>Consolidated</b> |                | <b>Holding company</b> |              |
|---|---------------------|----------------|------------------------|--------------|
|   | <b>9M17</b>         | <b>9M16</b>    | <b>9M17</b>            | <b>9M16</b>  |
| Meter reading and bill delivery                                     | 106,526             | 101,587        |                        |              |
| Communication   | 49,163              | 41,918         | 239                    | 278          |
| Maintenance and conservation of electrical facilities and equipment | 186,971             | 175,003        | 84                     | 49           |
| Building conservation and cleaning                                  | 78,739              | 72,068         | 496                    | 522          |
| Contracted labor  | 9,252               | 8,819          |                        |              |
| Freight and airfares  | 5,434               | 5,156          | 1,357                  | 1,724        |
| Accommodation and meals   | 9,842               | 9,185          | 151                    | 157          |
| Security services   | 16,358              | 18,428         |                        |              |
| Consultancy   | 11,792              | 8,191          | 737                    | 407          |
| Maintenance and conservation of furniture and utensils              | 2,448               | 2,282          | 1                      | 3            |
| Information technology  | 34,289              | 28,999         | 771                    | 439          |
| Maintenance and conservation of vehicles                            | 1,381               | 1,254          |                        | 2            |
| Disconnection and reconnection                                      | 23,528              | 3,540          |                        |              |
| Environment   | 10,058              | 12,532         |                        |              |
| Legal services  | 13,122              | 14,220         | 535                    | 1,008        |
| Legal procedural costs  | 2,010               | 2,664          | 43                     | 48           |
| Tree pruning  | 14,727              | 8,888          |                        |              |
| Cleaning of power line pathways                                     | 10,176              | 5,728          |                        |              |
| Copying and legal publications                                      | 16,949              | 11,746         | 200                    | 148          |
| Inspection of consumer units  | 118                 | 613            |                        |              |
| Printing of tax invoices and electricity bills                      | 121                 | 2,588          |                        |              |
| Other expenses  | 77,565              | 66,397         | 2,182                  | 1,441        |
|   | <b>680,569</b>      | <b>601,806</b> | <b>6,796</b>           | <b>6,226</b> |

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| <b>R\$ 000</b>  | <b>Consolidated</b> |                | <b>Holding company</b> |              |
|---|---------------------|----------------|------------------------|--------------|
|   | <b>3Q17</b>         | <b>3Q16</b>    | <b>3Q17</b>            | <b>3Q16</b>  |
| Meter reading and bill delivery                                     | 35,375              | 34,067         |                        |              |
| Communication   | 15,074              | 15,469         | 126                    | 92           |
| Maintenance and conservation of electrical facilities and equipment | 60,119              | 51,512         | 63                     | 1            |
| Building conservation and cleaning                                  | 28,637              | 24,498         | 71                     | 176          |
| Contracted labor  | 4,146               | 2,610          |                        |              |
| Freight and airfares  | 2,066               | 2,367          | 418                    | 893          |
| Accommodation and meals   | 3,405               | 3,598          | 51                     | 63           |
| Security services   | 5,422               | 5,945          |                        |              |
| Consultancy   | 3,992               | 1,234          | 33                     | 178          |
| Maintenance and conservation of furniture and utensils              | 832                 | 14,321         | 1                      | 1            |
| Information technology  | 10,137              | 1,152          | 143                    | 101          |
| Maintenance and conservation of vehicles                            | 457                 | 307            |                        | 1            |
| Disconnection and reconnection                                      | 11,196              | 1,775          |                        |              |
| Environment   | 1,848               | 4,189          |                        |              |
| Legal services  | 4,321               | 5,149          | 95                     | 425          |
| Legal procedural costs  | 780                 | 779            | 8                      | 22           |
| Tree pruning  | 5,760               | 3,498          |                        |              |
| Cleaning of power line pathways                                     | 6,126               | 1,708          |                        |              |
| Copying and legal publications                                      | 7,098               | 4,186          | 141                    | 42           |
| Inspection of consumer units  | 61                  | 145            |                        |              |
| Printing of tax invoices and electricity bills                      | 55                  | 773            |                        |              |
| Other expenses  | 26,898              | 21,741         | 2,044                  | 402          |
|   | <b>233,805</b>      | <b>201,023</b> | <b>3,194</b>           | <b>2,397</b> |

**c) Electricity purchased for resale**

| <b>R\$ 000</b>                                    | <b>Consolidated</b> |                  |
|---|---------------------|------------------|
|   | <b>9M17</b>         | <b>9M16</b>      |
| Supply from Itaipu Binacional                     | 933,603             | 880,361          |
| Physical guarantee quota contracts                | 343,458             | 403,913          |
| Quotas for Angra I and II nuclear plants          | 182,832             | 162,680          |
| Spot market                                       | 1,180,780           | 487,536          |
| Proinfa Program                                   | 225,965             | 244,095          |
| Bilateral contracts                               | 269,943             | 216,963          |
| Electricity acquired in Regulated Market auctions | 2,201,909           | 1,862,534        |
| Electricity acquired in the Free Market           | 3,086,096           | 2,476,229        |
| Credits of Pases and Cofins taxes                 | (739,194)           | (607,853)        |
|   | <b>7,685,392</b>    | <b>6,126,458</b> |

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| <b>R\$ 000</b>                                    | <b>Consolidated</b> |                  |
|---|---------------------|------------------|
|   | <b>3Q17</b>         | <b>3Q16</b>      |
| Supply from Itaipu Binacional                     | 316,786             | 273,070          |
| Physical guarantee quota contracts                | 119,006             | 152,753          |
| Quotas for Angra I and II nuclear plants          | 60,944              | 54,227           |
| Spot market                                       | 408,859             | 196,612          |
| Proinfra Program                                  | 75,321              | 81,365           |
| Bilateral contracts                               | 121,552             | 74,872           |
| Electricity acquired in Regulated Market auctions | 824,699             | 650,259          |
| Electricity acquired in the Free Market           | 1,299,536           | 902,338          |
| Credits of Pases and Cofins taxes                 | (283,729)           | (215,148)        |
|   | <b>2,942,974</b>    | <b>2,170,348</b> |

**d) Operational provisions (reversals)**

| <b>R\$ 000</b>                                 | <b>Consolidated</b> |                | <b>Holding company</b> |                |
|--|---------------------|----------------|------------------------|----------------|
|  | <b>9M17</b>         | <b>9M16</b>    | <b>9M17</b>            | <b>9M16</b>    |
| Provision for estimate of doubtful receivables | 191,343             | 282,915        |                        |                |
| Contingency provisions (reversals)             |                     |                |                        |                |
| Employment-law cases                           | 188,013             | 69,963         | 12,553                 | 11,463         |
| Civil cases                                    | 18,142              | 28,732         | 722                    | 1,647          |
| Tax  | 2,401               | 2,616          | 1,353                  | 205            |
| Environmental                                  | 4                   | (21)           |                        |                |
| Regulatory                                     | (10,978)            | 3,864          | (4,241)                | (454)          |
| Other  | 8,864               | 29,095         | 713                    | 86             |
|  | 206,446             | 134,249        | 11,100                 | 12,947         |
|  | <b>397,789</b>      | <b>417,164</b> | <b>11,100</b>          | <b>12,947</b>  |
| Change in fair value of derivatives            |                     |                |                        |                |
| Put optio Ativas e Sonda (Note 15)             | 102                 |                |                        |                |
| Put option RME and Lepsa (Note 15)             | 92,937              | 267,585        | 92,937                 | 267,585        |
| Put option SAAG (Note 15)                      | 67,965              | 29,488         |                        |                |
|  | <b>161,004</b>      | <b>297,073</b> | <b>92,937</b>          | <b>267,585</b> |
|  | <b>558,793</b>      | <b>714,237</b> | <b>104,037</b>         | <b>280,532</b> |

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| <b>R\$ 000</b>                                 | <b>Consolidated</b> |                  | <b>Holding company</b> |                  |
|--|---------------------|------------------|------------------------|------------------|
|  | <b>3Q17</b>         | <b>3Q16</b>      | <b>3Q17</b>            | <b>3Q16</b>      |
| Provision for estimate of doubtful receivables | 50,458              | 108,349          |                        |                  |
| Contingency provisions (reversals)             |                     |                  |                        |                  |
| Employment-law cases                           | 10,288              | 31,166           | 532                    | 1,177            |
| Civil cases                                    | 8,745               | 10,909           | 833                    | 175              |
| Tax  | 5,565               | (567)            | 3,961                  | (892)            |
| Environmental                                  | 1                   | 36               |                        |                  |
| Regulatory                                     | (143)               | (9,088)          | (2,162)                | 614              |
| Other  | 2,230               | 3,110            | 256                    | 24               |
|  | 26,686              | 35,566           | 3,420                  | 1,098            |
|  | <b>77,144</b>       | <b>143,915</b>   | <b>3,420</b>           | <b>1,098</b>     |
| Change in fair value of derivatives            |                     |                  |                        |                  |
| Put option Sonda (Note 15)                     | 61                  |                  |                        |                  |
| Put option RME and Lepsa (Note 15)             | 85,306              | (166,767)        | 85,306                 | (166,767)        |
| Put option SAAG (Note 15)                      | 26,364              | 3,477            |                        |                  |
|  | <b>111,731</b>      | <b>(163,290)</b> | <b>85,306</b>          | <b>(166,767)</b> |
|  | <b>188,875</b>      | <b>(19,375)</b>  | <b>88,726</b>          | <b>(165,669)</b> |

**e) Construction cost**

| <b>R\$ 000</b>         | <b>Consolidated</b> |                |
|------------------------|---------------------|----------------|
|                        | <b>9M17</b>         | <b>9M16</b>    |
| Personnel and managers | 38,297              | 46,155         |
| Materials              | 334,851             | 424,240        |
| Outsourced services    | 300,244             | 321,916        |
| Other                  | 63,362              | 125,544        |
|                        | <b>736,754</b>      | <b>917,855</b> |

| <b>R\$ 000</b>         | <b>Consolidated</b> |             |
|------------------------|---------------------|-------------|
|                        | <b>3Q17</b>         | <b>3Q16</b> |
| Personnel and managers | 14,143              | 13,659      |
| Materials              | 151,691             | 160,127     |
| Outsourced services    | 109,061             | 120,164     |

|       |                |                |
|-------|----------------|----------------|
| Other | 20,825         | 40,172         |
|       | <b>295,720</b> | <b>334,122</b> |

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**Table of Contents****f) Other operating expenses, net**

| <b>R\$ 000</b>   | <b>Consolidated</b> |                | <b>Holding company</b> |               |
|--|---------------------|----------------|------------------------|---------------|
|  | <b>9M17</b>         | <b>9M16</b>    | <b>9M17</b>            | <b>9M16</b>   |
| Leasing and rentals                                      | 77,095              | 67,449         | 2,616                  | 486           |
| Advertising  | 14,331              | 6,995          | 276                    | 193           |
| Own consumption of electricity                           | 15,581              | 16,536         |                        |               |
| Subsidies and donations                                  | 9,457               | 12,364         |                        |               |
| Paid concession  | 2,264               | 2,154          |                        |               |
| Insurance  | 6,042               | 7,254          | 1,693                  | 2,844         |
| CCEE annual charge                                       | 6,017               | 5,802          | 1                      | 2             |
| Losses on de-activation and disposal of goods and rights | 44,876              | 74,798         |                        | 2             |
| Forluz Administrative running cost                       | 19,607              | 18,951         | 970                    | 937           |
| Collection agents  | 52,664              | 53,200         |                        | 1             |
| Fine for violation of Service Continuity standard        | 24,755              | 31,060         |                        |               |
| Taxes and charges  | 6,645               | 7,590          | 636                    | 288           |
| Other expenses   | 32,247              | 68,145         | 748                    | 6,893         |
|  | <b>311,581</b>      | <b>372,298</b> | <b>6,940</b>           | <b>11,646</b> |

| <b>R\$ 000</b>   | <b>Consolidated</b> |                | <b>Holding company</b> |              |
|--|---------------------|----------------|------------------------|--------------|
|  | <b>3Q17</b>         | <b>3Q16</b>    | <b>3Q17</b>            | <b>3Q16</b>  |
| Leasing and rentals                                      | 32,188              | 19,921         | 1,142                  | 177          |
| Advertising  | 6,017               | 3,905          | 100                    | 75           |
| Own consumption of electricity                           | 4,768               | 5,019          |                        |              |
| Subsidies and donations                                  | 2,933               | 3,286          |                        |              |
| Paid concession  | 735                 | 734            |                        |              |
| Insurance  | 1,613               | 2,335          | 386                    | 894          |
| CCEE annual charge                                       | 1,972               | 1,850          |                        | 1            |
| Losses on de-activation and disposal of goods and rights | 39,538              | 32,484         |                        |              |
| Forluz Administrative running cost                       | 6,574               | 6,470          | 325                    | 320          |
| Collection agents  | 17,377              | 17,652         |                        | 1            |
| Fine for violation of Service Continuity standard        | 3,895               | 6,035          |                        |              |
| Taxes and charges  | 1,259               | 1,861          | 93                     | 39           |
| Other expenses   | 5,258               | 30,654         | (3,025)                | 176          |
|  | <b>124,127</b>      | <b>132,206</b> | <b>(979)</b>           | <b>1,683</b> |

**Operational leasing**

The Company and its subsidiaries have operational leasing contracts relating, mainly, to vehicles and buildings used in its operational activities. Their amounts are not material in relation to the total costs of the Company and its



subsidiaries.

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**Table of Contents****27. FINANCIAL REVENUE (EXPENSES)**

| R\$ 000  | Consolidated       |                    | Holding company |                |
|--|--------------------|--------------------|-----------------|----------------|
|  | 9M17               | 9M16               | 9M17            | 9M16           |
| <b>FINANCIAL REVENUES</b>                                    |                    |                    |                 |                |
| Income from cash investments                                 | 171,530            | 220,232            | 39,214          | 30,510         |
| Late charges on overdue electricity bills                    | 193,057            | 212,499            |                 |                |
| Foreign exchange variations                                  | 20,207             | 56,140             |                 | 1              |
| Monetary variations  | 27,125             | 60,974             | 1,968           | 10,278         |
| Monetary variations CVA                                      |                    | 206,967            |                 |                |
| Monetary updating on Court escrow deposits                   | 86,464             | 42,615             | 44,696          | 10,108         |
| Pasep and Cofins taxes charged on financial revenues         | (35,529)           | (54,349)           | (8,704)         | (9,020)        |
| Adjustment to present value                                  |                    | 325                |                 |                |
| Other  | 87,211             | 89,788             | 7,719           | 35,180         |
|  | <b>550,065</b>     | <b>835,191</b>     | <b>84,893</b>   | <b>77,057</b>  |
| <b>FINANCIAL EXPENSES</b>                                    |                    |                    |                 |                |
| Costs of loans and financings                                | (1,201,974)        | (1,432,576)        |                 |                |
| Foreign exchange variations                                  | (12,633)           | (19,225)           | (9)             | (1)            |
| Monetary updating loans and financings                       | (74,655)           | (232,366)          |                 |                |
| Monetary updating paid concessions                           | 737                | (3,056)            |                 |                |
| Charges and monetary updating on Post-retirement liabilities | (48,401)           | (86,782)           | (2,381)         | (4,270)        |
| Monetary updating CCEE obligations                           |                    | (13,844)           |                 |                |
| Monetary updating Advance Against Capital Increase (AFAC)    | (40,086)           |                    |                 |                |
| Monetary updating AFAC                                       | 239,445            |                    | 239,445         |                |
| Monetary updating Advance sales of power supply              | (37,666)           |                    |                 |                |
| Adjustment to present value                                  | (2,168)            |                    |                 |                |
| Other  | (94,550)           | (100,166)          | (502)           | (61)           |
|  | <b>(1,271,951)</b> | <b>(1,888,015)</b> | <b>236,553</b>  | <b>(4,332)</b> |
| <b>NET FINANCIAL REVENUE (EXPENSES)</b>                      | <b>(721,886)</b>   | <b>(1,052,824)</b> | <b>321,446</b>  | <b>72,725</b>  |

| R\$ 000                      | Consolidated |        | Holding company |        |
|------------------------------|--------------|--------|-----------------|--------|
|                              | 3Q17         | 3Q16   | 3Q17            | 3Q16   |
| <b>FINANCIAL REVENUES</b>    |              |        |                 |        |
| Income from cash investments | 46,037       | 84,755 | 10,505          | 15,097 |

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|  |                  |                  |                |                |
|--|------------------|------------------|----------------|----------------|
| Late charges on overdue electricity bills                    | 55,134           | 70,166           |                |                |
| Foreign exchange variations                                  | 2,618            | 12,173           |                |                |
| Monetary variations  | 13,132           | 33,081           | 400            | 3,295          |
| Monetary variations CVA                                      |                  | 19,403           |                |                |
| Monetary updating on Court escrow deposits                   | 63,317           | 3,348            | 43,744         | (13,067)       |
| Pasep and Cofins taxes charged on financial revenues         | (13,207)         | (15,192)         | (4,648)        | (1,573)        |
| Adjustment to present value                                  |                  | (396)            |                |                |
| Other  | 34,133           | 23,918           | 1,874          | 1,850          |
|  | <b>201,164</b>   | <b>231,256</b>   | <b>51,875</b>  | <b>5,602</b>   |
| <b>FINANCIAL EXPENSES</b>                                    |                  |                  |                |                |
| Costs of loans and financings                                | (344,297)        | (524,775)        |                |                |
| Foreign exchange variations                                  | 5,963            | (2,046)          |                | (1)            |
| Monetary updating loans and financings                       | (5,682)          | (46,959)         |                |                |
| Monetary updating paid concessions                           | (5)              | (301)            |                |                |
| Charges and monetary updating on Post-retirement liabilities | (12,417)         | (22,483)         | (611)          | (1,106)        |
| Monetary updating CCEE obligations                           |                  |                  |                |                |
| Monetary variations CVA                                      | (12,006)         |                  |                |                |
| Monetary updating AFAC                                       | 239,445          |                  | 239,445        |                |
| Monetary updating Advance sales of power supply              | (12,986)         |                  |                |                |
| Adjustment to present value                                  | (562)            |                  |                |                |
| Other  | (46,203)         | (57,604)         | (320)          | (21)           |
|  | <b>(188,750)</b> | <b>(654,168)</b> | <b>238,514</b> | <b>(1,128)</b> |
| <b>NET FINANCIAL REVENUE (EXPENSES)</b>                      | <b>12,414</b>    | <b>(422,912)</b> | <b>290,389</b> | <b>4,474</b>   |

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**Table of Contents****28. RELATED PARTY TRANSACTIONS**

Cemig's principal balances and transactions with related parties and its subsidiaries and jointly-controlled entities are shown here (consolidated):

| COMPANY R\$ '000                    | ASSETS        |               | LIABILITIES   |               | REVENUE |         | EXPENSES  |           |
|-------------------------------------|---------------|---------------|---------------|---------------|---------|---------|-----------|-----------|
|                                     | Sep. 30, 2017 | Dec. 31, 2016 | Sep. 30, 2017 | Dec. 31, 2016 | 9M17    | 9M16    | 9M17      | 9M16      |
| <b>Controlling shareholder</b>      |               |               |               |               |         |         |           |           |
| <b>Minas Gerais State Gov.t</b>     |               |               |               |               |         |         |           |           |
| <b>Current</b>                      |               |               |               |               |         |         |           |           |
| Consumers and Traders (1)           | 97,779        | 71,340        |               |               | 101,085 | 112,168 |           |           |
| Administrative deposit AFAC (2)     |               |               |               |               | 38,278  |         |           |           |
| <b>Non-current</b>                  |               |               |               |               |         |         |           |           |
| Administrative deposit AFAC (2)     | 277,723       | 239,445       |               |               |         |         |           |           |
| <b>Jointly-controlled entity</b>    |               |               |               |               |         |         |           |           |
| <b>Aliança Geração</b>              |               |               |               |               |         |         |           |           |
| <b>Current</b>                      |               |               |               |               |         |         |           |           |
| Transactions in electricity (3)     |               |               | 7,049         | 7,037         | 413     | 314     | (107,335) | (110,703) |
| Provision of services (4)           | 2,504         | 3,706         |               |               | 9,767   | 8,420   |           |           |
| <b>Baguari Energia</b>              |               |               |               |               |         |         |           |           |
| <b>Current</b>                      |               |               |               |               |         |         |           |           |
| Transactions in electricity (3)     |               |               | 900           | 710           | 111     |         | (5,379)   | (5,307)   |
| Services (4)                        | 274           | 398           |               |               | 646     | 665     |           |           |
| <b>Madeira Energia</b>              |               |               |               |               |         |         |           |           |
| <b>Current</b>                      |               |               |               |               |         |         |           |           |
| Transactions in electricity (3)     |               |               | 17,229        | 17,636        | 18,213  | 3,164   | (508,741) | (449,584) |
| Advance for future power supply (5) | 53,865        |               |               |               |         |         |           |           |
| <b>Non-current</b>                  |               |               |               |               |         |         |           |           |
| Advance for future power supply (5) | 17,117        | 86,941        |               |               |         |         |           |           |
| <b>Norte Energia</b>                |               |               |               |               |         |         |           |           |

**Current**

|                                 |     |     |       |       |       |     |          |          |
|---------------------------------|-----|-----|-------|-------|-------|-----|----------|----------|
| Transactions in electricity (3) | 130 | 130 | 3,774 | 3,755 | 5,680 | 741 | (89,256) | (22,486) |
|---------------------------------|-----|-----|-------|-------|-------|-----|----------|----------|

**Lightger****Current**

|                                 |  |  |  |  |  |  |          |          |
|---------------------------------|--|--|--|--|--|--|----------|----------|
| Transactions in electricity (3) |  |  |  |  |  |  | (15,188) | (14,575) |
|---------------------------------|--|--|--|--|--|--|----------|----------|

**Hidrelétrica Pipoca****Current**

|                                 |  |  |       |       |  |  |          |          |
|---------------------------------|--|--|-------|-------|--|--|----------|----------|
| Transactions in electricity (3) |  |  | 1,595 | 1,228 |  |  | (12,064) | (12,359) |
|---------------------------------|--|--|-------|-------|--|--|----------|----------|

|                                   |       |  |  |  |  |  |  |  |
|-----------------------------------|-------|--|--|--|--|--|--|--|
| Interest on Equity, and dividends | 1,284 |  |  |  |  |  |  |  |
|-----------------------------------|-------|--|--|--|--|--|--|--|

**Retiro Baixo****Current**

|                                 |  |  |     |     |  |  |         |         |
|---------------------------------|--|--|-----|-----|--|--|---------|---------|
| Transactions in electricity (3) |  |  | 554 | 440 |  |  | (4,464) | (2,210) |
|---------------------------------|--|--|-----|-----|--|--|---------|---------|

|                                   |  |       |  |  |  |  |  |  |
|-----------------------------------|--|-------|--|--|--|--|--|--|
| Interest on Equity, and dividends |  | 2,146 |  |  |  |  |  |  |
|-----------------------------------|--|-------|--|--|--|--|--|--|

**Guanhães Energia****Current**

|                           |  |  |  |        |  |  |  |  |
|---------------------------|--|--|--|--------|--|--|--|--|
| Adjustment for losses (6) |  |  |  | 59,071 |  |  |  |  |
|---------------------------|--|--|--|--------|--|--|--|--|

|              |     |     |  |  |     |  |  |  |
|--------------|-----|-----|--|--|-----|--|--|--|
| Services (4) | 568 | 241 |  |  | 332 |  |  |  |
|--------------|-----|-----|--|--|-----|--|--|--|

**Renova****Current**

|                                 |  |  |       |  |  |  |           |           |
|---------------------------------|--|--|-------|--|--|--|-----------|-----------|
| Transactions in electricity (3) |  |  | 1,773 |  |  |  | (140,771) | (118,506) |
|---------------------------------|--|--|-------|--|--|--|-----------|-----------|

|                         |        |  |  |  |  |  |  |  |
|-------------------------|--------|--|--|--|--|--|--|--|
| Accounts receivable (7) | 62,455 |  |  |  |  |  |  |  |
|-------------------------|--------|--|--|--|--|--|--|--|

**Non-current**

|                         |        |        |  |  |  |  |  |  |
|-------------------------|--------|--------|--|--|--|--|--|--|
| Accounts receivable (7) | 20,317 | 73,722 |  |  |  |  |  |  |
|-------------------------|--------|--------|--|--|--|--|--|--|

|                                     |         |         |  |  |  |  |  |  |
|-------------------------------------|---------|---------|--|--|--|--|--|--|
| Advance for future power supply (8) | 258,166 | 229,053 |  |  |  |  |  |  |
|-------------------------------------|---------|---------|--|--|--|--|--|--|

**EATE****Current**

|                                 |  |  |       |       |  |  |          |          |
|---------------------------------|--|--|-------|-------|--|--|----------|----------|
| Transactions in electricity (3) |  |  | 2,962 | 2,751 |  |  | (19,674) | (18,475) |
|---------------------------------|--|--|-------|-------|--|--|----------|----------|

**Light****Current**

|                                 |       |     |     |     |        |        |         |       |
|---------------------------------|-------|-----|-----|-----|--------|--------|---------|-------|
| Transactions in electricity (3) | 1,042 | 464 | 481 | 472 | 38,203 | 49,714 | (1,106) | (623) |
|---------------------------------|-------|-----|-----|-----|--------|--------|---------|-------|

|                                   |  |       |  |  |  |  |  |  |
|-----------------------------------|--|-------|--|--|--|--|--|--|
| Interest on Equity, and dividends |  | 6,852 |  |  |  |  |  |  |
|-----------------------------------|--|-------|--|--|--|--|--|--|

**Taesa****Current**

|                                 |  |  |        |        |    |    |          |          |
|---------------------------------|--|--|--------|--------|----|----|----------|----------|
| Transactions in electricity (3) |  |  | 12,451 | 10,326 | 33 | 17 | (92,905) | (82,956) |
|---------------------------------|--|--|--------|--------|----|----|----------|----------|

|              |     |     |  |  |     |     |  |  |
|--------------|-----|-----|--|--|-----|-----|--|--|
| Services (4) | 141 | 482 |  |  | 667 | 220 |  |  |
|--------------|-----|-----|--|--|-----|-----|--|--|

**Companhia****Transirapé de****Transmissão**

**Current**

|                                   |     |     |     |     |     |         |         |
|-----------------------------------|-----|-----|-----|-----|-----|---------|---------|
| Transactions in electricity (3)   |     |     | 950 | 878 |     | (7,310) | (6,425) |
| Services (4)                      | 90  | 301 |     |     | 953 | 755     |         |
| Interest on Equity, and dividends | 678 | 678 |     |     |     |         |         |

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| COMPANY R\$ 000                                    | ASSETS        |               | LIABILITIES   |               | REVENUE |         | EXPENSES  |           |
|--|---------------|---------------|---------------|---------------|---------|---------|-----------|-----------|
|  | Sep. 30, 2017 | Dec. 31, 2016 | Sep. 30, 2017 | Dec. 31, 2016 | 9M17    | 9M16    | 9M17      | 9M16      |
| <b>Axxiom</b>                                      |               |               |               |               |         |         |           |           |
| <b>Current</b>                                     |               |               |               |               |         |         |           |           |
| Provision of services (9)                          |               |               | 2,347         | 6,980         |         |         |           | (38,065)  |
| Interest on Equity, and dividends                  |               | 144           |               |               |         |         |           |           |
| <b>Transudeste</b>                                 |               |               |               |               |         |         |           |           |
| <b>Current</b>                                     |               |               |               |               |         |         |           |           |
| Transactions in electricity (3)                    |               |               |               |               | 113     |         | (1,166)   | (1,023)   |
| Provision of services (4)                          | 175           | 141           | 196           | 150           | 492     | 419     |           |           |
| Interest on Equity, and dividends                  | 213           | 213           |               |               |         |         |           |           |
| <b>Transleste</b>                                  |               |               |               |               |         |         |           |           |
| <b>Current</b>                                     |               |               |               |               |         |         |           |           |
| Transactions in electricity (3)                    |               |               | 316           | 243           | 135     |         | (1,878)   | (1,605)   |
| Provision of services (4)                          | 120           | 178           |               |               | 819     | 763     |           |           |
| Interest on Equity, and dividends                  | 1,559         | 294           |               |               |         |         |           |           |
| <b>Other related parties</b>                       |               |               |               |               |         |         |           |           |
| <b>FIC Pampulha</b>                                |               |               |               |               |         |         |           |           |
| <b>Current</b>                                     |               |               |               |               |         |         |           |           |
| Cash and cash equivalents                          | 257,625       | 621,203       |               |               |         |         |           |           |
| Securities   | 622,750       | 833,849       |               |               | 14,374  | 128,436 |           |           |
| (-) Securities issued by subsidiary companies (10) | (63,708)      | (49,479)      |               |               |         |         |           |           |
| <b>Non-current</b>                                 |               |               |               |               |         |         |           |           |
| Securities   | 24,192        | 46,092        |               |               |         |         |           |           |
| (-) Securities issued by subsidiary companies (10) | (11,863)      | (15,049)      |               |               |         |         |           |           |
| <b>Forluz</b>                                      |               |               |               |               |         |         |           |           |
| <b>Current</b>                                     |               |               |               |               |         |         |           |           |
|  |               |               | 106,399       | 86,156        |         |         | (130,470) | (139,289) |

|                                   |           |           |           |           |
|-----------------------------------|-----------|-----------|-----------|-----------|
| Post-retirement obligations (11)  |           |           |           |           |
| Administrative running costs (12) |           |           | (19,606)  | (18,951)  |
| Operational leasing (13)          | 2,872     | 9,630     | (44,002)  | (15,292)  |
| <b>Non-current</b>                |           |           |           |           |
| Post-retirement obligations (11)  | 1,584,588 | 1,592,998 |           |           |
| <b>Cemig Saúde (Health)</b>       |           |           |           |           |
| <b>Current</b>                    |           |           |           |           |
| Health Plan and Dental Plan (14)  | 110,387   | 101,756   | (145,075) | (139,916) |
| <b>Non-current</b>                |           |           |           |           |
| Health Plan and Dental Plan (14)  | 1,704,340 | 1,646,580 |           |           |

The main conditions relating to the related party transactions are as follows:

- (1) Refers to sale of electricity to the government of the State of Minas Gerais – the price of the electricity is that defined by Aneel through a Resolution which decides the Company’s annual tariff adjustment.
- (2) Refers to recalculation of the monetary updating on the amounts in the Advance against Future Capital Increase (AFAC) returned to Minas Gerais State. The value was transferred to Accounts Receivable from State of Minas Gerais on September 30, 2017 (See Notes 11 and 12)
- (3) Transactions in electricity between generators and distributors were made in auctions organized by the federal government; transactions for transport of electricity, made by transmission companies, arise from the centralized operation of the National Grid carried out by the National System Operator (ONS).
- (4) Refers to a contract to provide plant operation and maintenance services.
- (5) In 2017, advance payments of R\$ 71,100 were made to Santo Antônio Energia, subsidiary of Madeira Energia: R\$ 51,874 was advanced by Cemig GT; R\$ 11,917 by Sá Carvalho; and R\$ 6,309 by Rosal. For the purposes of settlement invoices for supply of electricity to be issued by Santo Antônio Energia starting in 2018, in 12 tranches, will be used
- (6) A liability was recognized in 2016 corresponding to the Company’s interest in the share capital of Guanhões, due to its negative equity (see Note 15);
- (7) Cemig GT has an item of R\$ 60,000 receivable from Renova Energia, which will be paid in 12 monthly installments, the first on January 10, 2018 and the last becoming due in December 2018, with monetary updating at 150% of the CDI rate.
- (8) In 2016, as specified in the power supply contract, Cemig GT advanced R\$ 212,000 to Renova’s trading company, Renova Comercializadora. For settlement, it was agreed that this amount would be updated at a rate of 155% of the CDI rate, and offset by settlement of power supply invoices issued by Renova, from January 2020. Since there are now negotiations by Renova with players interested in buying assets of the Company, renegotiation of the supply contract, and also the form of payment of the advance made by Cemig GT, are also in the process of renegotiation.
- (9) This refers to a contract for development of management software between Cemig D and Axxiom Soluções Tecnológicas S.A., instituted in Aneel Dispatch 2657/2017.
- (10) FIC Pampulha has financial investments in securities issued by subsidiary companies of the Company. There is more information, and characteristics of the fund, in the description below.
- (11)



The contracts of Forluz are updated by the Expanded Consumer Price Index (IPCA) calculated by the Brazilian Geography and Statistics Institute (*Instituto Brasileiro de Geografia e Estatística*, or IBGE) (See Note 22) and will be amortized up to the business year of 2024.

(12) Funds for annual current administrative costs of the Pension Fund in accordance with the specific legislation of the sector. The amounts are estimated as a percentage of the Company's payroll.

(13) Rental of the Company's administrative headquarters, in effect from March 2019 to May 2034.

(14) Post-employment obligations relating to the employees' health and dental plan (see Note 22).

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For more information on the principal transactions, please see Notes 7, 18 and 25.

**Dividends receivable from subsidiaries**

| Related party | Consolidado       |               | Controladora      |                |
|---------------|-------------------|---------------|-------------------|----------------|
|               | Sep. 30, 2017 (*) | Dec. 31, 2016 | Sep. 30, 2017 (*) | Dec. 31, 2016  |
|               | R\$ 000           | R\$ 000       | R\$ 000           | R\$ 000        |
| Cemig GT      |                   |               | 605.000           | 605.000        |
| Gasmig        |                   |               | 98.079            | 58.560         |
| Outras        | 3.742             | 11.386        | 8.344             | 9.679          |
|               | <b>3.742</b>      | <b>11.386</b> | <b>711.423</b>    | <b>673.239</b> |

(\*) Dividends receivable from subsidiaries, eliminated in the consolidation.

**Guarantees: sureties for loans, financings and debentures**

Cemig is provider of surety or guarantee of loans, financings and debentures of the following related parties not consolidated in the financial statements because they relate to jointly-controlled entities or affiliated companies:

| Related party                         | Relationship              | Type              | Object     | 9M17             | Maturity |
|---------------------------------------|---------------------------|-------------------|------------|------------------|----------|
|                                       |                           |                   |            | R\$ 000          |          |
| Norte Energia ( Nesa )                | Affiliated                | Surety            | Financing  | 2,476,515        | 2042     |
| Light (1)                             | Jointly-controlled entity | Counter-guarantee | Financing  | 683,615          | 2042     |
| Santo Antônio Energia S.A.<br>(Saesa) | Jointly-controlled entity | Surety            | Financing  | 1,974,035        | 2034     |
| Santo Antônio Energia S.A.<br>(Saesa) | Jointly-controlled entity | Surety            | Debentures | 774,614          | 2037     |
| Centroeste                            | Jointly-controlled entity | Surety            | Financing  | 8,166            | 2023     |
|                                       |                           |                   |            | <b>5,916,945</b> |          |

(1) Related to execution of guarantees of the Norte Energia financing.

At September 30, 2017, Management believes that there is no need to recognize any provisions in the Company's accounting statements for the purpose of meeting any obligations arising under these sureties and/or guarantees.

**Cash investments in FIC Pampulha the investment fund of Cemig and its subsidiaries and affiliates**

Cemig and its subsidiaries and affiliates invest part of their financial resources in an investment fund which has the characteristics of fixed income and obeys the Company's cash investment policy. The amounts invested by the fund at September 30, 2017 are reported in *Securities* in Current or Non-current assets, or presented after deduction of the account line *Debentures* in Current or Non-current liabilities.

The funds applied in this investment fund are allocated only in public and private fixed income securities, subject only to credit risk, with various maturity periods, obeying the unit holders' cash flow needs.

The financial investments of the investment fund in securities of related parties are as follows:

| Issuer of security | Type       | Annual contractual conditions | Maturity   | Sep. 30, 2017 R\$ 000 |               |                |                               | Total        |
|--------------------|------------|-------------------------------|------------|-----------------------|---------------|----------------|-------------------------------|--------------|
|                    |            |                               |            | Cemig 1.59%           | Cemig G 0.21% | Cemig D 34.10% | Other subsidiaries 19.55% (1) |              |
| ETAU               | Debentures | 108.00% of CDI                | 01/12/2019 | 164                   | 22            | 3,529          | 2.023                         | 5.738        |
|                    |            |                               |            | <b>164</b>            | <b>22</b>     | <b>3,529</b>   | <b>2.023</b>                  | <b>5.738</b> |

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| Issuer of security | Type       | Annual contractual conditions | Maturity   | Dec. 31, 2016 R\$ 000 |                 |                |                           | Total         |
|--------------------|------------|-------------------------------|------------|-----------------------|-----------------|----------------|---------------------------|---------------|
|                    |            |                               |            | Cemig 10.12%          | Cemig GT 20.86% | Cemig D 24.94% | Other subsidiaries 22.39% |               |
| Axxiom             | Debentures | 109.00% of CDI                | 29/01/2017 | 579                   | 1,194           | 1,427          | 1,282                     | 4,482         |
| ETAU               | Debentures | 108.00% of CDI                | 01/12/2019 | 1,024                 | 2,110           | 2,522          | 2,265                     | 7,921         |
|                    |            |                               |            | <b>1,603</b>          | <b>3,304</b>    | <b>3,949</b>   | <b>3,547</b>              | <b>12,403</b> |

(1) Refers to the other companies consolidated by Cemig GT, which also have participation in the investment funds.

**Remuneration of key management personnel**

The total costs of key management personnel, in 9M17 and 9M16, are shown in this table:

| R\$ 000                  | 9M017         | 9M16          |
|--------------------------|---------------|---------------|
| Remuneration             | 23,171        | 17,796        |
| Profit shares (Reversal) | 372           | (642)         |
| Assistance benefits      | 1,209         | 1,121         |
| <b>Total</b>             | <b>24,752</b> | <b>18,275</b> |

**29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The financial instruments of the Company and its subsidiaries are restricted to the following: Cash and cash equivalents; Securities; Consumers and Traders; Concession holders (for transport of electricity); Financial assets of the concession related to infrastructure; Generation concession assets; Restricted funds; Escrow deposits in litigation; the CVA (*Portion A Costs Variation Compensation*) Account and *Other Financial Components* in tariff adjustments; Loans and financings; Concession obligations payable; Suppliers; Post-employment obligations; and Put options. Gains and losses on transactions are recorded in full in the profit and loss account for the business year or in Stockholders' equity, by the accrual method.

The Company's financial instruments and those of its subsidiaries are recorded at fair value and measured in accordance with the following classifications:

*Loans and receivables:* This category contains: Cash equivalents; Credits receivable from Consumers, Traders, and power transport concession holders; Restricted funds; Financial assets related to the CVA account and to *Other financial components*, in calculation of tariffs; the Low-income user subsidy; Reimbursement of tariff

subsidies and Other credits owed by Eletrobras; Escrow deposits in litigation; Financial assets of the concession not covered by Law 12783/13; Financial assets related to Auction 12/2015 for award of generation plants; and Generation concession assets. They are recognized at their nominal realization value, which is similar to fair value.

*Financial instruments at fair value through profit or loss:* Securities held for trading, in the amount of R\$ 677,051, and Put options, in the amount of R\$ 1,502,473 (respectively R\$ 995,340 and R\$ 1,341,468 on December 31, 2016) are in this category. They are valued at fair value and the gains or losses are recognized directly in the Profit and loss account.

*Financial instruments held to maturity:* In this category are Securities, in the amount of R\$ 26,064 on September 30, 2017 (R\$ 49,888 on December 31, 2016) included in Note 6. There is positive intention to hold them to maturity. They are measured at amortized cost using the effective rates method. Their fair values, of R\$ 26,138 on September 30, 2017, and R\$ 49,738 on December 31, 2016, were measured using information of Level 2.

*Financial instruments available for sale:* In this category are Financial assets of the concession related to distribution infrastructure covered by Law 12783/13. They are measured at New Replacement Value (*Valor Novo de Reposição*, or VNR), equivalent to fair value on the date of these interim accounting statements.

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*Other financial liabilities – Non-derivative financial liabilities:* In this category are Loans and financings; Obligations under debentures; Debt agreed with the Pension Fund (Forluz); Concessions payable; and Suppliers. They are measured at amortized cost using the effective rates method. The Company has calculated the fair value of its Loans, financings and debentures using 140% of the CDI rate based on its most recent funding. For the following, the Company considered fair value to be substantially equal to book value: Loans, financings and debentures with annual rates between IPCA + 4.70% to 8.07% and CDI + 0.69% to 5.625%. For the financings from the BNDES and Eletrobras, fair value is conceptually similar to book value, due to the specific characteristics of the transactions.

*Liabilities measured at fair value – Financial liabilities relating to put options:* The options to sell units in FIP Melbourne and FIP Malbec ( the SAAG Put ); the options to sell shares in RME and Lepsa ( the Parati PUT ); and the Sonda Options, were valued at fair value using the Black-Scholes-Merton (BSM) model. 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 accounting balances of the financial instruments are similar to the fair values, with the exception of loans, financings and debentures, of which the accounting balance is R\$ 14,055,575 (R\$ 15,179,280 on December 31, 2016) and fair value is R\$ 14,053,986 (R\$ 14,711,130 on December 31, 2016), being measured as Level 2, using similar liabilities as reference.

**Risk management**

Corporate risk management is a management tool that is an integral part of the Company's corporate governance practices, and is aligned with the process of planning, which sets the Company's strategic business objectives.

The Company has a Financial Risks Management Committee, the purpose of which is to implement guidelines and monitor the financial risk of transactions that could negatively affect the Company's liquidity or profitability, recommending hedge protection strategies to control the Company's exposure to foreign exchange rate risk, interest rate risk, and inflation risks.

The principal risks to which the Company is exposed are as follows:

**Exchange rate risk**

Cemig and its subsidiaries are exposed to the risk of increase in exchange rates, especially with impact on indebtedness, profit and cash flow.

The net exposure to exchange rates is as follows:

|                                   | <b>Sep. 30, 2017</b>    | <b>Dec. 31, 2016</b>    |
|-----------------------------------|-------------------------|-------------------------|
|                                   | <b>Foreign</b>          | <b>Foreign</b>          |
| <b>Exposure to exchange rates</b> | <b>currency R\$ 000</b> | <b>currency R\$ 000</b> |

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|                                |                 |        |                |        |                |
|--------------------------------|-----------------|--------|----------------|--------|----------------|
| US dollar                      |                 |        |                |        |                |
| Loans and financings (Note 20) |                 | 7,320  | 23,190         | 7,072  | 23,049         |
| Suppliers (Itaipu Binacional)  |                 | 77,717 | 246,453        | 62,320 | 206,827        |
|                                |                 | 85,037 | 269,643        | 69,392 | 229,876        |
| Euros                          |                 |        |                |        |                |
| Loans and financings           | Euros (Note 20) | 1,638  | 6,129          | 2,157  | 7,416          |
| <b>Net liabilities exposed</b> |                 |        | <b>275,772</b> |        | <b>237,292</b> |

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**Table of Contents****Sensitivity analysis**

Based on information from its financial consultants, the Company estimates that in a probable scenario the variation of the exchange rates of foreign currencies in relation to the Real on September 30, 2018 will be: appreciation of the dollar by 11.14% to R\$ 3.521, and depreciation of the Euro by 0.27% (to R\$ 3.732). The Company has made a sensitivity analysis of the effects on the Company's profit arising from depreciation of the Real exchange rate by 25%, and by 50%.

| Risk: foreign exchange rate exposure         | Base scenario<br>Sep. 30,<br>2017 | Scenario: FX depreciation of 25% |                                 | Scenario:  |
|--|-----------------------------------|----------------------------------|---------------------------------|--|
|  |                                   | US\$1=R\$3.521<br>EUR1=R\$3.732  | US\$1=R\$4.401<br>EUR1=R\$4.665 | Scenario:<br>FX depreciation of 50%<br>US\$1=R\$5.282<br>EUR1=R\$5.598 |
| <b>R\$ 000</b>                               |                                   |                                  |                                 |  |
| <b>US dollar</b>                             |                                   |                                  |                                 |  |
| Loans and financings (Note 20)               | 23,190                            | 25,774                           | 32,216                          | 38,665   |
| Suppliers (Itaipu Binacional)                | 246,453                           | 273,914                          | 342,373                         | 410,910  |
|  | 269,643                           | 299,688                          | 374,589                         | 449,575  |
| <b>Euros</b>                                 |                                   |                                  |                                 |  |
| Loans and financings (Note 20)               | 6,129                             | 6,113                            | 7,641                           | 9,170  |
| <b>Net liabilities exposed</b>               | <b>275,772</b>                    | <b>305,801</b>                   | <b>382,230</b>                  | <b>458,745</b>   |
| <b>Net effect of exchange rate variation</b> |                                   | <b>30,029</b>                    | <b>106,458</b>                  | <b>182,973</b>   |

**Interest rate risk**

Cemig and its subsidiaries are exposed to the risk of increase in international interest rates, affecting loans and financings in foreign currency with floating interest rates (principally Libor), in the amount of R\$ 58,759 (R\$ \$60,066 on December 31, 2016). On September 30, 2017 Cemig was exposed to the risk of increase in Brazilian domestic interest rates, as a result of net liabilities indexed to variation in interest rates, as follows:

**Risk: Exposure to domestic interest rate changes**

| R\$ 000                   | Consolidated     |                  |
|---------------------------|------------------|------------------|
|                           | Sep. 30,<br>2017 | Dec. 31,<br>2016 |
| <b>Assets</b>             |                  |                  |
| Cash equivalents          | 548,751          | 893,713          |
| Cash investments (Note 5) |                  |                  |
| Securities (Note 6)       | 703,114          | 1,045,228        |



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|   |                    |                    |
|---|--------------------|--------------------|
| Accounts receivable Renova (Note 28)  | 82,772             | 74,630             |
| Advance for future delivery of power supply (Note 28)                       | 359,227            | 229,053            |
| Financial assets of the transmission concession (Note 14)                   | 473,374            | 482,281            |
| Restricted cash   | 405,494            | 367,474            |
| CVA and <i>Other financial components</i> in tariffs Selic rate * (Note 14) | 100,457            | 397,725            |
| Credits owed by Eletrobras  | 901                | 138,444            |
|   | 2,674,090          | 3,628,548          |
| <b>Liabilities</b>  |                    |                    |
| Loans, financings and debentures CDI rate (Note 20)                         | (9,765,729)        | (10,928,261)       |
| Loans, financings and debentures TJLP (Note 19)                             | (230,127)          | (213,102)          |
| Advance sales of power supply (Note 7)                                      | (312,112)          | (181,200)          |
| CVA and <i>Other financial components</i> in tariffs Selic rate (Note 14)   | (704,418)          | (804,975)          |
|   | (11,012,386)       | (12,127,538)       |
| <b>Net liabilities exposed</b>  | <b>(8,338,296)</b> | <b>(8,498,990)</b> |

(\* ) Amounts of CVA and *Other financial components* are indexed by the Selic rate.

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

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**Table of Contents****Sensitivity analysis:**

The Company estimates that, in a probable scenario, on September 30, 2018 the Selic rate will be 7.00% p.a. and the TJLP will be 6.25% p.a. The Company has made a sensitivity analysis of the effects on its profit arising from increases in rates of 25% and 50%. Variation in the CDI rate accompanies the variation in the Selic rate. Estimation of scenarios for the path of interest rates will consider the projections made by the Company and its subsidiaries, based on its financial consultants.

| <b>Risk: Increase in Brazilian interest rates R\$ 000</b>    | <b>Sep. 30, 2017</b> | <b>Sep. 30, 2018</b>                           |   |   |
|--|----------------------|--|---|---|
|  |                      | <b>Scenario<br/>Selic 7.00%<br/>TJLP 6.25%</b> | <b>Scenario<br/>Selic 8.75%<br/>TJLP<br/>+7.81%</b> | <b>Scenario<br/>Selic 10.50%<br/>TJLP 9.38%</b> |
|  | <b>Book value</b>    |  |   |   |
| <b>Assets</b>  |                      |  |   |   |
| Cash equivalents (Note 5)                                    | 548,751              | 587,164  | 596,767   | 606,370   |
| Securities (Note 6)  | 703,114              | 752,332  | 764,636   | 776,941   |
| Accounts receivable Renova (Note 28)                         | 82,772               | 88,566   | 90,015  | 91,463  |
| Advance for future delivery of power supply (Note 28)        | 359,227              | 384,373  | 390,659   | 396,946   |
| Financial assets of the transmission concession (Note 14)    | 473,374              | 506,510  | 514,794   | 523,078   |
| Restricted cash  | 405,494              | 433,879  | 440,975   | 448,071   |
| CVA + Other financial components in tariff adjustments Selic | 100,457              | 107,489  | 109,247   | 111,005   |
| Other credits owed by Eletrobras                             | 901                  | 964  | 980   | 996   |
|  | 2,674,090            | 2,861,277                                      | 2,908,073   | 2,954,870                                       |
| <b>Liabilities</b>   |                      |  |   |   |
| Loans and financings CDI rate (Note 20)                      | (9,765,729)          | (10,449,330)                                   | (10,620,230)  | (10,791,131)                                    |
| Loans and financings TJLP (Note 20)                          | (230,127)            | (244,510)                                      | (248,100)   | (251,713)                                       |
| Advance sales of power supply (Note 7)                       | (312,112)            | (331,619)                                      | (336,488)   | (341,388)                                       |
| CVA and Other Financial components in tariffs (Note 14)      | (704,418)            | (753,727)                                      | (766,055)   | (778,382)                                       |
|  | (11,012,386)         | (11,779,186)                                   | (11,970,873)  | (12,162,614)                                    |
| <b>Net assets (liabilities) exposed</b>                      | <b>(8,338,296)</b>   | <b>(8,917,909)</b>                             | <b>(9,062,800)</b>                                  | <b>(9,207,744)</b>                              |
| <b>Net effect of variation in interest rates</b>             |                      | <b>(579,613)</b>                               | <b>(724,504)</b>                                    | <b>(869,448)</b>                                |

**Risk of increase in inflation**

On September 30, 2017 the Company is exposed to the risk of increase in inflation, as follows:

### Exposure to increase in inflation

| <b>R\$ 000</b>  | <b>Sep. 30, 2017</b> | <b>Dec. 31, 2016</b> |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| Financial assets of the concession Distribution infrastructure IPCA (Note 14) | 130,340              | 128,071              |
| Financial assets of the concession Transmission infrastructure IPCA (Note 14) | 1,975,775            | 1,805,230            |
| Concession Grant Fee IPCA (Note 13)   | 2,321,817            | 2,253,765            |
|   | 4,427,932            | 4,187,066            |
| <b>Liabilities</b>  |                      |                      |
| Loans, financings and debentures IPCA (Note 20)                               | (3,971,900)          | (3,933,092)          |
| Debt agreed with pension fund (Forluz) IPCA                                   | (736,774)            | (787,003)            |
| Forluz solution plan  | (284,165)            |                      |
|   | (4,992,839)          | (4,720,095)          |
| <b>Net liabilities exposed</b>  | <b>(564,907)</b>     | <b>(533,029)</b>     |

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**Table of Contents****Sensitivity analysis**

In relation to the most significant inflation risk, the Company estimates that, in a probable scenario, on September 30, 2018 the IPCA inflation index will be 4.55%. The Company has made a sensitivity analysis of the effects on its profit arising from increases in inflation of 25% and 50%.

|  | Sep. 30,<br>2017  | Scenario<br>IPCA<br>4.55% | Sep. 30, 2018<br>Scenario<br>IPCA<br>5.69% | Scenario<br>IPCA<br>6.82% |
|--|-------------------|---------------------------|--|---------------------------|
| <b>Risk: increase in inflation</b>             | <b>Book value</b> |                           |  |                           |
| <b>Assets</b>                                  |                   |                           |  |                           |
| Financial assets of the concession             |                   |                           |  |                           |
| Distribution infrastructure                    | 130,340           | 136,265                   | 137,743                                    | 139,229                   |
| Financial assets of the concession             |                   |                           |  |                           |
| Transmission infrastructure                    | 1,975,775         | 2,065,594                 | 2,087,999                                  | 2,110,523                 |
| Concession Grant Fee                           | 2,321,817         | 2,427,367                 | 2,453,696                                  | 2,480,165                 |
|  | 4,427,932         | 4,629,226                 | 4,679,438                                  | 4,729,917                 |
| <b>Liabilities</b>                             |                   |                           |  |                           |
| Loans, financings and debentures               | (3,971,900)       | (4,152,463)               | (4,197,504)                                | (4,242,784)               |
| Debt agreed with pension fund (Forluz)         | (736,774)         | (770,268)                 | (778,623)                                  | (787,022)                 |
| Forluz solution plan                           | (284,165)         | (297,083)                 | (300,306)                                  | (303,545)                 |
|  | (4,992,839)       | (5,219,814)               | (5,276,433)                                | (5,333,351)               |
| <b>Net liabilities exposed</b>                 | <b>(564,907)</b>  | <b>(590,588)</b>          | <b>(596,995)</b>                           | <b>(603,434)</b>          |
| <b>(Net effect of variation in IPCA index)</b> |                   | <b>(25,681)</b>           | <b>(32,088)</b>                            | <b>(38,527)</b>           |

**Liquidity risk**

Cemig has sufficient cash flow to cover the cash needs related to its operating activities.

The Company manages liquidity risk with a group of methods, procedures and instruments that are coherent with the complexity of the business, and applied in permanent control of the financial processes, to guarantee appropriate risk management including permanent monitoring of its cash flow in a conservative, budget-oriented manner. Balances are projected monthly, for each one of the companies, over a period of 12 months, and daily liquidity is projected over 180 days.

Short-term investments must, similarly, comply with certain rigid investing principles established in the Company's Cash Investment Policy, which was approved by the Financial Risks Management Committee. These include applying its resources in private-securities investment funds, without market risk, and investment of the remainder directly in bank CDs or repo contracts which earn interest at the CDI rate.

In managing cash investments, the Company seeks to obtain profitability through a rigid analysis of financial institutions' credit, applying operational limits for each bank, based on assessments that take into account their ratings, exposures and balance sheets. It also seeks greater returns on investments by strategically investing in securities with longer investment maturities, while bearing in mind the Company's minimum liquidity control requirements.

On the reporting date of these interim accounting statements, the Company (holding company and consolidated) had an excess of current liabilities over current assets.

Note 1 refers to the various measures taken by the Company and its subsidiaries to increase its liquidity, through new financings, refinancing of existing obligations or, potentially, disinvestment of assets that are not part of the Company's core business. Any reduction in the Company's ratings could result in a reduction of its ability to obtain new financings and could also make refinancings of debts not yet due more difficult or more costly. In this situation, any financing or refinancing of the Company's debt could have higher interest rates or might require compliance with more onerous covenants, which could additionally cause restrictions to the operations of the business.

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The flow of payments of the obligations of the Company and its subsidiaries, under debts agreed with the pension fund, loans, financings and debentures, for floating and fixed rates, including future interest up to contractual maturity dates, is shown in the table below:

**Consolidated**

| <b>R\$ 000</b>                                    | <b>Up to 1 month</b> | <b>1 to 3 months</b> | <b>3 months to 1 year</b> | <b>1 to 5 years</b> | <b>Over 5 years</b> | <b>Total</b>      |
|---|----------------------|----------------------|---------------------------|---------------------|---------------------|-------------------|
| <b>Financial instruments at (interest rates):</b> |                      |                      |                           |                     |                     |                   |
| <b>- Floating rates</b>                           |                      |                      |                           |                     |                     |                   |
| Loans, financings and debentures                  | 662,888              | 2,948,205            | 2,122,983                 | 9,622,053           | 1,380,435           | 16,736,564        |
| The Tax Credits Regularization Plan               | 123,510              | 187,694              | 284,143                   |                     |                     | 595,347           |
| Paid concessions                                  | 249                  | 492                  | 2,103                     | 9,440               | 14,428              | 26,712            |
| Debt agreed with pension fund (Forluz)            | 11,002               | 22,134               | 101,653                   | 602,259             | 299,272             | 1,036,320         |
| Forluz solution plan (Note 22)                    | 2,515                | 7,540                | 20,551                    | 136,579             | 394,613             | 561,798           |
|   | <b>800,164</b>       | <b>3,166,065</b>     | <b>2,531,433</b>          | <b>10,370,331</b>   | <b>2,088,748</b>    | <b>18,956,741</b> |
| <b>- Fixed rate</b>                               |                      |                      |                           |                     |                     |                   |
| Suppliers   | 2,175,293            | 11,155               |                           |                     |                     | 2,186,448         |
|   | <b>2,975,457</b>     | <b>3,177,220</b>     | <b>2,531,433</b>          | <b>10,370,331</b>   | <b>2,088,748</b>    | <b>21,143,189</b> |

**Holding company**

| <b>R\$ 000</b>                                    | <b>Up to 1 month</b> | <b>1 to 3 months</b> | <b>3 months to 1 year</b> | <b>1 to 5 years</b> | <b>Over 5 years</b> | <b>Total</b>  |
|---|----------------------|----------------------|---------------------------|---------------------|---------------------|---------------|
| <b>Financial instruments at (interest rates):</b> |                      |                      |                           |                     |                     |               |
| <b>- Floating rates</b>                           |                      |                      |                           |                     |                     |               |
| Debt agreed with pension fund (Forluz)            |                      | 541                  | 1,089                     | 5,001               | 29,631              | 50,986        |
| Forluz solution plan (Note 22)                    |                      | 124                  | 371                       | 1,011               | 6,720               | 27,641        |
|   |                      | <b>665</b>           | <b>1,460</b>              | <b>6,012</b>        | <b>36,351</b>       | <b>34,139</b> |
| <b>- Fixed rate</b>                               |                      |                      |                           |                     |                     |               |
| Suppliers   |                      | 23,571               |                           |                     |                     | 23,571        |
|   |                      | <b>24,236</b>        | <b>1,460</b>              | <b>6,012</b>        | <b>36,351</b>       | <b>34,139</b> |

**Credit risk**

The risk arising from the possibility of Cemig and its subsidiaries incurring losses as a result of difficulty in receiving amounts billed to its clients is considered to be low. The Company carries out monitoring for the purpose of reducing default, on an individual basis, with its consumers. Negotiations are also entered into for receipt of any receivables in arrears. The risk is also reduced by the extremely wide client base.

The allowance for doubtful debtors constituted on September 30, 2017, considered to be adequate in relation to the credits in arrears receivable by the Company and its subsidiaries, was R\$ 851,448.

In relation to the risk of losses resulting from declaration of insolvency of a financial institutions at which the Company has deposits, a Cash Investment Policy was approved and has been in effect since 2004, and is reviewed annually.

Cemig manages the counterparty risk of financial institutions based on an internal policy approved by its Financial Risks Management Committee.

This Policy assesses and scales the credit risks of the institutions, the liquidity risk, the market risk of the investment portfolio and the Treasury operational risk.

All investments are made in financial securities that have fixed-income characteristics, always indexed to the CDI rate. The Company and its subsidiaries make no securities investment transactions that could bring any volatility risk into its financial statements.

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As a management instrument, Cemig divides the investment of its funds into direct purchases of securities (own portfolio) and investment funds. The investment funds invest the funds exclusively in fixed income products, and companies of the Group are the only unit holders. They obey the same policy adopted in the investments for the Company's directly-held own portfolio.

The minimum requirements for concession of credit to financial institutions are centered on three items:

1. Rating by three risk rating agencies.
2. Equity greater than R\$ 400 million.
3. Basel ratio above 12.

Banks that exceed these thresholds are classified in three groups, by the value of their equity; and within this classification, limits of concentration by group and by institution are set:

| <b>Group</b> | <b>Stockholders equity</b>         | <b>Concentration</b> | <b>Limit per bank (% of Equity)**</b> |
|--------------|------------------------------------|----------------------|---------------------------------------|
| A1           | Over R\$ 3.5 billion               | Minimum of 80%       | Between 6% and 9%                     |
| A2           | R\$ 1.0 billion to R\$ 3.5 billion | Maximum 20%          | Between 5% and 8%                     |
| B            | R\$ 400 million to R\$ 1.0 billion | Maximum 20%          | Between 5% and 7%                     |

(1) The percentage assigned to each bank depends on an individual assessment of indicators such as liquidity, quality of the credit portfolio, and other aspects.

Further to these points, Cemig also sets two concentration limits:

1. No bank may have more than 30% of the Group's portfolio.
2. No bank may have more than 50% of the portfolio of any individual company.

**Risk of over-contracting and under-contracting of power supply**

Sale or purchase of power supply in the spot market to cover a positive or negative exposure of supply contracted, to serve the captive market of Cemig D, is a risk inherent to the electricity distribution business. The regulatory limit for 100% pass-through to consumers of exposure to the spot market, valued at the difference between the distributor's average purchase price and the spot price (PLD), is only the margin between 100% and 105% of the distributor's contracted supply. Any exposure that can be proved to have arisen from factors outside the distributor's control



( involuntary exposure ) may also be passed through in full to consumers. The Company's Management is continually managing its contracts for purchase of power supply to mitigate the risk of exposure is to the spot market.

**Risk of continuity of the concession**

The risk to continuity of the distribution concession arises from the new terms included in the extension of Cemig D's concession for 30 years from January 1, 2016, as specified by Law 12783/13. The extension is subject to new conditions not in the previous concession contract, making continuation of the concession conditional upon compliance by Cemig D with new criteria for quality and economic/financial sustainability, without which the extension may be subject to cancellation in the first five years of the contract in that not meeting the criteria in any two consecutive years, or in the fifth year, results in cancellation of the concession.

Additionally, as from 2021, non-compliance with the quality criteria for three consecutive years, or with the minimum parameters for economic/financial sustainability for two consecutive years, results in opening of proceedings with a view to termination of the distribution concession.

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The greater part of the electricity sold by the Company's subsidiaries is generated by hydroelectric plants. A prolonged period of scarce rainfall can result in lower water volumes in the plants' reservoirs, possibly causing losses due to increased costs of purchasing electricity, due to replacement by thermoelectric generation, or reduction of revenues due to reduction in consumption caused by implementation of wide-ranging programs for saving of electricity. Prolongation of the generation of electricity using the thermal plants potentially could lead to cost increases for the electricity distributors, causing a greater need for cash, and could result in future increases in tariffs.

**Risk of early maturity of debt**

The Company and its subsidiaries have contracts for loans, financings and debentures with restrictive covenants normally applicable to this type of transaction, related to compliance with a financial index. Non-compliance with these covenants could result in earlier maturity of debts. For more details please see Note 20.

The covenant requiring half-yearly compliance, relating to the financial ratios of Cemig and of Cemig (guarantor), were complied with on June 30, 2016. The covenants requiring compliance annually were complied with on December 31, 2016. For fuller details please see Note 20.

**Capital management**

This table shows the Company's consolidated net liabilities in relation to its Equity:

|                                 | <b>Sep. 30,<br/>2017</b> | <b>Dec. 31,<br/>2016</b> |
|---------------------------------|--------------------------|--------------------------|
| <b>Total liabilities</b>        | 28,544,868               | 29,101,482               |
| ( ) Cash and cash equivalents   | (582,382)                | (995,132)                |
| ( ) Restricted cash             | (405,494)                | (367,474)                |
| <b>Net liabilities</b>          | <b>27,556,992</b>        | <b>27,738,876</b>        |
| <b>Total equity</b>             | <b>13,287,207</b>        | <b>12,934,371</b>        |
| <b>Net liabilities / equity</b> | <b>2.07</b>              | <b>2.14</b>              |

**30. MEASUREMENT AT FAIR VALUE**

In the initial recognition, Cemig and its subsidiaries measure their financial assets and liabilities at fair value; after initial recognition, financial assets and liabilities are classified into the categories defined for financial instruments. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. We adopt the Fair Value Hierarchy, to maximize coherence and comparability; this separation divides the inputs potentially used in measuring fair value into three broad levels, as follows:

Level 1 Active market Quoted prices: A financial instrument is considered to be quoted in an active market if the prices quoted are promptly and regularly made available by an exchange or organized over-the-counter market, by operators, by brokers or by a market association, by entities whose purpose is to publish prices, or by regulatory agencies, and if those prices represent regular arm's length market transactions made without any preference.

Level 2 No active market Valuation technique: For an instrument that does not have an active market, fair value should be found by using a method of valuation/pricing. Criteria such as data on the current fair value of another instrument that is substantially similar, or discounted cash flow analysis or option pricing models, may be used. The objective of the valuation technique is to establish what would be the transaction price on the measurement date in an arm's-length transaction motivated by business considerations.

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Level 3 No active market No observable inputs: The fair value of investments in securities for which there are no prices quoted on an active market, or of derivatives linked to them which are to be settled by delivery of unquoted securities, is determined based on generally accepted valuation techniques, mainly related to discounted cash flow analysis.

The following is a summary of the instruments that are measured at fair value:

| R\$ 000  | Balance<br>at Sep. 30,<br>2017 | Fair value at Sep. 30, 2017                         |  |   |
|--|--------------------------------|---|--|---|
|  |                                | Active<br>market<br>quoted<br>price<br>(Level<br>1) | No active<br>market<br>Valuation<br>technique<br>(Level 2) | No active<br>market No<br>observable<br>inputs<br>(Level 3) |
| <b>Assets</b>  |                                |   |  |   |
| <b>Held for trading</b>                                      |                                |   |  |   |
| Securities   |                                |   |  |   |
| Bank certificates of deposit                                 | 40,133                         |   | 40,133   |   |
| Financial Notes Banks  | 521,896                        |   | 521,896  |   |
| Treasury Financial Notes (LFTs)                              | 103,954                        | 103,954   |  |   |
| Debentures   | 11,068                         |   | 11,068   |   |
|  | <b>677,051</b>                 | <b>103,954</b>                                      | <b>573,097</b>   |   |
| <b>Loans and receivables</b>                                 |                                |   |  |   |
| Concession Grant Fee   | 2,321,817                      |   | 2,321,817  |   |
| Restricted cash  | 405,494                        |   | 405,494  |   |
|  | <b>2,727,311</b>               |   | <b>2,727,311</b>   |   |
| <b>Available for sale</b>                                    |                                |   |  |   |
| Financial assets of the concession related to infrastructure | 271,612                        |   |  | 271,612   |
|  | <b>3,675,974</b>               | <b>103,954</b>                                      | <b>3,300,408</b>   | <b>271,612</b>  |
| <b>Liabilities</b>   |                                |   |  |   |
| <b>Fair value through profit or loss</b>                     |                                |   |  |   |
| <b>Put options Assets (Liabilities)</b>                      |                                |   |  |   |
| Sonda  | 4,484                          |   |  | 4,484   |
| RME and Lepsa  | (1,242,818)                    |   | (1,242,818)  |   |
| SAAG   | (264,139)                      |   |  | (264,139)   |
|  | <b>(1,502,473)</b>             |   | <b>(1,242,818)</b>   | <b>(259,655)</b>  |
|  | <b>2,173,501</b>               | <b>103,954</b>                                      | <b>2,057,590</b>   | <b>11,957</b>   |

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| R\$ 000  | Balance<br>at Dec. 31,<br>2016 | Fair value at December 31, 2016                     |  |  |
|--|--------------------------------|---|--|--|
|  |                                | Active<br>market<br>quoted<br>price<br>(Level<br>1) | No active<br>market<br>Valuation<br>technique<br>(Level 2) | No active<br>market<br>No<br>observable<br>inputs<br>(Level 3) |
| <b>Assets</b>  |                                |   |  |  |
| <b>Held for trading</b>                                      |                                |   |  |  |
| Securities   |                                |   |  |  |
| Bank certificates of deposit                                 | 32,782                         |   | 32,782   |  |
| Treasury Financial Notes (LFTs)                              | 192,995                        | 192,995   |  |  |
| Financial Notes Banks  | 724,274                        |   | 724,274  |  |
| Debentures   | 45,289                         |   | 45,289   |  |
|  | <b>995,340</b>                 | <b>192,995</b>                                      | <b>802,345</b>   |  |
| <b>Loans and receivables</b>                                 |                                |   |  |  |
| Concession Grant Fee   | 2,253,765                      |   | 2,253,765  |  |
| Restricted cash  | 367,474                        |   | 367,474  |  |
|  | <b>2,621,239</b>               |   | <b>2,621,239</b>   |  |
| <b>Available for sale</b>                                    |                                |   |  |  |
| Financial assets of the concession related to infrastructure | 216,107                        |   |  | 216,107  |
|  | <b>3,832,686</b>               | <b>192,995</b>                                      | <b>3,423,584</b>   | <b>216,107</b>   |
| <b>Liabilities</b>   |                                |   |  |  |
| <b>Fair value through profit or loss</b>                     |                                |   |  |  |
| <b>Put options Assets (Liabilities)</b>                      |                                |   |  |  |
| Sonda  | 4,586                          |   |  | 4,586  |
| RME and Lepsa  | (1,149,881)                    |   | (1,149,881)  |  |
| SAAG   | (196,173)                      |   |  | (196,173)  |
|  | <b>(1,341,468)</b>             |   | <b>(1,149,881)</b>   | <b>(191,587)</b>   |
|  | <b>2,491,218</b>               | <b>192,995</b>                                      | <b>2,273,703</b>   | <b>24,520</b>  |

(1) As from 4Q16 the Company began to use the Black-Scholes-Merton method for measuring the fair value of the options. For more details please see Note 15.

**Calculation of fair value of financial positions**

Financial assets of the concession related to infrastructure: Measured at New Replacement Value (*Valor novo de reposição*, or VNR), according to criteria established in regulations by the Concession-granting power ( Grantor ), based on fair value of the assets in service belonging to the concession and which will be revertible at the end of the concession, and on the Weighted average cost of capital (WACC) used by the Grantor, which reflects the concession holder s return on the operations of the concession. The VNR and the WACC are public information disclosed by the Grantor and by Cemig. The movement in financial assets of the concession is shown in Note 13.

Cash investments: The fair value of cash investments is calculated taking into consideration the market prices of the security, or market information that makes such calculation possible, and future rates in the fixed income and FX markets applicable to similar securities. The market value of the security is deemed to be its maturity value discounted to present value by the discount factor obtained from the market yield curve in Reais.

Put options: the Company adopted the Black-Scholes-Merton method for measuring fair value of the SAAG, Parati and Sonda options. The fair value of these options was calculated on the basis of the estimated exercise price on the day of exercise of the option, less the fair value of the underlying shares, also estimated for the date of exercise, brought to present value at the reporting date. The movement in relation to the put options, and other information, is given in Note 15.

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**31. 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.

These tables show the costs and expenses for the nine-month periods ended on September 30, 2017 and 2016:

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

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|---|--------------------|------------------|--------------------|-----------------|--------------|
| ELECTRICITY   |                    |                  |                    |                 |              |
|   | GENERATION         | TRANSMISSION     | DISTRIBUTION       | ELECOMS         | GA           |
|   | 16,270,364         | 4,147,643        | 18,430,584         | 334,918         | 2,049        |
| LY-CONTROLLED ENTITIES                              | 4,565,559          | 1,671,072        | 1,748,994          |                 |              |
|   | 249,826            |                  | 705,295            | 34,738          | 40           |
|   |                    | <b>11,226</b>    |                    |                 |              |
|   | <b>5,307,670</b>   | <b>547,179</b>   | <b>8,281,712</b>   | <b>88,389</b>   | <b>1,061</b> |
|   | (3,021,466)        |                  | (4,717,386)        |                 |              |
|   | (261,295)          | (262)            | (661,101)          |                 |              |
|   |                    |                  |                    |                 | (789)        |
|   | (3,282,761)        | (262)            | (5,378,487)        |                 | (789)        |
|   | (218,933)          | (84,022)         | (877,192)          | (14,559)        | (36)         |
|   | (4,182)            | (1,871)          | (18,131)           | (380)           |              |
|   | (42,539)           | (19,850)         | (201,745)          |                 |              |
|   | (7,468)            | (2,110)          | (32,089)           | (107)           | (1)          |
|   | (97,890)           | (21,278)         | (550,614)          | (20,624)        | (12)         |
|   | (136,400)          |                  | (400,754)          | (25,974)        | (41)         |
|   | (97,543)           | (9,148)          | (347,608)          | (456)           |              |
|   |                    | (11,226)         | (705,296)          |                 | (20)         |
|   | (35,323)           | (6,550)          | (240,405)          | (18,501)        | (7)          |
|   | <b>(640,278)</b>   | <b>(156,055)</b> | <b>(3,373,834)</b> | <b>(80,601)</b> | <b>(119)</b> |
|   | <b>(3,923,039)</b> | <b>(156,317)</b> | <b>(8,752,321)</b> | <b>(80,601)</b> | <b>(909)</b> |
| NET GAINS (LOSSES) AND FINANCIAL REVENUE (EXPENSES) | <b>1,384,631</b>   | <b>390,862</b>   | <b>(470,609)</b>   | <b>7,788</b>    | <b>152</b>   |
|   | 151,126            |                  |                    | (1,951)         |              |
|   | 126,202            | 5,013            | 302,727            | 2,149           | 24           |
|   | (847,998)          | (1,886)          | (616,487)          | (11,450)        | (30)         |
|   | <b>813,961</b>     | <b>393,989</b>   | <b>(784,369)</b>   | <b>(3,464)</b>  | <b>145</b>   |
|   | (215,688)          | (120,333)        | 245,677            | 307             | (45)         |
|   | <b>598,273</b>     | <b>273,656</b>   | <b>(538,692)</b>   | <b>(3,157)</b>  | <b>100</b>   |
|   | <b>598,273</b>     | <b>273,656</b>   | <b>(538,692)</b>   | <b>(3,157)</b>  | <b>100</b>   |
|   | <b>598,273</b>     | <b>273,656</b>   | <b>(538,692)</b>   | <b>(3,157)</b>  | <b>100</b>   |

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

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|--|--------------------|------------------|--------------------|-----------------|--------------|
| ELECTRICITY  |                    |                  |                    |                 |              |
|  | GENERATION         | TRANSMISSION     | DISTRIBUTION       | TELECOMS        | GA           |
| <b>NTLY-CONTROLLED ENTITIES</b>                          | <b>14,414,449</b>  | <b>4,267,418</b> | <b>18,165,610</b>  | <b>337,745</b>  | <b>2,73</b>  |
|  | 5,291,892          | 1,669,849        | 1,754,342          | 17,741          |              |
|  | <b>740,337</b>     |                  | <b>854,060</b>     | <b>27,630</b>   | <b>27</b>    |
|  | <b>2,255,561</b>   | <b>36,405</b>    |                    |                 |              |
|  | <b>4,268,400</b>   | <b>953,846</b>   | <b>8,000,957</b>   | <b>99,711</b>   | <b>84</b>    |
|  | (2,305,000)        |                  | (3,857,716)        |                 |              |
|  | (232,477)          | (243)            | (605,478)          |                 | (622)        |
|  | <b>(2,537,477)</b> | <b>(243)</b>     | <b>(4,463,194)</b> |                 | <b>(622)</b> |
|  | (202,412)          | (81,019)         | (852,103)          | (17,546)        | (30)         |
|  | (4,095)            | (2,311)          | (26,939)           |                 |              |
|  | (39,975)           | (15,575)         | (165,845)          |                 |              |
|  | (8,118)            | (2,115)          | (29,226)           | (74)            | (1)          |
|  | (91,502)           | (21,295)         | (472,356)          | (16,523)        | (1)          |
|  | (156,261)          |                  | (367,753)          | (24,949)        | (40)         |
|  | (56,512)           | (6,935)          | (370,553)          | 294             |              |
|  |                    | (36,405)         | (854,060)          |                 | (2)          |
|  | (48,224)           | (7,898)          | (284,938)          | (13,406)        | (1)          |
|  | <b>(607,099)</b>   | <b>(173,553)</b> | <b>(3,423,773)</b> | <b>(72,204)</b> | <b>(11)</b>  |
|  | <b>(3,144,576)</b> | <b>(173,796)</b> | <b>(7,886,967)</b> | <b>(72,204)</b> | <b>(74)</b>  |
| <b>Y GAINS (LOSSES) AND FINANCIAL REVENUE (EXPENSES)</b> | <b>1,123,824</b>   | <b>780,050</b>   | <b>113,990</b>     | <b>27,507</b>   | <b>10</b>    |
| es   | (155,226)          | 301,402          | (69,934)           | (25,648)        |              |
|  | 134,676            | 4,100            | 597,394            | 3,275           | 1            |
|  | (998,640)          | (3,673)          | (847,214)          | (5,047)         | (2)          |
|  | <b>104,634</b>     | <b>1,081,879</b> | <b>(205,764)</b>   | <b>87</b>       | <b>8</b>     |
|  | (65,006)           | (217,859)        | 23,223             | (1,962)         | (2)          |
|  | <b>39,628</b>      | <b>864,020</b>   | <b>(182,541)</b>   | <b>(1,875)</b>  | <b>6</b>     |
|  | 39,628             | 864,020          | (182,541)          | (1,875)         | 6            |
|  | <b>39,628</b>      | <b>864,020</b>   | <b>(182,541)</b>   | <b>(1,875)</b>  | <b>6</b>     |

- \* The expense of R\$ 280,531 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 14.

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**32. THE ANNUAL TARIFF ADJUSTMENT**

On May 23, 2017 Aneel approved the result of the Annual Tariff Adjustment for the subsidiary Cemig D. It represented an average decrease in tariffs of 10.66%, in effect on May 28, 2017, through May 27, 2018.

The average negative affect of 10.66% arises from the following factors:

Adjustment of the cost items of Portions A and B, contributing 1.29% to the average effect.

Inclusion of the financial components calculated in the current tariff adjustment for offsetting in the subsequent 12 months, resulting in a reduction of 4.68%.

Removal of the financial components established in the 2016 tariff adjustment process, which remained in effect up to the date of the adjustment being processed, contributing 7.28% reduction.

Offsetting of CDE: Offsetting between the amounts payable and receivable, in the amount of R\$ 974,680 in 9M17 (R\$ 761,145 in 9M16).

**33. NON-CASH TRANSACTIONS**

In the half-year periods ended September 30, 2017 and 2016, the Company had the following transactions not involving cash, which are not reflected in the Cash flow statements:

Capitalized Finance Costs in the amount of R\$ 56,851 in 9M17 (R\$ 120,398 in 9M16).

Offsetting of CDE: Offsetting between the amounts payable and receivable, in the amount of R\$ 974,680 in 9M17 (R\$ 761,145 in 9M16).

**34. SUBSEQUENT EVENTS**

**Amendments to contracts for loans with Banco do Brasil**

On October 23, 2017, the subsidiary Cemig GT signed amendments to loan contracts signed with Banco do Brasil, in the total amount of R\$ 549 million, for the purpose of postponing payment of the tranches maturing on October 24, 26 and 30, 2017, for 60 days. The interest to be calculated on the debtor balance was increased from 108% of the CDO rate and 112% of the CDI rate, to 128% of the CDI rate; one of the amendments maintained the original interest rate,

of 132.9% of the CDI rate. The early maturity events were also altered, to be in line with the clauses in Cemig GT's 7th Issue of Non-convertible Debentures.

**binding proposal for capitalization in Renova**

On November 12, 2017, Renova received a binding proposal for primary investment of R\$ 1.4 billion in Renova, at a price of R\$ 6 per unit. The offer further includes an earn-out of up to R\$ 1.00 (one Real) per unit, for any amount that Renova receives in the future as adjustment to the sale price of the Alto Sertão II Wind Power Complex.

The proposal also specifies conditions precedent that are usual in this type of transaction. In the event of acceptance, Brookfield will be given a period of exclusivity of 60 days, able to be extended for 30 days, to finalize the documents of the transaction.

The transaction will then be subject to consideration and approval by the governance bodies of Renova and its controlling stockholders.

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**Non-binding offers related to the process of disinvestment**

On November 13, 2017, in continuity with the relevant facts disclosed on August 28, 2017 and October 02, 2017, Cemig has received non-binding proposals related to its process of disinvestment, as a result of the first phase of access to the documents and information contained in the Data Room made available to potential investors in relation to the Light group.

Cemig is analyzing these proposals for possible selection for inclusion in the next phase. If a selection is made, conclusion of the disinvestment process will also be subject to: a phase of due diligence, including technical visits; submission of binding proposals; negotiations; final approvals for signature of definitive agreements for the transaction referred to; and approvals of conditions precedent that are usual in this type of transaction.

Considering the stage of the discussions, no modification was made in the accounting treatment of the investment in the jointly controlled subsidiary Light.

**Capital increase proposal in Cemig**

On October 26, 2017, the Extraordinary General Meeting of Stockholders approved an increase of the Company's share capital, by up to R\$ 1,000,000, through issuance of up to 66,849,505 (sixty six million eight hundred forty nine thousand five hundred five) new common shares and up to 133,150,495 (one hundred thirty three million one hundred fifty thousand four hundred ninety five) new preferred shares, all nominal, book-entry shares, each with nominal value of R\$ 5.00 (five Reais), for issue price per share, for both common and preferred shares, of R\$ 6.57 (six Reais and fifty seven centavos) ( the Capital Increase ). After such increase, the subscribed and paid-in capital stock of the Company will increase from R\$ 6,294,208 to 7,294,208.

All the shares resulting from this subscription will have the same rights as the shares of the same class on which the capital increase is based. The Capital Increase will be by private subscription, with present shareholders having preference to participate in proportion to their current equity holdings, on the basis of 0.1588762172 of a new share for each share held at the close of market on the day of the EGM that authorizes the Capital Increase.

Such capital increase action will allow the Company to obtain funds in the amount of up to R\$ 1,314,000, being sure that the difference, in the amount of up to R\$ 314,000, will be allocated to the capital reserve account. The potential dilution resulting from the issue, if any shareholder does not join the subscription, is 13.704239283% for common shares and preferred shares. The current shareholders may exercise the preemptive right to subscribe, in the period from October 30, 2017 to November 29, 2017, at 15.887624200% on the shares of the same type that they own at the end of the day of the extraordinary general meeting that deliberates on this subject.

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### **Report on the review of interim information**

The Shareholders, Board of Directors and Officers

### **Companhia Energética de Minas Gerais**

Belo Horizonte MG

### **Introduction**

We have reviewed the accompanying individual and consolidated interim financial information of Companhia Energética de Minas Gerais ( Company ), contained in the Quarterly Information Form (ITR) for the quarter ended September 30, 2017, which comprise the statement of financial position as at September 30, 2017 and the related statement of profit or loss, of comprehensive income for the three-month and nine-month periods then ended, and statement of changes in equity and cash flow statement for the nine-month period then ended, including other explanatory information.

Management is responsible for the preparation of the individual interim financial information in accordance with Accounting Pronouncement CPC 21 (R1) Interim Financial Reporting, and of the consolidated interim financial information in accordance with IAS 34 Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the fair presentation of this information in conformity with the standards issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of review**

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity, and ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion on the individual and consolidated interim financial information**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the quarterly information referred to above is not prepared, in all material respects, in accordance with CPC 21(R1) and IAS 34, applicable to the preparation of Quarterly Financial Information (ITR), consistently with the rules issued by the Brazilian Securities and Exchange Commission.



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### **Emphasis of matters**

#### **Renewal of the concession for Jaguara, São Simão and Miranda**

As disclosed in note 4 to the interim financial information, the Company is challenging the renewal of the concession contracts for the Jaguara, São Simão and Miranda hydroelectric plants. These concession contracts were terminated in August 2013, January 2015 and December 2016, respectively and were auctioned by the granting authority on September 27, 2017. Additionally, the Company is discussing administratively the amounts of the financial assets indemnifiable relative to the plants in question. The Company does not expect to incur losses arising from this matter. Our conclusion is not modified in respect of this matter.

#### **Risks related to compliance with laws and regulations**

As mentioned in Note 14 to the interim financial information, the Company holds indirect non-controlling interests in Madeira Energia S.A. (which has an investment in Santo Antônio Energia S.A.) and Norte Energia S.A. (the Investees ), valued by the equity method. Investigations and certain legal actions conducted by the Federal Prosecution Office (MPF) involving other indirect shareholders of the Investees and certain executives of these shareholders are underway. At present, it is not possible to determine whether the results of referred to investigations and their respective developments may eventually have future consequences to the investees beyond the effects mentioned in Note 14. The Company's interim financial information does not include any other effects that may arise from this matter. Our conclusion is not modified in respect of this matter.

#### **Risk of continuity of the investee Renova Energia S.A. business operations**

As disclosed in Note 14 to the interim financial information, the Company has indirect non-controlling interest in Renova Energia S.A. ( Renova ), which is accounted for under the equity method, and whose conditions indicate the existence of material uncertainty that may raise significant doubt as to the ability of Renova and its subsidiaries to continue as a going concern. Our conclusion is not modified in respect of this matter.

### **Other matters**

#### **Statements of value added**

We have also reviewed the individual and consolidated Statements of Value Added (SVA) for the nine-month period ended September 30, 2017, prepared under the responsibility of Company management, the presentation of which in the interim financial information is required by the rules issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Quarterly Information (ITR), and as supplementary information under the IFRS, whereby no SVA presentation is required. These statements have been subject to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that they are not consistently prepared, in all material respects, in relation to the overall accompanying interim financial information.

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**Audit and review of prior year/period corresponding figures**

The amounts corresponding to the statement of financial position as at December 31, 2016, and the statements of profit or loss and comprehensive income for the three-month and nine-month periods ended September 30, 2016, changes in equity, cash flows and value added for the nine-month period then ended, and presented for comparative purposes, were previously audited and reviewed, respectively, by other independent auditors, who issued an unmodified opinion on their independent auditor's report on the individual and consolidated financial statements dated April 11, 2017, and an unmodified conclusion on their review report on the individual and consolidated interim financial information dated April 27, 2017, both containing emphasis of matters on the issues described above.

Belo Horizonte (MG), November 14, 2017

ERNST & YOUNG

Auditores Independentes S.S.

CRC-2SP015199/O-6

Shirley Nara S. Silva

Accountant CRC 1BA022650/O-0

**Table of Contents****CONSOLIDATED RESULTS****(Figures in R\$ 000 unless otherwise indicated)****Results for 9M17*****Net profit***

For the first nine months of 2017 (9M17) Cemig reported net profit of R\$ 397,182 compared to net profit of R\$ 640,833 in 9M16. The following pages describe the main variations between the two periods in revenues, costs, expenses and financial items.

We highlight that in 9M17 the subsidiaries Cemig GT and Cemig D adhered to the Minas Gerais State Tax Credits Regularization Plan (PRCT), for settlement of the ICMS tax, which totals an estimated R\$ 582,956 (the amount is to be updated until the date of actual payment). This is to be paid in six equal installments, starting on October 31, 2017. The net effect posted in the third quarter results in 2017 is R\$ 587,624. The amount of R\$ 562,406 is recorded as deductions from revenue; and R\$ 25,218 is posted as expenses (operational and financial).

As further non-recurring items in 3Q17, the Company recognized a gain on updating of the indemnity of generation assets, in the amount of R\$ 259,516; and reversal of the provision relating to an Advance against future capital increase (AFAC), the effect of which in the Profit and loss account was R\$ 277,723 comprising a reversal of provision of R\$ 239,445, and an item in Financial revenue of R\$ 38,278 arising from monetary updating of the administrative deposit. For more details please see Notes 11 and 23.

**Ebitda**

(Earnings before interest, tax, depreciation and amortization)\*

Cemig's consolidated Ebitda in 9M17 was 22.98% below its Ebitda of 9M16:

| <b>Ebitda R\$ 000</b>                    | <b>9M17</b>      | <b>9M16</b>      | <b>Change, %</b> |
|--|------------------|------------------|------------------|
| Net profit for the period                | 397,182          | 640,833          | (38.02)          |
| + Income tax and Social Contribution tax | 204,594          | 224,400          | (8.83)           |
| + Financial revenue (expenses)           | 721,886          | 1,052,824        | (31.43)          |
| + Depreciation and amortization          | 616,783          | 601,197          | 2.59             |
| <b>= EBITDA</b>                          | <b>1,940,445</b> | <b>2,519,254</b> | <b>(22.98)</b>   |

- \* Ebitda is a non-accounting measure prepared by the Company, reconciled with the Interim accounting information in accordance with CVM Circular SNC/SEP 1/2007 and CVM Instruction 527 of October 4, 2012. It comprises Net profit adjusted by the effects of net Financial revenue (expenses), Depreciation and amortization, and Income tax and the Social Contribution tax. Ebitda is not a measure recognized by Brazilian GAAP nor by IFRS; it does not have a standard meaning; and it may be non-comparable with measures with similar titles provided by other companies. Cemig publishes Ebitda because it uses it to measure its own performance. Ebitda should not be considered in isolation or as a substitution for net profit or operational profit, nor as an indicator of operational performance or cash flow, nor to measure liquidity nor the capacity for payment of debt.

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The most significant factors in the Ebitda 22.98% lower than in 9M16 are difference are set out below. In line with the variation in Ebitda, Ebitda margin in 9M17 was lower at 12.80% in 2017, than 9M16 (17.86%).

### Revenue from supply of electricity

Revenue from sales of electricity in 9M17 totaled R\$ 17,387,754, compared to R\$ 17,315,733 in 9M16, a year-on-year increase of 0.42%.

### *Final consumers*

Total revenue from electricity sold to final consumers, excluding Cemig's own consumption, was R\$ 15,027,061 in 9M17 this was 1.82% lower than the figure for 9M16, of R\$ 15,305,033.

The main factors in this revenue were:

Lower revenues from the Flag tariff, at R\$ 258,060 in 9M17, compared to R\$ 342,789 in 9M16. This mainly reflects lower amounts under the red flag tariff in 9M17.

Volume of electricity sold in 9M17 was 1.56% lower than in 1H16.

The Annual Tariff Adjustment for Cemig D, with average effect on consumer tariffs of 3.78%, effective from May 28, 2016 (full effect in 2017).

The Annual Tariff Adjustment for Cemig D, with average effect on consumer tariffs of 10.66%, effective from May 28, 2017.

### *Cemig's electricity market*

The total for sales in Cemig's consolidated electricity market comprises sales to:

- (I) Captive consumers in Cemig's concession area in the State of Minas Gerais;
- (II) Free Consumers in both the State of Minas Gerais and other States of Brazil, in the Free Market (*Ambiente de Contratação Livre*, or ACL);
- (III) other agents of the electricity sector – traders, generators and independent power producers, also in the Free Market;

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

(V) the Wholesale Trading Exchange (*Câmara de Comercialização de Energia Elétrica*, or CCEE)  
( eliminating transactions between companies of the Cemig Group).

The tables below show Cemig's market in more detail, itemizing transactions in 9M17 compared with 9M16.

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Consumption itemized by type of consumer:

|  | <b>MWh</b>        |                   |                  |
|--|-------------------|-------------------|------------------|
|  | <b>9M17</b>       | <b>9M16</b>       | <b>Change, %</b> |
| Residential                                      | 7,489,980         | 7,406,095         | 1.13             |
| Industrial                                       | 13,162,944        | 14,541,717        | (9.48)           |
| Commercial, Services and Others                  | 5,581,213         | 4,907,884         | 13.72            |
| Rural  | 2,769,082         | 2,699,294         | 2.59             |
| Public authorities                               | 644,621           | 659,997           | (2.33)           |
| Public lighting                                  | 1,030,199         | 1,012,312         | 1.77             |
| Public services                                  | 977,757           | 930,708           | 5.06             |
| Subtotal   | <b>31,655,796</b> | <b>32,158,007</b> | <b>(1.56)</b>    |
| Own consumption                                  | 26,946            | 27,614            | (2.42)           |
|  | <b>31,682,742</b> | <b>32,185,621</b> | <b>(1.56)</b>    |
| Wholesale supply to other concession holders (1) | 9,167,876         | 8,813,064         | 4.03             |
| Total  | <b>40,850,618</b> | <b>40,998,685</b> | <b>(0.36)</b>    |

(1) Includes Regulated Market Electricity Sale Contracts (CCEARs) and bilateral contracts with other agents. We highlight the volume of electric power sold to the *industrial* consumer category, which was 9.48% lower YoY, basically due to consumers leaving the status of captive consumer and moving to become consumers in the Free Market.

Revenue from Use of Distribution Systems (the TUSD charge)

This is revenue from charging Free Consumers the Tariff for Use of the Distribution System (*Tarifa de Uso do Sistema de Distribuição*, or TUSD). In 9M 2017 this revenue was R\$ 1,230,623, compared to R\$ 1,348,132 in 9M16 a year-on-year reduction of 8.72%. This primarily reflects the reduction of approximately 40% in the TUSD, which took place in the 2017 Annual Tariff Adjustment, applied from May 28, 2017.

CVA and Other financial components in tariff adjustment

In its interim accounting information Cemig recognizes the difference between actual non-controllable costs (in which the CDE, and electricity bought for resale, are significant components) and the costs that were used as the basis of decision of the rates charged to consumers. This balance is the amount that will be passed through to the Company, or reimbursed to the consumer through Cemig's next subsequent tariff adjustments. In 9M17 the amount for reimbursement was R\$ 148,216, compared to R\$ 937,053 reimbursable in 9M16.

This variation was mainly due to increased costs of power supply in 9M17 due to the low level of the reservoirs, with a greater difference between the amounts spent and the costs recognized in the tariff. For more details please see Note 14.

Transmission indemnity revenue

Transmission indemnity revenue was R\$ 295,749 in 9M17, compared to R\$ 692,211 in 9M16. In 2Q17, as a result of the Mining and Energy Ministry setting the criteria for updating of the transmission indemnity, a posting was made, backdated to 2013, of the amount of the updating of the indemnity receivable based on the regulatory cost of own capital, which had a significant impact on the revenue reported.

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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We highlight the amount recorded in 2017, of R\$ 149,255, for the backdated difference of transmission concession assets the values of which were not included in the calculation basis for revenues in the previous tariff reviews. For more details see Note 14 *Financial assets of the concession*.

### Generation Indemnity revenue

In 9M17 the Company recognized revenue of R\$ 259,516, for the adjustment to the balance of non-amortized indemnities for the concessions of the *São Simão* and *Miranda* Hydroelectric Plants, as per Ministerial Order 291/17. For more details see Note 4.

### Revenue from transactions in the Wholesale Trading Chamber (CCEE)

The revenue from electricity transactions in the CCEE in 9M17 was R\$ 536,507, compared to R\$ 138,870 in 9M16 in other words, R\$ 397,637 higher. This difference is mainly due to the increase of 322.61% in the average Spot Price (*Preço de Liquidação de Diferenças* - PLD), which averaged R\$ 299.42/MWh in 9M17, and R\$ 70.85/MWh in 9M16; and the volume of power supply available for settlement in the wholesale market in 2017.

### Revenue from supply of gas

Cemig reports revenue from supply of gas totaling R\$ 1,305,636 in 9M17, compared to R\$ 1,037,126 in 9M16 i.e. 25.89% higher YoY. This basically reflects volume of gas sold 32.10% higher YoY (982,235m<sup>3</sup> in 9M17, vs. 743,534m<sup>3</sup> in 9M16).

### Construction Revenue

Distribution Infrastructure Construction Revenue in 9M17 was R\$ 736,754, which was 19.73% less than in 9M16 (R\$ 917,855). This revenue is fully offset by Construction costs, of the same amount, and corresponds to the Company's investments in assets of the concession in the period.

### Other operating revenues

The items in the Other Operating Revenues line comprise: Transmission Concession revenue; Adjustment to expectation of cash flow from the indemnifiable Financial assets of the distribution concession; Gain on financial updating of the Concession Grant Fee; and Other operating revenues. Their total in 9M17 was R\$ 1,561,119, or 2.18% more than in 9M16 (R\$ 1,527,798). See Note 25 for the composition of operational revenues.

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### ***Sector / Regulatory charges reported as Deductions from revenue***

The charges that are recorded as deductions from operational revenue totaled R\$ 8,308,094 in 9M17, or 4.72% more than in 9M16 (R\$ 7,933,934).

The Company adhered to the Minas Gerais State Tax Credits Regularization Plan (*Plano de Regularização de Créditos Tributários* - PRCT), for settlement of ICMS (state value-added tax). The effect reported in 3Q17 was R\$ 562,406 on ICMS from operational revenue.

### **The Energy Development Account - CDE**

The amounts of payments to the Energy Development Account (CDE) are decided by an Aneel Resolution. The purpose of the CDE is to cover costs of concession indemnities, tariff subsidies, the subsidy for balanced tariff reduction, the low-income consumer subsidy, the coal consumption subsidy, and the Fuels Consumption Account (CCC). Charges for the CDE in 9M17 were R\$ 1,326,946, which compares to R\$ 1,596,577 in 9M16.

This is a non-manageable cost: the difference between the amounts used as a reference for setting of tariffs and the costs actually incurred is compensated for in the subsequent tariff adjustment.

### **Consumer charges - the Flag Tariff system**

Charges to the Consumer related to the Flag Tariffs were lower, at R\$ 258,060 in 9M17, compared to R\$ 342,789 in 9M16 - a reduction of 24.72% - mainly reflecting a decrease of the red flag revenue in the comparative periods.

### ***Operational costs and expenses (excluding Financial revenue/expenses)***

Operational costs and expenses in 9M17 totaled R\$ 13,809,439, or 12.86% more than in 9M16 (R\$ 12,235,941). For more on the components of Operational costs and expenses see Note 26.

The following paragraphs comment on the main variations:

### **Electricity purchased for resale**

This expense in 9M17 was R\$ 7,685,392, 24.45% higher than in 9M16 (R\$ 6,126,458).

This is mainly due to expense on purchase of supply in the spot market being 166.70% higher, at R\$ 1,180,780 in 9M17, compared to R\$ 487,536 in 9M16 - reflecting the higher cost of power supply in the wholesale market in 2017 as a result of the low level of reservoirs, with less volume of production by hydroelectric plants. The result was a higher volume of operation of the thermal plants, for which the increase in expenditure was financed principally by the electricity distributors, which is a feature of the present regulatory model in Brazil.

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### Charges for Use of the Transmission Network

Charges for use of the transmission network in 9M17 totaled R\$ 791,339, an increase of 6.73% year-on-year, compared to R\$ 741,416 in 9M16.

This expense is payable by electricity distribution and generation agents for use of the facilities that are components of the national grid. The amounts to be paid are set by an Aneel Resolution.

This is a non-manageable cost: the difference between the amounts used as a reference for calculation of tariffs and the costs actually incurred is compensated for in the subsequent tariff adjustment.

### Operating provisions

Operational costs and expenses in 9M17 totaled R\$ 558,793, or 21.76% less than in 9M16 (R\$ 714,237). The main factors are:

Variation in fair value of the investment options related to Parati and SAAG, in the amount of R\$ 160,903 in 9M17, compared to a total provision of R\$ 297,073 in 9M16. More details on the criteria for making of these provisions are in Note 15 (*Put options*).

Lower provisions for consumer default at R\$ 191,343 in 9M17, compared to R\$ 282,915 in 9M16 mainly reflecting the Company's increased efforts in collection of overdue receivables in 2017.

Within contingencies, there was an increase in contingencies for employment-law cases to R\$ 188,013 in 9M17, compared to R\$ 69,963 in 9M16. The increase in the amount provisioned reflects re-evaluations of potential losses in various legal actions as a result of the change in the procedural phase to provisional execution, in relation to actions disputing: the basis for calculation of hazardous work remuneration; argument for a principle of equal payment for alleged unlawful outsourcing; and subsidiary/joint liability. For more information see Note 23.

### Personnel

Personnel expenses in 9M17 were R\$ 1,275,667, or 4.80% more than in 9M16 (R\$ 1,217,201). This arises mainly from the following items:

Salary increase of 8.50%, as from November 2016, under the Collective Work Agreement.

Recognition, in 2017, of an expense of R\$ 197,326 on the voluntary retirement program, which compares with R\$ 92,919 in 9M16.

The average number of employees was down 13.49% in the comparison between the periods: 6,631 in 9M17, compared to 7,666 in 9M16.

Construction cost

Distribution Infrastructure Construction Costs in 9M17 totaled R\$ 736,754, or 19.73% less than in 9M16 (R\$ 917,855). This line records the Company's investment in assets of the concession in the period, and is fully offset by the line Construction Revenue, in the same amount.

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### **Gas bought for resale**

In 9M17 the Company recorded an expense of R\$ 789,861 on acquisition of gas, 26.68% more than its comparable expense of R\$ 623,503 in 9M16. This mainly reflects a volume of gas bought for resale 33.72% higher (987,442m<sup>3</sup> in 9M17, compared to 738,42m<sup>3</sup> in 9M16), partially offset by lower charges under the new agreement between Gasmig and Petrobras, which reduced the daily gas offtake obligation.

### ***Equity method gains in non-consolidated investees***

The result of equity method valuation of interests in investees in 9M17 was a negative item of R\$ 20,680, compared to a gain of R\$ 47,260 in 9M16. The difference mainly reflects negative equity income contributions from Madeira Energia (R\$ 84,553), from Fip Melbourne (Santo Antônio Plant) (R\$ 73,209) and from Renova (R\$ 50,048); and a lower positive gain in Taesa, due to reduction of the equity interest held in that company, which was 43.36% in September 2016, and 31.54% in September 2017. For more details see Note 15.

### ***Net financial revenue (expenses)***

Cemig reports net financial expenses in 9M17 of R\$ 721,886, compared to net financial expenses of R\$ 1,052,824 in 9M16. The main factors are:

The financial expense on monetary variation in loans and financings was R\$ 157,711 lower, due to the IPCA inflation index (indexor for the debt) being lower in 9M17, at 1.78%, than in 9M16 (5.51%).

Costs of loans and financings were R\$ 230,602 lower, mainly due to lower CDI rate (main indexor of the debt), which was 8.03% over the period of 9M17, compared to 10.42% in the whole of 9M16.

Reversion provision related to the monetary updating of AFAC in the amount of R\$239.445. For more information please see Note 23;

In 9M17 the result of monetary updating of the balances of CVA was a loss of R\$ 40,086 in 9M17, compared to a gain of R\$ 206,967 in 9M16. The positive and negative balances of CVA are updated by the Selic rate. This difference arises from a net payable amount of CVA on September 30, 2017. In 9M16 the corresponding amount was a credit. For more information please see Note 14.

The expense of monetary variation on the debt agreed with Forluz was R\$ 38,381 lower, also due to the lower value of the IPCA index (indexor of the debt), as mentioned above.

For a breakdown of financial revenues and expenses please see Note 27.

### ***Income and Social Contribution taxes***

**In 9M17** the expense on income tax and the Social Contribution totaled R\$ 204,594, on pre-tax profit of R\$ 601,776, an effective rate of 34.00%.

**In 9M16**, the expense on income tax and the Social Contribution tax totaled R\$ 224,400, on pre-tax profit of R\$ 865,233, representing an effective rate of 25.94%. These effective rates are reconciled with the nominal tax rates in Note 9.

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**Table of Contents****Results for third quarter 2017**

For the third quarter of 2017 (**3Q17**) Cemig reports a net loss of R\$ 83,666, which compares to net profit of R\$ 433,502 in 3Q16. The following pages describe the main variations between the two periods in revenues, costs, expenses and financial items.

We highlight that in 9M17 Cemig GT and Cemig D adhered to the Minas Gerais State Tax Credits Regularization Plan (PRCT), for settlement of the ICMS tax, which totals an estimated R\$ 582,956 (the amount is to be updated until the date of actual payment). This is to be paid in six equal installments, starting on October 31, 2017. The net effect posted in the third quarter results in 2017 is R\$ 587,629. The amount of R\$ 561,411 is recorded as deductions from revenue; and R\$ 25,218 is posted as expenses (operational and financial).

As further non-recurring items in 3Q17, the Company recognized a gain on updating of the indemnity of generation assets, in the amount of R\$ 259,516; and reversal of the provision relating to an Advance against future capital increase (AFAC), the effect of which in the Profit and loss account was R\$ 277,723 comprising a reversal of provision of R\$ 239,445, and an item in Financial revenue of R\$ 38,278 arising from monetary updating of the administrative deposit. For more details please see Notes 11 and 23.

**Ebitda** (Earnings before interest, tax, depreciation and amortization\*)

Cemig's consolidated Ebitda in 9M17 was 91.58% below its Ebitda of 9M16:

| <b>Ebitda R\$ 000</b>                    | <b>3Q17</b>    | <b>3Q16</b>      | <b>Change,%</b> |
|--|----------------|------------------|-----------------|
| Net profit for the period                | (83,666)       | 433,502          |                 |
| + Income tax and Social Contribution tax | (9,334)        | 135,034          |                 |
| + Financial revenue (expenses)           | (12,414)       | 422,912          | (37.69)         |
| + Depreciation and amortization          | 205,983        | 202,480          | 1.73            |
| <b>= EBITDA</b>                          | <b>100,569</b> | <b>1,193,928</b> | <b>(91.58)</b>  |

\* **Ebitda** is a non-accounting measure prepared by the Company, reconciled with its financial statements in accordance with the specifications in CVM Circular SNC/SEP 01/2007 and CVM Instruction 527 of October 4, 2012. It comprises: net profit adjusted for the effects of net financial revenue (expenses), depreciation, amortization and income tax and the Social Contribution tax. Ebitda is not a measure recognized by Brazilian GAAP nor by IFRS; it does not have a standard meaning; and it may be non-comparable with measures with similar titles provided by other companies. Cemig publishes Ebitda because it uses it to measure its own performance. Ebitda should not be considered in isolation or as a substitution for net profit or operational profit, nor as an indicator of operational performance or cash flow, nor to measure liquidity nor the capacity for payment

of debt.

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Cemig's Ebitda 91.58% lower year-on-year in 3Q17 mainly reflects the comparison of the 3Q17 loss of R\$ 265,788 with the 3Q16 profit of R\$ 433,502. The Company's Ebitda margin in 3Q17 was 1.97%, which compares with 24.39% in 3Q16.

**Revenue from supply of electricity**

Revenue from supply of electricity was R\$ 5,815,621 in 3Q17, or 0.48% higher than in 3Q16 (R\$ 5,787,568).

***Final consumers***

Total revenue from electricity sold to final consumers, excluding Cemig's own consumption, in 3Q16 was R\$ 4,882,538 in 3Q17, compared to R\$ 5,025,744 in 9M16 a YoY reduction of 2.85%.

The main factors in this revenue were:

The Annual Tariff Adjustment for Cemig D, with average effect on consumer tariffs of 3.78%, effective from May 28, 2016 (full effect in 2017).

The Annual Tariff Adjustment for Cemig D, with average effect on consumer tariffs of 10.66%, effective from May 28, 2017.

Volume of electricity sold to final consumers 1.99% higher year-on-year.

***Cemig's electricity market***

The total for sales in Cemig's consolidated electricity market comprises sales to:

- (I) Captive consumers in Cemig's concession area in the State of Minas Gerais;
- (II) Free Consumers in both the State of Minas Gerais and other States of Brazil, in the Free Market (*Ambiente de Contratação Livre*, or ACL);
- (III) other agents of the electricity sector – traders, generators and independent power producers, also in the Free Market;
- (IV) Distributors, in the Regulated Market (*Ambiente de Contratação Regulada*, or ACR); and

(V) the Wholesale Trading Exchange (*Câmara de Comercialização de Energia Elétrica*, or CCEE)  
(eliminating transactions between companies of the Cemig Group).

The table below shows the Cemig Group's market in more detail, itemizing transactions in 3Q17 compared with 3Q16.

This table shows consumption itemized by type of consumer:

|  | MWh (1)           |                   |               |
|--|-------------------|-------------------|---------------|
|  | 3Q17              | 3Q16              | Change, %     |
| Residential                                      | 2,456,908         | 2,389,353         | 2.83          |
| Industrial                                       | 4,458,794         | 5,031,850         | (11.39)       |
| Commercial, Services and Others                  | 1,776,377         | 1,522,936         | 16.64         |
| Rural  | 1,016,897         | 1,015,555         | 0.13          |
| Public authorities                               | 207,967           | 208,314           | (0.17)        |
| Public lighting                                  | 354,299           | 338,892           | 4.55          |
| Public services                                  | 338,415           | 318,605           | 6.22          |
| Subtotal   | <b>10,609,657</b> | <b>10,825,505</b> | <b>(1.99)</b> |
| Own consumption                                  | 8,896             | 8,528             | 4.32          |
|  | <b>10,618,553</b> | <b>10,834,033</b> | <b>(1.99)</b> |
| Wholesale supply to other concession holders (2) | 3,427,498         | 3,006,675         | 14.00         |
| Total  | <b>14,046,051</b> | <b>13,840,708</b> | <b>1.48</b>   |

(1) Information in MWh has not been reviewed by external auditors.

(2) Includes Regulated Market Electricity Sale Contracts (CCEARs) and bilateral contracts with other agents.

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We highlight the volume of electric power sold to the *industrial* consumer category, which was 11.39% lower YoY, basically due to consumers leaving the status of captive consumer and moving to become consumers in the Free Market.

### Revenue from Use of Distribution Systems (the TUSD charge)

This is revenue from charging Free Consumers the Tariff for Use of the Distribution System (*Tarifa de Uso do Sistema de Distribuição*, or TUSD), for transport of electricity sold. In 3Q17 it totaled R\$ 330,147, compared to R\$ 511,552 in 3Q16 a year-on-year reduction of 35.46%.

### CVA and Other financial components in tariff adjustment

In its interim accounting information Cemig recognizes the difference between actual non-controllable costs (in which the CDE, and electricity bought for resale, are significant components) and the costs that were used as the basis of decision of the rates charged to consumers. This balance is the amount that will be passed through to the Company, or reimbursed to the consumer through Cemig D's next subsequent tariff adjustments. In 3Q17 amounts to be passed through to the Company in the next tariff adjustment were recognized totaling R\$ 480,112, compared to the amount of R\$ 273,498 to be reimbursed, arising in 3Q16.

This variation is mainly due to the higher costs of electricity in 3Q17, with a larger difference between the amounts spent and the costs recognized in the tariff. For more details please see Note 14.

### Transmission indemnity revenue

Transmission indemnity revenue in 3Q17 was R\$ 25,894, compared to R\$ 99,742 in 3Q16.

In 2Q16, as a result of the Mining and Energy Ministry setting the criteria for updating of the transmission indemnity, a posting was made, backdated to 2013, of the amount of the updating of the indemnity receivable based on the regulatory cost of own capital, and this had a significant impact on the revenue reported.

### Generation Indemnity revenue

In 3Q17 the Company recognized revenue of R\$ 259,516 for the adjustment to the balance not yet amortized of indemnity for the concessions for the *São Simão* and *Miranda* Hydroelectric Plants, as per Ministerial Order 291/17. For more details see Note 4.

### Revenue from supply of gas

The Company reported revenue from supply of gas 42.65% higher year-on-year in 3Q17, at R\$ 484,491, compared to R\$ 339,634 in 3Q16 mainly reflecting the higher volume of gas sold: 375,870m<sup>3</sup> in 3Q17, compared to 238,440m<sup>3</sup> in 3Q16.

### Construction Revenue

Construction and infrastructure revenues (transmission, distribution and gas) totaled R\$ 295,720 in 3Q17, 11.49% more than their total of R\$ 334,122 in 3Q16. This revenue is fully offset by Construction costs, of the same amount, and corresponds to the Company's investments in assets of the concession in the period.

Other items of operational revenues

The items in Other Operating Revenues comprising Transmission Concession revenue; Adjustment to expectation of cash flow from the indemnifiable Financial assets of the distribution concession; Gain on financial updating of the Concession Grant Fee; and Other operating revenues were 1.85% lower in 9M17, at R\$ 514,064, than in 9M16 (R\$ 519,158).

*Sector / Regulatory charges reported as Deductions from revenue*

The total of the taxes and charges reported as deductions from revenue in 3Q17 was R\$ 3,181,073 an increase of 26.74% in relation to their total of R\$ 2,509,870 in 3Q16.

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The Company adhered to the Minas Gerais State Tax Credits Regularization Plan (PRCT), for settlement of ICMS (state value-added tax). The effect reported in 3Q17 was an expense on ICMS of R\$ 587,629.

### The Energy Development Account – CDE

Payments to the Energy Development Account (CDE) are decided by an Aneel Resolution. The purpose of the CDE is to cover costs of concession indemnities, tariff subsidies, the subsidy for balanced tariff reduction, the low-income consumer subsidy, the coal consumption subsidy, and the Fuels Consumption Account (CCC). The charges for the CDE in 3Q17 were R\$ 467,576, compared to R\$ 571,148 in 3Q16.

This is a non-manageable cost: the difference between the amounts used as a reference for setting of tariffs and the costs actually incurred is compensated for in the subsequent tariff adjustment.

### Consumer charges – the Flag Tariff system

There was an increase in the Consumer Charges related to the Flag tariff system: The figure for 3Q17 was an expense of R\$101,625, compared to a reversal, in 3Q16, of R\$ 429. This variation is due to the change in the tariff Flag – it was yellow in July, and red in August, 2017, which compares to green in 3Q16 which implies a larger incoming amount in 3Q17.

### ***Operational costs and expenses (excluding Financial revenue/expenses)***

Operational costs and expenses were 31.06% higher YoY: R\$ 5,160,438 in 3Q17, and R\$ 3,937,376 in 3Q16. For more on the components of Operational costs and expenses see Note 26.

The following paragraphs comment on the main variations in expenses:

#### Electricity purchased for resale

The expense on electricity brought for resale in 3Q17 was R\$ 2,942,974, or 35.60% more than in 3Q16 (R\$ 2,170,348). The main factors are:

The expense on purchase of electricity at auctions was 26.83% higher – at R\$ 824,699 in 3Q17, compared to R\$ 650,259 in 3Q16. This reflected new power purchasing agreements made in the regulated market in 2017.

The expense on purchase of supply in the spot market was 107.95% higher, at R\$ 408,859, in 3Q17, compared to R\$ 196,612 in 3Q16 – reflecting the higher cost of supply in the wholesale market in 2017 as a result of the low level of the reservoirs, and lower output of supply by the hydroelectric plants. The result was a higher volume of operation of the thermal plants, for which the increase in expenditure was financed principally by the electricity distributors, which is a feature of the present regulatory model in Brazil.

### Charges for Use of the Transmission Network

Charges for use of the transmission network in 3Q17 totaled R\$ 387,078, compared to R\$ 215,504 in 3Q16, a year-on-year increase of 79.62%.

This expense is payable by electricity distribution and generation agents for use of the facilities that are components of the national grid. The amounts to be paid are set by an Aneel Resolution.

This is a non-manageable cost: the difference between the amounts used as a reference for calculation of tariffs and the costs actually incurred is compensated for in the subsequent tariff adjustment.

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### Operational provisions

Operational provisions were R\$ 188,875 in 3Q17, compared to a reversal of provisions totalling R\$ 19,375 in 3Q16. The main factors are:

Reversal of provision on the investment options related to RME and LEPSA, in the total amount of R\$ 166,767, in 3Q16, which compares with provisions of R\$ 85,306 made in 3Q17. More details on the criteria for making of these provisions are in Note 15 (*Put options*).

Lower provisions for default on receivables: R\$ 50,458 in 3Q17, compared to R\$ 108,349 in 3Q16 mainly reflecting a lower level of default in the period.

### Personnel

The expense on personnel in 3Q17 was R\$ 358,505, or 4.14% lower than in 3Q16 (R\$ 373,986). This arises mainly from the following factors:

A decrease of 17.39% on average number of employees in 3Q17, 6,166 compared to 7,464 in 3Q16 (7,464), partially compensated by a salary increase of 8.50% under the Collective Work Agreement, as from November 2016.

Recognition, in 3Q17, of an expense of R\$ 31,904 on the voluntary retirement program, which compares with R\$ 29,034 in the same period of 2016.

In counterpart to the items above, the average number of employees in 3Q17 was 17.39% lower, at 6,166, than in 3Q16 (7,464).

### Employees and managers profit shares

This expense in 3Q17 was R\$ 886, compared to R\$ 24,217 in 3Q16. The difference reflects the Company's lower profit since profit shares are calculated as a percentage of profit.

### Construction cost

Infrastructure construction cost in 3Q17 was R\$ 295,720, compared to R\$ 334,122 in 3Q16 (465,924). This line records the Company's investment in assets of the concession in the period, and is fully offset by the line Construction Revenue, in the same amount.

### Gas bought for resale

In 3Q17 the Company recorded an expense of R\$ 304,698 on acquisition of gas, 55.07% higher than its comparable expense of R\$ 196,494 in 3Q16. This is basically reflects a higher volume of gas purchased (385,467m<sup>3</sup> in 3Q17, compard to 234,926m<sup>3</sup> in 3Q16).

*Equity method gains in non-consolidated investees*

In 3Q17 Cemig posted a net equity method loss of R\$ 80,798, which compares with a net gain of R\$ 33,218 in 3Q16. This principally arises from the effect of the equity effect of the equity interest in Renova, which provided an equity loss of R\$ 86,601 in 3Q17, compared with a loss of R\$ 26,179 in 2016 and the interest in Taesa, which provided an equity gain of R\$ 45,006 in 3Q17, compared with a gain of R\$ 90,873 in 2016. For more details please see Note 15.

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***Net financial revenue (expenses)***

Cemig reported net financial revenue in 3Q17 of R\$ 12,414, compared to net financial expenses of R\$ 422,912 in 3Q16. The main factors are:

Reversion provision related to the monetary updating of AFAC in the amount of R\$239.445. For more information please see Note 23;

In 3Q17 the result of monetary updating of the balances of CVA was a loss of R\$ 12,006, compared to a gain of R\$ 19,403 in 3Q16. The positive and negative balances of CVA are updated by the Selic rate. This difference arises from a net payable amount of CVA on September 30, 2017. In 3Q16 the corresponding amount was a credit. For more information please see Note 14.

Income from cash investments was R\$ 38,718 lower, due mainly to a lower volume of cash invested.

Financial expense on monetary variation in loans and financings was R\$ 41,277 lower, due to the lower variation of the IPCA inflation index (indexor for the debt) in the quarter 0.59% in 3Q17, compared to 1.04% in 3Q16.

Costs of loans and financing was 34.39% lower, at R\$ 344,297 in 3Q17, compared to R\$ 524,775 in 3Q16, due to the lower CDI rate over the period (principal indexor of the debt), of 2.29% in 3Q17, compared to 3.47% in 3Q16.

For a breakdown of financial revenues and expenses please see Note 27.

***Income and Social Contribution taxes***

**In 3Q17** the expense on income tax and the Social Contribution tax totaled R\$ 9,334, in relation to the pre-tax loss of R\$ 93,000 representing a percentage proportion of 10.04%.

**In 3Q16**, the expense on income tax and the Social Contribution tax was R\$ 135,034, on pre-tax profit of R\$ 568,536 an effective rate of 23.75%. These effective rates are reconciled with the nominal tax rates in Note 9.

**OTHER INFORMATION THAT THE COMPANY BELIEVES TO BE MATERIAL**

***The Board of Directors***

**Meetings**

Our Board of Directors met 25 times up to September 30, 2017, for matters of strategic planning, projects, acquisition of new assets, investments, and other subjects.

Membership, election and period of office

The present period of office began with the AGM on April 29, 2016, with election by the multiple voting system.

The periods of office of the present members of the Board of Directors expire at the Annual General Meeting of Stockholders to be held in 2018.

Principal responsibilities and duties:

The Board of Directors has the following responsibilities and duties, as well as those conferred on it by law:

Decision, before signing, on any contract to be entered into between Cemig and any stockholder or a parent company of such stockholder.

Decision on any sale of assets, loans or financings, charge on the company's property, plant or equipment, guarantees to third parties, or other legal acts or transactions, with value of R\$ 17,355 or more.

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Authorization for issuance of securities in the domestic or external market to raise funds.

Approval of the Long-term Strategic Plan, and revisions of it, and of the Multi-year Strategic Implementation Plan and revisions of it, and the Annual Budget.

## **Committees**

These committees are made up of members of the Board of Directors, to carry out prior discussion and analysis on matters to be decided by the Board, as follows:

1. Board of Directors Support Committee;
2. Corporate Governance and Sustainability Committee;
3. Human Resources Committee;
4. Strategy Committee;
5. Committee for New Business Development and Corporate Control of Subsidiaries and Affiliates; and
6. Finance, Audit and Risks Committee.

## ***Qualification and remuneration***

The members of the Board of Directors have training and experience in a wide range of areas (business administration, engineering, law, economics, etc.), and very broad experience in business management. The global or individual amount of the remuneration of the Board of Directors is set by the General Meeting of Stockholders, in accordance with legislation in force at the time.

A list with the names of the members of the Board of Directors and their résumés is on our website at: <http://ri.cemig.com.br>.

## ***The Audit Committee***

Our Audit Board (see below) has attributions and duties specified in the Brazilian Corporate Law (Law 6404). In addition to these, in relation to the requirements of the Sarbanes-Oxley Law, to which we are subject due to our shares being registered with the US Securities and Exchange Commission (SEC – the capital markets regulator of the United States), we opted to exercise the exemption allowed by rule 10-3A of the Exchange Act regulated by SEC Release

82 1234, which accepts the activity of the Audit Board as an alternative to the Audit Committee specified by the Sarbanes-Oxley law.

***The Executive Board***

The Executive Board is made up of eleven members whose individual functions are set by the company's by-laws. They are elected, and may be dismissed at any time, by the Board of Directors for periods of office of three years. They may also be re-elected.

Members are allowed simultaneously also to hold non-remunerated positions in the management of wholly-owned subsidiaries, subsidiaries or affiliates of Cemig, upon decision by the Board of Directors. They are also, obligatorily, members, with the same positions, of the Boards of Directors of Cemig GT (Generation and Transmission) and Cemig D (Distribution).

The period of office of the present Chief Officers expires at the first meeting of the Board of Directors held after the Annual General Meeting of 2018.

The members of the Executive Board and brief résumés are on our website: <http://ri.cemig.com.br>

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The members of the Executive Board (the Company's Chief Officers) have individual responsibilities established by the Board of Directors and the by-laws. These include:

Current management of the company's business, complying with the by-laws, the Long-term Strategic Plan, the Multi-year Strategic Implementation Plan and the Annual Budget.

Decision on any disposal of goods, loans or financings, pledge of the company's property, plant or equipment, or guarantees to third parties or other legal acts or transactions, with value of less than R\$ 17.355 million.

The Executive Board normally meets weekly. It held 37 meetings in the nine months to September 30, 2017.

***The Audit Board***

**Meetings**

Ten meetings have been held in 2017 up to September 30.

**Membership, election and period of office**

We have a permanent Audit Board, made up of five sitting members and their respective substitute members. They are elected by the Annual General Meeting of Stockholders, for periods of office of one year, and may be reelected. They comprise:

- one member elected by the holders of the preferred shares;
- one member elected by holders of at least 10% of the common shares outside the controlling group; and
- three members elected by the majority stockholder.

The members of the Audit Board are listed on our website: <http://ri.cemig.com.br>

Principal responsibilities and duties:

- As well as the attributions specified by Law 6404 of December 15, 1976, as amended, in relation to the Sarbanes-Oxley law, to which we are subject due to our shares being registered with the Securities and Exchange Commission (SEC – the capital markets regulator of the United States), we opted to exercise the exemption allowed by Rule 10-3A of the Exchange Act, regulated by SEC Release 82-1234, which accepts the activity of the Audit Board as an alternative to the Audit Committee as defined by the Sarbanes-Oxley Law.

***Qualification and remuneration***

The Audit Board is a multi-disciplinary body, made up of members with various competencies (in accounting, economics, business administration, and other areas). The remuneration of the members of the Audit Board shall be set by the General Meeting of Stockholders which elects it, in accordance with the legislation from time to time in force.

Résumé information on its members is on our website: <http://ri.cemig.com.br>.

***The Sarbanes-Oxley Law***

Cemig obtained the first certification of its internal controls for mitigation of risks involved in the preparation and disclosure of the financial statements, issued in accordance with Section 404 of the Sarbanes-Oxley Law and the rules of the Public Company Accounting Oversight Board (PCAOB), which is included in the annual 20 F Report relating to the business year ended December 31, 2006, filed with the US Securities and Exchange Commission (SEC) on July 23, 2007.

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### *Corporate risk management*

Corporate risk management is a management tool that is an integral part of Cemig's corporate governance practices. It identifies the events that can interfere in the process of the Company achieving its strategic objectives.

The intention is to provide senior management with information for taking of decisions, thus preserving the Company's value. The practice of risk management is thus a competitive differentiation factor to be used not only defensively, but also as an opportunity for improvement. The structuring and analysis of operations from the point of view of risk management are factors that optimize investment in the control of the activity. They reduce costs, improve performance, and consequently help the Company achieve its targets.

Also, the need to put in place structural elements of the risk management system is one of the aspects that is evaluated for the Company's inclusion in indices such as the DJSI World and the ISE Corporate Sustainability Index.

Cemig's system of risk management was initially implemented in 2003, and has been constantly improved since then. A further element of the organizational structure, the Corporate Risk Management Committee (CMRC), created in 2012, has the following responsibilities: (i) to propose, for approval by the Executive Board, guidelines, policies and procedures to be adopted in the Corporate Risks Management Process, ensuring continuous improvements of the process, and arranging for it to be disseminated; (ii) to analyze and to propose to the Executive Board priority actions dealing with the risks characterized as critical, in the final exposure matrix; and (iii) to submit to the approval of the Executive Board mechanisms to make strategic monitoring operational for the corporate risks identified and effective actions to reduce financial exposure and impact on intangible assets to acceptable levels, taking into account the mitigating plans of action, which are to be in line with the Company's Long-term Strategic Plan. The CMRC meets every two months.

In 2013 a new technological platform was installed exclusively for risk management – the SAP RM (Risk Management) module. This enabled the process of mapping of risks to take place continuously, since updating of information, verifications and assessments of the controls and plans of action become scheduled tasks to be executed by the people responsible within the system itself. This results in all the agents involved in risk management having clearly specified roles and responsibilities, also minimizing costs and use of employee time for these activities and controls. In addition, there is a flow analysis carried out by an independent group in the Company, for periodic evaluation of the controls for the purpose of auditing the effectiveness of the process.

In 2015 this platform came into full operation, generating reliable reports and providing perception of relationships between the risks that are mapped.

Several new steps were taken in 2015. The most significant of these include:

Adjustments in the standard methodology for management of risks (new model for segmentation of risks, method of quantification of impacts, and approach used in raising information, also incorporating the Top-down approach).

Review and updating of the Risk Management Policy.

Mapping of the principal corporate risks ( Top Risks ), and some related to Cemig s Socio-environmental Adaptation Program.

Approval by the Board of Directors of the matrix of corporate risks and of the risk appetite assumptions. In the process of the collection of the Top Risks information, a survey was made with the Company s General Managers to establish the principal subjects to be monitored, such as: Loss of concession; degree of indebtedness; liquidity; availability and reliability indicators; and omissions. This produced a matrix that expresses the joint assessment of the impact and probability of occurrence of the risk.

In particular, in relation to Cemig s socio-environmental Adaptation Program, the risks relating to the following aspects, among others, were identified: use of water, handling of vegetation, fish deaths, environmental accidents with oils/material logistics, and compliance with environmental requirements. Cemig adopts measures to mitigate and manage exposure that are aligned with the risk appetite assumptions.

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In 2016 Cemig created the Compliance and Corporate Risks ( GC ) Management Department, under a General Manager responsible to the CEO s Office enabling a greater degree of autonomy in this work.

In risk management processes, in planning of operations and in development of new business initiatives, Cemig always acts in consideration of the precautionary principle. During planning, all the factors that might present risks to health and/or safety of employees, suppliers, clients, the general population or the environment are taken into account.

### ***Statement of Ethical Principles and Code of Professional Conduct***

Cemig s Board of Directors approved the *Cemig Statement of Ethical Principles and Code of Professional Conduct* in May 2004. It can be seen at <http://ri.cemig.com.br> . The Code aims to orient and discipline everyone acting in the name of, or interacting with, Cemig, to ensure ethical behavior at all times, and always in accordance with the law and regulations. It was updated in 2016.

Cemig s Ethics Committee was created on August 12, 2004, to coordinate all actions relating to management of the *Cemig Statement of Ethical Principles and Code of Professional Conduct*. This includes assessment of and decision on any possible non-compliances with the document.

After the Ethics Channel (*Canal de Denúncia Anônima*, as we name it) was created in December 2006, to be used only by Cemig employees and workers, the Ethics Committee began to accept anonymous reports through this anonymous reporting channel, which is available on the company s Intranet. These reports may involve irregular practices that are contrary to the Company s interest, such as: financial fraud, including adulteration, falsification or suppression of financial, tax or accounting documents; misappropriation of goods or funds; receipt of undue advantages by managers or employees; irregular contracting; and other practices considered to be illegal.

### ***The Ethics Committee***

This was created on August 12, 2004, with three sitting members and three substitute members, and is responsible for management (interpretation, publicizing, application and updating) of the Code of Professional Conduct.

The Committee receives and analyzes all reports of violation of ethical principles and standards of conduct, that are presented in a written document and signed by the interested party, accompanied by indications of the corresponding means of proof (witnesses, documentation or other effective method). They can also be sent by email or telephone the address and phone number are well known to all the company s employees.

Our Ethics Channel the anonymous reporting channel on the corporate intranet that we put in place in December 2006, to receive and process accusations of irregular practices, such as financial fraud, undue appropriation of assets, receipt of irregular advantages or illegal contracting is one more step in improving transparency, and in correcting behavior, and a support in the concept of corporate governance in the Company. As a new instrument of corporate governance it improves the management of our employees and of our business, and reaffirms our ethical principles.

## **STOCKHOLDING POSITION OF**

### **HOLDERS OF MORE THAN 5% OF THE VOTING STOCK**

ON SEPTEMBER 30, 2017

|                                      | COMMON<br>SHARES | %     | PREFERRED<br>SHARES | %    | TOTAL<br>SHARES | %     |
|--------------------------------------|------------------|-------|---------------------|------|-----------------|-------|
| State of Minas Gerais                | 214,414,739      | 50.96 |                     |      | 214,414,739     | 17.03 |
| Other entities of Minas Gerais State | 56,703           | 0.01  | 4,860,228           | 0.58 | 8,649,862       | 0.39  |
| Total, controlling stockholder group | 214,471,442      | 50.97 | 4,860,228           | 0.58 | 223,064,601     | 17.42 |
| AGC Energia S.A. (1)                 | 68,545,756       | 16.29 |                     |      | 68,545,756      | 5.45  |
| FIA Dinâmica Energia S.A.            | 41,635,754       | 9.90  | 62,469,590          | 7.45 | 104,105,344     | 8.27  |
| BNDESPar                             | 54,342,992       | 12.92 | 26,220,938          | 3.13 | 80,563,930      | 6.40  |

(1) AGC Energia S.A. is a wholly-owned subsidiary of Andrade Gutierrez Concessões S.A., a company registered with the CVM.

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**CONSOLIDATED STOCKHOLDING POSITION OF  
THE CONTROLLING STOCKHOLDERS AND MANAGERS,  
AND FREE FLOAT,  
ON SEPTEMBER 30, 2017**

|                         | <b>September 30, 2017</b>     |                                  |
|-------------------------|-------------------------------|----------------------------------|
|                         | <b>Common<br/>(ON) shares</b> | <b>Preferred<br/>(PN) shares</b> |
| Controlling shareholder | 214,471,442                   | 4,860,228                        |
| Board of Directors      | 103,606                       | 181,473                          |
| The Executive Board     | 3                             | 83                               |
| Shares in Treasury      | 69                            | 560,649                          |
| Free float              | 206,189,588                   | 832,474,513                      |
| <b>TOTAL</b>            | <b>420,764,708</b>            | <b>838,076,946</b>               |

***Investor Relations***

In 2016, through strategic actions intended to enable investors and stockholders to make a correct valuation of our businesses and our prospects for growth and addition of value, we have increased Cemig's exposure to the Brazilian and global capital markets.

We maintain a constant and proactive flow of communication with Cemig's investor market, continually reinforcing our credibility, seeking to increase investors' interest in the Company's shares, and to ensure their satisfaction with our shares as an investment.

Our results are published through presentations transmitted via video webcast and telephone conference calls, with simultaneous translation in English, always with members of the Executive Board present, developing a relationship that is increasingly transparent and in keeping with best corporate government practices.

To serve our stockholders who are spread over more than 40 countries and to facilitate optimum coverage of investors, Cemig has been present in and outside Brazil at a very large number of events, including seminars, conferences, investor meetings, congresses, roadshows, and events such as *Money Shows*; as well as holding phone and video conference calls with analysts, investors and others interested in the capital markets.

At the beginning of June 2017 we held our 22<sup>nd</sup> annual Meeting between Cemig and the Capital Markets in the city of Belo Horizonte, Minas Gerais where these professionals had the opportunity to interact with the Company's Directors and principal executives.

***Corporate governance***

Our corporate governance model is based on principles of transparency, equity and accountability, focusing on clear definition of the roles and responsibilities of the Board of Directors and the Executive Board in the formulation, approval and execution of policies and guidelines for managing the company's business.

We seek sustainable development of the Company through balance between the economic, financial, environmental and social aspects of our enterprises, aiming always to improve the relationship with our stockholders, clients, and employees, the public at large and other stakeholders.

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Cemig's preferred and common shares (tickers: CMIG4 and CMIG3 respectively) have been listed at Corporate Governance Level 1 on the São Paulo Stock Exchange since 2001. This classification represents a guarantee to our stockholders of optimum reporting of information, and also that stockholdings are relatively widely dispersed. Because Cemig has ADRs (American Depositary Receipts) listed on the New York Stock Exchange, representing preferred (PN) shares (with ticker CIG) and common (ON) shares (ticker CIG.C), it is also subject to the regulations of the US Securities and Exchange Commission (SEC) and the New York Stock Exchange Listed Company Manual. Our preferred shares have also been listed on the Latibex of the Madrid stock exchange (with ticker XCMIG) since 2002.

Our by-laws include our dividend policy, and also the following targets from our Long-term Strategic Plan:

Consolidated indebtedness: limited to 2 times Ebitda;

Consolidated (Net debt) / (Net debt + Stockholders' equity): limited to 40%.

Consolidated funds in Current assets: limited to 5% of Ebitda.

Consolidated funds allocated to capital expenditure in each business year: limited to 40% of Ebitda.

Investment only in distribution, generation and transmission projects that offer real minimum internal rates of return equal to or greater than those specified in the Long-term Strategic Plan, subject to the legal obligations.

Limitation of the expenses of the subsidiary Cemig D (Cemig Distribuição S.A.), and of any subsidiary which operates in distribution of electricity, to amounts not greater than the amounts recognized in the official tariff Adjustments and Reviews.

In response to temporary situations the Board of Directors may authorize figures in excess of these standards, up to the following limits:

- Consolidated debt: maximum of 2.5 times Ebitda.
- Consolidated (Net debt) / (Net debt + Stockholders' equity): maximum of 50%.
- Consolidated funds in Current assets: maximum of 10% of Ebitda.

\*\*\*\*\*

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(The original is signed by the following signatories:)

**Bernardo Afonso Salomão de  
Alvarenga**

Chief Executive Officer

**Bernardo Afonso Salomão de  
Alvarenga**

Deputy CEO (interim)

**Adézio de Almeida Lima**  
Chief Finance and Investor  
Relations Officer

**Ronaldo Gomes de Abreu**  
Interim Chief Distribution and Sales  
Officer

**Franklin Moreira Gonçalves**  
Chief Generation and Transmission  
Officer

**Maura Galuppo Botelho  
Martins**  
Chief Officer for Human  
Relations and Resources

**José de Araújo Lins Neto**  
Chief Corporate Management Officer

**Thiago de Azevedo Camargo**  
Chief Institutional Relations and  
Communication Officer

**Dimas Costa**  
Chief Trading Officer

**José Maria Rabelo**  
Chief Business Development Officer

**Luciano de Araújo Ferraz**  
Chief Counsel

**Leonardo George de Magalhães**  
Controller

**Leonardo Felipe Mesquita**

CRC-MG 53.140

Accounting Manager  
Accountant CRC-MG-85.260

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Agostinho 30190-131 Belo Horizonte, MG Brazil

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3506-5025

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**Appendix VIII**

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**Cemig Telecomunicações S.A.**

**( Cemig Telecom )**

Financial statements for the year ended December 31, 2016

and Report of External Auditors

Deloitte Touche Tohmatsu Auditores Independentes

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**REPORT OF THE EXTERNAL AUDITORS ON THE FINANCIAL STATEMENTS**

To the Shareholders, Members of the Board of Directors, and Managers of

Cemig Telecomunicações S.A. ( Cemig Telecom ),

Belo Horizonte, MG

**Opinion**

We have reviewed the financial statements of Cemig Telecomunicações S.A. CemigTelecom ( the Company ), which comprise the statement of financial position at December 31, 2016, and the related Profit and loss accounts, statement of comprehensive income, statement of changes in stockholders' equity and statements of cash flow, for the business year ended on that date, and the summary of the principal accounting practices and other explanatory notes.

In our opinion, the financial statements referred to above adequately present, in all material aspects, the equity and financial position of Cemig Telecomunicações S.A. CemigTelecom on December 31, 2016, the consolidated performance of its operations, and its consolidated cash flows, for the business year ended on that date, in accordance with accounting practices adopted in Brazil, and with International Financial Reporting Standards (IFRS) issued by the *International Accounting Standards Board (IASB)*.

**Basis for opinion**

Our audit was conducted in accordance the Brazilian and international rules of auditing. Our responsibilities, in accordance with those rules, are described in the section below entitled "Responsibilities of the auditor for the audit of the financial statements". We are independent in relation to the Company, in accordance with relevant ethical principles specified in the Accountants' Code of Professional Ethics and in the professional rules issued by the Federal Accounting Council (CFC), and we comply with the other ethical responsibilities in accordance with these rules. We believe that the auditing evidence obtained is sufficient and appropriate as grounds for our opinion.

**Emphasis of matter**

**Re-presentation of corresponding amounts**

As mentioned in Explanatory Note 5, as a result of certain adjustments made to the financial statements of the affiliated company Ativas Data Center S.A., which affected the result of accounting for holdings by the equity method and the Company's uncovered liabilities, the amounts corresponding to the financial statements for the period ended December 31, 2015, presented for the purpose of comparison, have been adjusted and are being re-presented as specified in CPC 23 and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Correction of Errors". Our opinion regarding this matter is unqualified.

**Principal subjects of the audit**

Principal Subjects of an Audit are those which, in our professional judgment, were the most significant in our audit of the current business period. These subjects have been dealt with in the context of our audit of the financial statements as a whole and in the formation of our opinion on those financial statements and, thus, we do not express a separate opinion on those subjects.

Short-term financial commitments

As mentioned in Notes 1 and 27 to the financial statements at December 31, 2016, the Company had negative net working capital of R\$ 74,312,000. This subject was considered to be significant for our audit, because the process of reaching a conclusion that there was not significant uncertainty in relation to the Company's capacity for operational continuation involved a judgment on the part of Management arising from the need for evaluation of the Company's capacity to honor its financial commitments in the short term, especially the alternatives available for access to the financial market for long-term debt, future cash flow generation and financial support from its controlling stockholder.

Our auditing procedures addressing this principle subject of audit included: (i) involvement of more experienced and specialized auditing professionals in assessment of the subject; (ii) evaluation of the capacity for generation of operational cash flow arising from the existing concessions; (iii) evaluation of the history of funds raised, fund raising planned, and the present stage of the fund raising processes that have been begun; (iv) evaluation of the financial support of Companhia Energética de Minas Gerais - Cemig, the controlling stockholder; and (v) evaluation whether the disclosures made by Management are appropriate.

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Cemig Telecomunicações S.A. ( CemigTelecom )

**Financial leasing**

As mentioned in Note 9 to the financial statements, the Company entered into a leasing contract as lessee, which was assessed as being financial leasing. This subject was considered to be significant for our audit and to involve a judgment on the part of the Company's management in the classification of the modality of leasing (operational financial).

Our procedures for addressing this principle subject of audit included: (i) involvement of more experienced and specialized auditing professionals in evaluation of the subject, including our specialists in technical and professional rules of accounting, to assist in the evaluation of the operation and the proper accounting treatment; and (ii) assessment of whether the disclosures made by the Management are appropriate.

**Other matters**

**Added Value Statement**

The Added Value Statement (DVA) for the business year ended December 31, 2016 was prepared under the responsibility of the Company's Management, and presented as supplementary information for the purpose of IFRS. It was submitted to auditing procedures executed jointly with the audit of the Company's financial statements. For formation of our opinion, we have evaluated whether the statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria defined in Accounting Pronouncement CPC 09 *Added Value Statements*. In our opinion, the statements of added value have been prepared appropriately, in all their material aspects, according to the criteria defined in that Technical Pronouncement, and are consistent in relation to the financial statements taken as a whole.

**Other information that accompanies the financial statements and the auditor's report.**

The Company's management is responsible for this other information which consists of the Report of Management.

Our opinion on the financial statements does not cover the Report of Management and we do not express any form of auditing conclusion about that report.

In connection with the audit of the financial statements, our responsibility is to read the report of Management and, when doing so, to consider whether that report is in any significant way inconsistent with the financial statements or with our knowledge obtained in the audit, or in any other way appears to be significantly distorted. If, based on the work carried out, we were to conclude that there is a significant distortion in the Report of Management, we are required to communicate this fact. We have nothing to report in this respect.

**Responsibilities of Management and of the governance for the financial statements**

The management is responsible for the preparation and adequate presentation of these financial statements in accordance with accounting practices adopted in Brazil, and with international financial reporting standards (IFRS) issued by the *International Accounting Standards Board* (IASB), and for the internal controls that it has decided are necessary to make possible the preparation of financial statements that are free of material distortion, whether caused



by fraud or error.

In the preparation of the financial statements, Management is responsible for evaluation of the Company's capacity to continue operating, disclosing, when applicable, subjects related to its operational continuity and the use of this accounting base in the preparation of the financial statements, unless Management intends to liquidate the company and its subsidiaries or to cease its operations, or has no realistic alternative to avoid termination of operations.

Those responsible for the governance of the Company and its subsidiaries are the parties that have the responsibility for supervision of the process of preparation of the financial statements.

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Cemig Telecomunicações S.A. ( CemigTelecom )

**Responsibilities of the auditor for auditing the financial statement**

Our objectives are to obtain reasonable certainty that the financial statements, taken as a whole, are free of material distortion, independently of whether caused by fraud or error, and to issue a report of audit containing our opinion. Reasonable certainty is a high level of certainty, but not a guarantee, that an audit carried out in accordance with Brazilian and international auditing rules always detects any existing significant distortions. Distortions may arise from fraud or error and are considered to be material when, individually or jointly, they are able to influence, within a reasonable perspective, a user's economic decision when taken based on the said financial statements.

As a part of an audit realized in accordance with Brazilian and international auditing rules, we exercise professional judgment and maintain professional skepticism throughout the conduct of the audit. Also:

We identify and evaluate risks of material distortion in the financial statements, independently of whether caused by fraud or error; we plan and execute procedures of auditing in response to such risks, and we obtain appropriate and sufficient auditing evidence to ground our opinion. The risk of non-detection of material distortion resulting from fraud is greater than that resulting from error, since fraud may involve the act of deceiving or avoiding internal controls, conspiracy, falsification, omission or intentional false representations.

We obtain understanding of the material internal controls for the audit for us to be able to plan auditing procedures that are appropriate to the circumstances, but not with the objective of expressing an opinion on the efficacy of the internal controls of the Company and its subsidiaries.

We evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and respective disclosures made by the Management.

We reach conclusions on the appropriateness of the use by Management of the accounting basis of operational continuity and, based on the evidences of auditing obtained, whether there is a material uncertainty in relation to events that might raise significant doubt in relation to the capacity of operational continuity of the Company and its subsidiaries. If we conclude that there is material uncertainty, we must call attention in our auditing report to the respective disclosures in the financial statements or include a qualification in our opinion, if the disclosures are inadequate. Our conclusions are grounded on the audit evidence obtained up to the date of our report. However, future events or conditions may lead the Company and its subsidiaries to cease to remain in operational continuity.

We evaluate the general presentation, the structure and the content of the financial statements, including the disclosures, and whether the Financial Statements are representative of corresponding transactions and the event in a manner that is compatible with the objective of appropriate presentation.

We communicate with the persons responsible for governance on the matter, among other aspects, of the planned scope, the period of the audit and the significant findings of the audit, including any significant deficiencies in internal controls that we identify during our work.

We also supply, to the persons responsible for governance, a declaration that we have complied with the relevant ethical requirements, including the applicable requirements for independence, and we report any relationships or matters that could considerably affect our independence including, when applicable, the respective safeguards.

Of the matters that were the subject of communication with the persons responsible for governance, we determined those that were considered to be most significant in the audit of the financial statements for the current business year and which, thus, constitute the Principal Subjects of Audit. We describe these matters in our audit report, unless any law or regulations have prohibited public disclosure of the subject, or when, in extremely rare circumstances, we may determine that this subject should not be disclosed in our report because the adverse consequences of such disclosure could, within a reasonable perspective, be greater than the benefits of communication for the public interest.

Belo Horizonte, April 6, 2017

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes  
CRC-2SP 011.609/O-8 F/MG

Marcelo Salvador  
Accountant  
CRC-1MG 089.422/O-0

**Table of Contents****CEMIG TELECOMUNICAÇÕES S.A. CEMIGTELECOM****STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AT DECEMBER 31, 2016**

R\$ 000

|  | Note | Dec. 31,<br>2016 | Dec. 31,<br>2015<br>(Re-presented) | LIABILITIES AND STOCKHOLDERS<br>EQUITY             | Note   | Dec. 31,<br>2016 |
|--|------|------------------|------------------------------------|--|--------|------------------|
| <b>LIABILITIES</b>                     |      |                  |                                    | <b>Current liabilities</b>                         |        |                  |
| Financial equivalents                  | 6    | 1,034            | 4,869                              | Loans and debentures                               | 15     | 63,751           |
| Cash investments                       | 7    | 1,855            | 17,313                             | Suppliers  | 16     | 21,750           |
| Receivable from clients                | 8    | 19,249           | 16,173                             | Payroll-associated and labor-law obligations       | 17     | 5,836            |
| Prepaid expenses                       | 9    | 303              |                                    | Tax obligations                                    | 18     | 9,573            |
| Other receivable                       | 10   | 3,684            | 2,787                              | Advances from clients                              | 19     | 460              |
| Provisions                             |      | 34               | 32                                 | <b>Total, Current liabilities</b>                  |        |                  |
|  |      | 899              | 281                                |  |        |                  |
| <b>Non-current assets</b>              |      | <b>27,058</b>    | <b>41,455</b>                      | <b>Non-current liabilities</b>                     |        |                  |
|  |      |                  |                                    | Loans and debentures                               | 15     | 37,621           |
| <b>Current assets</b>                  |      |                  |                                    | Payroll-associated and labor-law obligations       | 17, 28 | 2,801            |
| Financial assets                       |      |                  |                                    | Tax obligations                                    | 18     | 2,466            |
| Cash investments                       | 7    | 83               | 342                                | Advances from clients                              | 19     | 4,579            |
| Prepaid expenses                       | 9    | 11,876           |                                    | Provisions for risks                               | 20     | 82               |
| Overdraft accounts                     |      |                  | 4,062                              | Uncovered liabilities of jointly controlled entity | 12     |                  |
| Other receivable                       | 10   | 2,997            | 2,749                              | Related parties                                    | 21     | 3,410            |
| Income tax and Social Contribution tax | 11   | 8,037            | 11,828                             | Other  |        | 84               |
| Financial instruments                  | 12   | 4,586            |                                    | <b>Total, Non-current liabilities</b>              |        | <b>51,043</b>    |
|  |      | 908              | 953                                |  |        |                  |
|  |      |                  |                                    | <b>STOCKHOLDERS EQUITY</b>                         |        |                  |
| Investment in affiliated company       | 12   | 19,744           |                                    | Share capital                                      | 22     | 241,741          |
| Property, plant and equipment          | 13   | 261,613          | 249,761                            | Equity valuation adjustments                       | 28     | (756)            |
| Intangible assets                      | 14   | 9,490            | 6,625                              | Retained losses                                    | 22     | (47,006)         |
|  |      |                  |                                    | <b>Total equity</b>                                |        | <b>193,979</b>   |
| <b>Current assets</b>                  |      | <b>319,334</b>   | <b>276,320</b>                     |  |        |                  |
| <b>ASSETS</b>                          |      | <b>346,392</b>   | <b>317,775</b>                     | <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>   |        | <b>346,392</b>   |

The Notes are an integral part of the Financial Statements.

**Table of Contents****CEMIG TELECOMUNICAÇÕES S.A. CEMIGTELECOM****PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2016**

(In thousands of Reais, except net loss per share)

|  | Note   | Whole period<br>2016 | 2015<br>(Re-presented) |
|--|--------|----------------------|------------------------|
| REVENUE FROM PROVISION OF SERVICES   | 23     | 102,446              | 120,446                |
| COST OF SERVICES PROVIDED  | 24     | (67,868)             | (83,446)               |
| <b>OPERATIONAL PROFIT</b>  |        | <b>34,578</b>        | <b>37,000</b>          |
| OTHER OPERATIONAL REVENUES (EXPENSES)  |        |                      |                        |
| Financial and administrative expenses  | 24     | (34,184)             | (26,184)               |
| Research and marketing expenses  | 24     | (523)                | (1,000)                |
| Operational revenues   | 25     | 28,891               | 1,000                  |
| Gain on change in percentage equity holding                                      | 12     | 24,717               | -                      |
| Provisional expenses   | 24     | (7,028)              | -                      |
| Equity method gains in non-consolidated investees, net                           | 12, 24 | (27,165)             | (28,000)               |
|  |        | (15,292)             | (55,000)               |
| <b>PROFIT BEFORE FINANC. REV. (EXP.), INCOME TAX AND SOCIAL CONTRIBUTION TAX</b> |        | <b>19,286</b>        | <b>(17,000)</b>        |
| Financial revenues   | 26     | 3,999                | 4,000                  |
| Financial expenses   | 26     | (9,161)              | (5,000)                |
| <b>PROFIT BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES</b>                        |        | <b>14,124</b>        | <b>(19,000)</b>        |
| Current income tax and Social Contribution tax                                   | 11     | -                    | (6,000)                |
| Deferred income tax and Social Contribution tax                                  | 11     | (4,141)              | (9,000)                |
| <b>PROFIT (LOSS) FOR THE PERIOD</b>  |        | <b>9,983</b>         | <b>(35,000)</b>        |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES IN CIRCULATION (thousands of shares)    |        | 397,683              | 381,000                |
| <b>BASIC AND DILUTED PROFIT (LOSS) PER SHARE (in Reais)</b>                      |        | <b>25.10</b>         | <b>(91.60)</b>         |

The Notes are an integral part of the Financial Statements.



**Table of Contents****CEMIG TELECOMUNICAÇÕES S.A. - CEMIGTELECOM****STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE PERIOD ENDED DECEMBER 31, 2016**

R\$ 000

|   | <b>Equity</b>  |                   |                 |                |
|---|----------------|-------------------|-----------------|----------------|
|   | <b>Share</b>   | <b>valuation</b>  | <b>Retained</b> | <b>Total</b>   |
|   | <b>capital</b> | <b>adjustment</b> | <b>losses</b>   |                |
|   | <b>225,081</b> | <b>248</b>        | <b>(21,158)</b> | <b>204,171</b> |
| <b>BALANCES ON DECEMBER 31, 2014</b>                |                |                   |                 |                |
| Actuarial losses, net of taxes                      |                | (323)             |                 | (323)          |
| Net loss for the period                             |                |                   | (35,831)        | (35,831)       |
| <b>BALANCES ON DECEMBER 31, 2015 (RE-PRESENTED)</b> | <b>225,081</b> | <b>(75)</b>       | <b>(56,989)</b> | <b>168,017</b> |
| Capital increases                                   | 16,660         |                   |                 | 16,660         |
| Actuarial losses, net of taxes                      |                | (681)             |                 | (681)          |
| Net profit for the year                             |                |                   | 9,983           | 9,983          |
| <b>BALANCES ON DECEMBER 31, 2016</b>                | <b>241,741</b> | <b>(756)</b>      | <b>(47,006)</b> | <b>193,979</b> |

The Notes are an integral part of the Financial Statements.



**Table of Contents****CEMIG TELECOMUNICAÇÕES S.A. - CEMIGTELECOM**

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

R\$ 000

|  | <b>2016</b>  | <b>Whole period<br/>2015<br/>(Re-presented)</b> |
|--|--------------|---|
| Net profit (loss) for the period             | 9,983        | (35,831)  |
| Other comprehensive income:                  |              |   |
| Actuarial gains/losses net of taxes          | (681)        | (323)   |
| Total Comprehensive income for the period    | 9,302        | (36,154)  |
| <b>COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b> |              |   |
| Owners of the Company                        | 9,302        | (36,154)  |
| <b>COMPREHENSIVE INCOME FOR THE PERIOD</b>   | <b>9,302</b> | <b>(36,154)</b>                                 |

The Notes are an integral part of the Financial Statements.

**Table of Contents****CEMIG TELECOMUNICAÇÕES S.A. CEMIGTELECOM****STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016**

R\$ 000

|   | Note       | 2016          | 2015<br>(Re-presented) |
|---|------------|---------------|------------------------|
| <b>CASH FLOW FROM OPERATIONS</b>  |            |               |                        |
| Net profit (loss) for the period  |            | 9,983         | (35,831)               |
| <b>Adjustments to reconcile net profit to cash generated by operations:</b> |            | <b>29,042</b> | <b>100,593</b>         |
| Depreciation and amortization   | 13, 14, 24 | 37,741        | 48,968                 |
| Costs of financings   | 15         | 8,481         | 5,062                  |
| Deferred income tax and Social Contribution tax                             | 11         | 4,141         | 9,551                  |
| Current income tax and Social Contribution tax                              | 11         |               | 6,589                  |
| Cost of fixed assets written off  | 13         | 309           | 170                    |
| Net value of financial leasing transaction                                  | 25         | (3,215)       |                        |
| Appreciation of assets received from Eletronet                              | 13, 25     | (20,423)      |                        |
| Gain on change in percentage of equity holding                              | 12         | (24,717)      |                        |
| Gain on financial derivative instrument                                     | 25         | (4,586)       |                        |
| Reversal of contingency provision   |            | (231)         |                        |
| Addition (reversal) of doubtful receivables                                 |            | (182)         | 1,195                  |
| Equity in earnings of unconsolidated investees, net                         | 12         | 27,165        | 28,833                 |
| Provision for indemnity for contingencies in Ativas                         | 21         | 3,410         |                        |
| Provision for obsolescence  | 13, 24     | 1,149         | 225                    |
| <b>Variations in assets and liabilities</b>                                 |            | <b>37,741</b> | <b>48,968</b>          |
| Reduction (increase) in assets:   |            |               |                        |
| Financing guarantee accounts  |            | 4,062         | 56                     |
| Accounts receivable from clients  |            | (2,003)       | 2,673                  |
| Taxes recoverable   |            | (1,145)       | 5,996                  |
| Other assets  |            | (575)         | (69)                   |
| Increase (reduction) in liabilities:  |            |               |                        |
| Accounts payable to suppliers and others                                    |            | 10,435        | (2,263)                |
| Payroll-related and tax obligations   |            | 3,981         | (1,900)                |
| Advances from clients   |            | (490)         | (491)                  |
| Other liabilities   |            |               | (388)                  |
| Income tax and Social Contribution tax paid                                 |            | (1,121)       | (6,589)                |
| Interest paid   | 15         | (5,342)       | (4,816)                |
| <b>Net cash from operational activities</b>                                 |            | <b>46,827</b> | <b>56,971</b>          |
| <b>CASH FLOWS IN INVESTMENT ACTIVITIES</b>                                  |            |               |                        |
| Acquisition of fixed assets / PP&E  | 13         | (41,790)      | (42,969)               |
| Reductions (increase) in securities and cash investments                    |            | 15,717        | (8,950)                |

|  |    |                  |                 |
|--|----|------------------|-----------------|
| Received under financial leasing                             |    | (658)            |                 |
| Capital increase in affiliated company                       | 12 | (98,900)         |                 |
| Increase in intangible assets                                | 14 | (901)            | (8)             |
| <b>Net cash applied in investment activities</b>             |    | <b>(126,532)</b> | <b>(51,927)</b> |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                   |    |                  |                 |
| Capital increase   | 22 | 16,660           |                 |
| Loans and financings obtained and debentures issued          | 15 | 98,682           | 33,000          |
| Payment of loans, financings and debentures                  | 15 | (39,472)         | (37,887)        |
| <b>Net cash from (used in) financing activities</b>          |    | <b>75,870</b>    | <b>(4,887)</b>  |
| <b>NET INCREASE (REDUCTION) IN CASH AND CASH EQUIVALENTS</b> |    |                  |                 |
|  |    | <b>(3,835)</b>   | <b>157</b>      |
| <b>CASH AND CASH EQUIVALENTS</b>                             |    |                  |                 |
| At start of period   |    | 4,869            | 4,712           |
| At end of period   |    | 1,034            | 4,869           |
| <b>INCREASE (REDUCTION) IN CASH AND CASH EQUIVALENTS</b>     |    |                  |                 |
|  |    | <b>(3,835)</b>   | <b>157</b>      |

The Notes are an integral part of the Financial Statements.

**Table of Contents****CEMIG TELECOMUNICAÇÕES S.A. CEMIGTELECOM****ADDED VALUE STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016**

R\$ 000

|   | <b>Dec. 31,</b> |      | <b>Dec. 31,</b> |      |
|---|-----------------|------|-----------------|------|
|   | <b>2016</b>     | %    | <b>2015</b>     | %    |
| <b>1 REVENUES</b>   | <b>232,031</b>  |      | <b>190,706</b>  |      |
| 1.1) Sale of products and services                          | 136,523         |      | 147,099         |      |
| 1.2) Reversal (provision) for doubtful receivables          | 181             |      | (1,195)         |      |
| 1.3) Additions to fixed assets in progress                  | 34,338          |      | 35,909          |      |
| 1.4) Gain on change in percentage equity holding            | 24,717          |      |                 |      |
| 1.5) Appreciation of assets of Eletronet realized           | 20,423          |      |                 |      |
| 1.6) Gain on financial derivative                           | 4,586           |      |                 |      |
| 1.7) Gain on financial leasing                              | 3,215           |      |                 |      |
| 1.8) Others   | 8,048           |      | 8,893           |      |
| <b>2 INPUTS ACQUIRED FROM THIRD PARTIES</b>                 | <b>72,462</b>   |      | <b>72,667</b>   |      |
| 2.1) Cost of goods and services sold                        |                 |      |                 |      |
| 2.2) Materials, power, outsourced services and others       |                 |      |                 |      |
| 2.3) Loss / recovery of asset value                         |                 |      |                 |      |
| 2.3) Others   |                 |      |                 |      |
| <b>3 GROSS VALUE ADDED (1-2)</b>                            | <b>159,569</b>  |      | <b>118,039</b>  |      |
| <b>4 RETENTIONS</b>   | <b>37,741</b>   |      | <b>48,968</b>   |      |
| 4.1) Depreciation and amortization                          | 37,741          |      | 48,968          |      |
| <b>5 NET ADDED VALUE PRODUCED BY THE ENTITY (3-4)</b>       | <b>121,828</b>  |      | <b>69,071</b>   |      |
| <b>6 ADDED VALUE RECEIVED BY TRANSFER</b>                   | <b>(23,166)</b> |      | <b>(24,780)</b> |      |
| 6.1) Equity method gains in non-consolidated investees, net | (27,165)        |      | (28,833)        |      |
| 6.2) Financial revenues                                     | 3,999           |      | 4,053           |      |
| <b>7 TOTAL ADDED VALUE DISTRIBUTABLE (5+6)</b>              | <b>98,662</b>   |      | <b>44,291</b>   |      |
| <b>8 DISTRIBUTION OF ADDED VALUE</b>                        | <b>98,662</b>   | 100% | <b>44,291</b>   | 100% |
| <b>8.1) Personnel and payroll-related charges</b>           | <b>28,067</b>   | 28%  | <b>20,825</b>   | 47%  |
| 8.1.1) Direct remuneration                                  | 16,691          |      | 13,517          |      |

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|  |               |     |                 |      |
|--|---------------|-----|-----------------|------|
| 8.1.2) Benefits                                      | 5,590         |     | 3,589           |      |
| 8.1.3) Workers Time of Service Guarantee Fund (FGTS) | 2,746         |     | 994             |      |
| 8.1.4) Others  | 3,040         |     | 2,725           |      |
| <b>8.2) Taxes</b>                                    | <b>44,513</b> | 45% | <b>46,519</b>   | 105% |
| 8.2.1) Federal                                       | 16,579        |     | 27,063          |      |
| 8.2.2) State   | 27,934        |     | 19,456          |      |
| <b>8.3) Remuneration of external capital</b>         | <b>16,099</b> | 16% | <b>12,778</b>   | 29%  |
| 8.3.1) Interest                                      | 9,161         |     | 5,778           |      |
| 8.3.2) Rentals                                       | 6,938         |     | 7,000           |      |
| <b>8.4) Remuneration of own capital</b>              | <b>9,983</b>  | 10% | <b>(35,831)</b> | -81% |
| 8.4.1) Profit (loss) for the period                  | 9,983         |     | (35,831)        |      |

The Notes are an integral part of the Financial Statements.

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Cemig Telecomunicações S.A. ( CemigTelecom )

Notes to the financial statements

Year ended December 31, 2016

*(In thousands of Brazilian Reais R\$ 000 except where otherwise indicated)*

**1. Operating context**

**(a) The Company**

CEMIG Telecomunicações S.A. CemigTelecom ( the Company ) is a listed corporation and a wholly-owned subsidiary of Companhia Energética de Minas Gerais S.A. Cemig. It offers optical fibers for carriage of telecommunication services, in the State of Minas Gerais and other States of Brazil's Northeast and Center-West, using the electrical power transmission and distribution infrastructure of power concession holders, principally Cemig.

It is domiciled in Brazil with address at Rua dos Inconfidentes 1051, Ground Floor, Funcionários, Belo Horizonte, MG. It is authorized by the Brazilian telecoms regulator (*Agência Nacional de Telecomunicações*, or Anatel) to commercially operate Multimedia Communication Services (SCM), for an indeterminate period, by Act No. 41002 of December 3, 2003.

Created on January 13, 1999, CemigTelecom focuses on providing telecommunication services for the corporate segment of internet access providers (ISPs) and telecommunications operators. It operates in the wholesale market renting specialized circuits to providers of fixed telephony, mobile telephony, cable TV, business carriers, datacenters, broadband and other services.

The Company's core business is provision of telecommunication services in the segment of operators, internet service providers (ISPs) and specialized services for the corporate segment, making network and internet access solutions available such as: Corporate internet access, data communication between head office and branch offices, high capacity, high-quality solutions, rental of specialized circuits (links, IP/MPLS networks AND VPNs), customized service for each business, connectivity solutions, and other services.

CemigTelecom makes available the largest optical network for transport of telecommunications in Minas Gerais, with presence in more than 70 cities of the state, covering approximately 90% of the state's GDP. Additionally, it makes services available through optical networks in the metropolitan regions of Salvador, Recife, Goiânia and Fortaleza, as well as having points of presence in the cities of São Paulo and Rio de Janeiro.

To provide feasibility for the entry of a new partner into Ativas, CemigTelecom assumed a significant amount in short-term debt. As a result, on December 31, 2016 CemigTelecom's current liabilities exceeded its current assets by R\$ 74,312. On December 31, 2016, CemigTelecom's short and long-term loans and debentures totaled R\$ 63,751 and R\$ 37,621 respectively, with maturities in the second and fourth quarters of 2017 in the amounts of R\$ 18,134 and R\$ 46,827, respectively; however, the Company reported positive operational cash flow in 2016 and 2015 of R\$ 46,827 and R\$ 56,971 respectively.

For the purpose of amortization of the program debt maturities, the Company expects to raise significant amounts of capital from third parties and/or entry of cash from its stockholder, and it can continue to depend on the contracting of additional debts.

The Company has various initiatives to increase liquidity through signing of new loan contracts to roll over debts, and also has the benefit of financial support from its controlling stockholder, Companhia Energética de Minas Gerais Cemig.

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Management believes that the Company has satisfactory capacity to generate operational cash flow, and the conditions necessary to comply with its short-term obligations and continue to make the necessary investments for continuation of the projects in progress.

### **(b) Investment in affiliated company**

Until October 18, 2016, the Company shared control, as a joint venture, of the company Ativas Data Center S.A. ( Ativas ), with a 49% holding in the share capital of that company. As from this date, with the entry of Sonda Procwork Outsourcing Informática Ltda ( Sonda ), a new partner in the business, its holding was diluted to 19.6%, and thereafter this interest is classified as being in an affiliated company. The management and the principal corporate decisions are exercised by the new controlling stockholder, under a stockholders' agreement.

Ativas is an entity domiciled in Brazil. Its headquarters and technological facilities are at Rua Agenório Araújo 20, Camargos, Belo Horizonte, MG, and it has commercial offices in São Paulo, Rio de Janeiro, Porto Alegre and Curitiba. The corporate Objects of Ativas are:

- (i) provision of ITC (Information Technology and Communication) infrastructure supply services, comprising physical hosting of IT physical environments;
- (ii) storage of databases and site backup;
- (iii) provision of professional information and availability security services;
- (iv) provision of consultancy services in ITC and connectivity with sale of internet access and bandwidth; and
- (v) licensing and assignment of rights to use computer program

With the entry of the new controlling stockholder, Sonda, various actions were taken to adapt its organizational, operational and financial structure. As part of the restructuring plan of this affiliated company, in October 2016 early settlement was made of a substantial part of its loans, financings and debentures, with a view to obtaining a capital structure compatible with the size of its business

## **2. Basis of preparation**

### **(a) Statement of compliance**

These financial statements were prepared in accordance with accounting practices adopted in Brazil, which comprise: those included in the Brazilian Corporate Law, and the Pronouncements; the Orientations and Interpretations issued by the Accounting Pronouncements Committee (CPC) and approved by the Federal Accounting Council (CFC) and by the Brazilian Securities Commission (CVM); and International Financial Reporting Standards (IFRS), issued by the



*International Accounting Standards Board (IASB).*

All the material information used by Management in the management of the Company is shown in the Financial Statements.

On April 6, 2017 the Board of Directors authorized the issuance of these financial statements.

**(b) Basis of measurement**

The financial statements have been prepared based on historic cost as a basis of value and adjusted to reflect the fair value of assets and liabilities, when applicable.

**(c) Functional currency and currency of presentation**

These financial statements are presented in Reais, the Company's functional currency. All the financial information presented in Reais has been rounded to the closest unit of thousands, except where otherwise indicated.

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**(d) Use of estimates and judgments**

Preparation of financial statements under IFRS and under the rules of the CPC 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 continuously reviewed. Revisions in relation to accounting estimates are recognized in the period in which the estimates are reviewed, and in any future periods affected.

The information on uncertainties, assumptions and estimates that have a significant risk of resulting in a material adjustment within the next business period are included in the following explanatory notes:

Note 4 Fair value of assets and liabilities

Note 8 Allowance for doubtful accounts

Note 9 Estimate of realization from financial leasing

Note 11 Use of tax losses and realization of temporary differences

Note 13 Results of investment in affiliated company

Notes 14 and 15 Estimates of useful life and of residual values of fixed and intangible assets

Note 21 Provisions and contingencies

Note 28 Financial Instruments

Note 29 Measurement of actuarial assets and liabilities of post-employment benefits to employees.

**3. Principal accounting policies**

The accounting policies described in detail below have been applied consistently to all the periods presented in these financial statements.

**(a) Financial instruments**

**(i) Non-derivative financial assets**

The Company initially recognizes receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the transaction date, which is the date on which the Company becomes one of the parties to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets or liabilities are offset, and the net amount presented in the balance sheet, when, and only when, the Company has the legal right to offset the amounts and has the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

The company has the following non-derivative financial assets:

Cash and cash equivalents:

This includes balances of cash 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.

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### **Financial assets held to maturity:**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has a manifest intention, and financial capacity, to hold them to maturity. After the initial evaluation, investments held to maturity are valued at amortized cost using the effective rates method, less any impairments. The amortized cost is calculated taking into consideration any discount or premium on the acquisition, and charges or costs incurred. The amortization of effective interest is included in financial revenue, in the Profit and loss account. Losses due to impairment are recognized as a financial expense in the Profit and loss account.

### **Financial assets measured at fair value through profit or loss:**

A financial asset is classified in this category if it was acquired, principally, for the purpose of sale in the short term. For this reason, they are usually classified in Current assets. However, if these assets are given in guarantee or there is any other restriction on their use in the short term, they may be classified in Non-current assets. Regular purchases and sales of financial assets are recognized on the date of the transaction, the date on which the Company undertakes to buy or sell the asset. Investments are, initially recognized at fair value. Transaction costs incurred in investments measured at fair value through profit or loss are debited to the Profit and loss account, as expenses, on the transaction date. After this date, the variations in their fair value are accounted directly in the Profit and loss account for the business period, in the group Financial revenues and expenses. These assets are written down when the rights to receive cash flows related to the asset have expired or when the Company has, significantly, transferred all the risks and benefits of its ownership.

### **Receivables:**

These are financial assets with fixed or calculable payment which are not quoted on an active market. These assets are recognized initially at fair value plus any attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost by the effective interest method, less any loss by impairment.

Receivables include accounts receivable from clients and other credits.

### **(ii) Non-derivative financial liabilities**

The Company recognizes debt securities issued initially on the date on which they are originated. All other financial assets are recognized initially on the transaction date on which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are withdrawn, are canceled or expire.

The Company has the following non-derivative financial liabilities: Loans, Suppliers, and Other accounts payable.

These liabilities are recognized initially at fair value, plus any attributable transaction costs. After the initial recognition, they are measured at amortized cost using the effective rates method.

### **(iii) Share capital**

Common shares Common shares are classified as stockholders' equity. Additional costs directly attributable to issuance of shares and options on shares are recognized as deductions from Stockholders' equity, net of any tax effects. The whole of the Company's share capital is represented by common shares.

Minimum mandatory dividends, when declared, in accordance with the by-laws, are recognized as a liability.

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**(iv) Derivative financial instruments**

When applicable, derivatives are recognized initially at their fair value and the attributable transaction costs are recognized in the Profit and loss account when they are incurred. After the initial recognition, derivatives are measured at fair value and changes in fair value are accounted in the Profit and loss account.

**(b) Property, plant and equipment**

**(i) Recognition and measurement.**

Items of PP&E are measured at historic cost of acquisition or construction, less accumulated depreciation, and any accumulated impairment losses, when applicable.

The cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of assets built by the entity itself include the cost of materials and direct labor, any other costs, including those of loans on qualifiable assets, that are necessary to placement of the asset in the location and condition necessary for it to be able to operate in the manner intended by the Management.

Any software purchased that is an integral part of the functionality of an item of equipment is capitalized as part of that equipment

When parts of an item of PP&E have different useful lives, they are recorded as individual items (principal components) of PP&E.

Gains or losses on disposal of an item of fixed assets/PP&E are calculated by comparison with the proceeds of the sale with the accounting value of the item, and are recognized, net, in Other revenues, in the Profit and loss account.

**(ii) Spare part assets**

Materials and equipment with the status of spare parts of certain items of PP&E, whose probable future allocation is to replace assets in operation and to be used for more than one business year are classified in Spare part inventory, in PP&E, until their final allocation. New assets acquired for this purpose are incorporated into PP&E in service only at the moment when they are requisitioned. Goods withdrawn from PP&E in service due to replacement are reintegrated into the inventory of spare parts and their depreciation is normally continued, provided that their repair and reuse are possible.

**(iii) Subsequent costs**

The cost of substitution of a component of PP&E is recognized in the book value of the item when it is probable that the economic benefits incorporated into the component will flow to the Company and that their cost can be reliably measured. The book value of a component replaced by another is transferred to the inventory of spare parts of written off, depending on the case. The costs of routine maintenance of PP&E are recognized in the Profit and loss account when incurred, and include the amount paid for the services of de-activation and repair, and also the cost of materials and components necessarily for replacement and re-placement of the asset in a functioning condition.

**(iv) Depreciation**

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or on a substitute amount of cost, less residual value.

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Depreciation is recognized in the Profit and loss account based on the straight line method in relation to the estimated useful lives of each part of an item of PP&E, since this method is the one that most closely reflects the pattern of consumption of future economic benefits incorporated into the asset.

As revealed in Note 13, the Company's management reviews, annually, the estimate of useful lives and of the residual values of assets at least once in each business year, or whenever any indication of alteration in these estimates is identified. Any adjustments are recognized as changes in accounting estimates.

Assets leased are depreciated for the period that is shorter of: The period of the lease and their useful lives; unless it is reasonably certain that the Company will obtain ownership at the end of the period of leasing. Land holdings are not depreciated.

The estimated useful lives for the present and compared periods are presented in Note 14.

When it is possible to identify one or more asset associated with a specific solution that aims to comply with a specific contract for provision of services, their useful lives become limited to the estimated period of validity of the contract.

### **(c) Intangible assets**

#### **(i) Licenses for use of software**

Software use licenses acquired from third parties are recorded in intangible assets and measured based on costs of acquisition and implantation, and are amortized by the respective estimate useful life.

Software acquired as an integral part of the functionality of an item of equipment is recorded as a cost of that equipment and classified in PP&E.

#### **(ii) Other intangible assets**

Other intangible assets that are acquired by the Company and which have finite useful lives are measured at cost, less accumulated amortization and any accumulated impairment.

#### **(iii) Amortization**

Amortization of intangible assets is calculated on the cost of an asset or other substituted amount of cost, less residual value.

Amortization is recognized in the Profit and loss account on the straight-line method in relation to the estimated useful lives of intangible assets, with the exception of any goodwill premium, as from the date on which these are available for use, since this method is the one that best reflects the pattern of consumption of future economic benefits incorporated into the asset. The estimated useful lives for the present and compared periods are presented in Note 14.

Methods of amortization, useful lives and residual values are reviewed at each closing of a financial year and adjusted if necessary.



**(d) Impairment**

**(i) Financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect that can be reliably estimated on the estimated future cash flows of that asset.

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Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of the amount payable to the Company on conditions that the Company would not consider in other transactions, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers any impairment of receivables or investments held to maturity individually. All receivables and investments held to maturity that are individually significant are evaluated for impairment.

An impairment loss in relation to a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the Profit and loss account and reflected in an allowance account against receivables. If in a later period an impairment can be objectively related to an event that took place after the impairment having been recognized, the impairment previously recognized is reversed in the Profit and loss account, provided that the book value of the investment on the date of this reversal does not exceed the amortized cost if the impairment had not been recognized.

**(ii) Non-financial assets**

The book values of the Company's non-financial assets, with the exception of deferred income tax and Social Contribution tax, are reviewed at least on each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. In the case of goodwill premium and intangible assets with undefined useful life, the recoverable value is estimated every year at the same time.

The recoverable value of an asset or a cash-generating unit (*unidade geradora de caixa*, or UGC) is the greater of: Value in use; and fair value less in estimated sale expenses. When evaluating the value in use, future estimated cash flows are discounted to present values using the pre-tax discount rate that reflects the existing market conditions in relation to the recoverability of the capital and the specific risks of the asset. For the purpose of testing recoverable value, assets that cannot be tested individually are grouped together in the smallest group of assets that generates entry of cash and is in continual use which are largely independent of the cash flows of other assets or groups of assets (UGC's). For testing of impairment of goodwill, the amount of the goodwill ascertained in a business combination is allocated to the UGC or the group of UGC's for which the benefit of synergies from the combination is expected. This allocation reflects the lowest level at which the goodwill is monitored for internal purpose and is not greater than an operational segment, determined in accordance with IFRS 8 and CPC 22.

An impairment is recognized if the book value of an asset or its UGC exceeds its estimated recoverable value. Losses of value are recognized in the Profit and loss account. Impairments related to the UGC's are allocated initially to reduce the book value of each item of goodwill allocated to the UGC's, and then, if there is remaining impairment, to reducing the book value of the other assets within the UGC or group of UGC's, on a pro-rata basis.

The corporate assets of the Company do not generate cash inflow individually. If there is an indication that a corporate asset shows impairment, then the impairment is allocated to the UGC or group of UGC's to which the corporate asset belongs, on a reasonable and consistent basis.

An impairment related to goodwill is not reversed. For other assets, impairments recognized in prior periods are evaluated at each reporting date for any indications that the impairment may have increased, diminished or no longer

exist. An impairment is reversed if there has been a change in the estimates used to determine the recoverable value. An impairment is reversed only when the book value of the asset does not exceed the book value that has been ascertained, net of depreciation or amortization, if the impairment had not been recognized.

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**(e) Benefits to employees**

**(i) Mixed Benefit Private Pension Plan ( Plan B )**

This is a defined-benefit contribution plan in the fund accumulation phase for retirement benefits for normal time of service, and as a defined-benefit plan for disability or death of participants still in active employment, and for receipt of benefits for time of contribution.

A defined contribution plan is a post-employment benefits plan under which an entity pays fixed contributions into a separate entity (pension fund) and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Statement of income in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset if a cash refund or a reduction in future payments is available.

A defined benefit plan is a post-retirement benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their services rendered in the current and prior periods. The future benefit is discounted to present value at an interest-free interest rate. Any unrecognized costs of past service and the fair value of any plan assets are deducted. The discount rate is the yield presented on the reporting date for AA credit-rated bonds, or in their absence based on rates for government securities, that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the asset recognized is limited to the total of any unrecognized costs of past service and the present value of actuarial losses and the present value of the economic benefits available in the form of future reimbursements or reductions in future contributions to the plan.

An economic benefit is available to the Company if it is realizable during the life of the plan.

The costs of passed services are recognized immediately in the Profit and loss account. Actuarial gains and losses arising from adjustment based on experience and on changes in the actuarial assumptions are reported directly in Stockholders' equity, as Other comprehensive income, when they occur, and are not reclassified for the Profit and loss account.

**(ii) Other long-term benefits to employees Health ( Integrated Pro-Saúde ) Plan and Dental Plan**

The Company's net obligation in respect of employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior years. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds, or in their absence based on rates for government securities, which have maturity dates approximating the conditions of the Company's obligations. The calculation is carried out by the projected unit credit method. Actuarial gains and losses are recognized in the Profit and loss account in the period in which they arise.

**(f) Provisions**

A provision is recognized, as a result of a past event, if the Company has a legal or constructive obligation that can reliably be estimated and it is probable that an economic resource will be required to settle the obligation.

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### **(g) Recognition of revenue**

Operational revenue comprises the fair value of the consideration received or to be received for provision of rental and services in the normal course of the Company's activities. Operational revenue is recognized when there is convincing evidence that it is probable that the financial economic benefits will flow to the entity, and that the amount of operational revenue and the respective associated costs can be reliably estimated and/or measured. Revenue is presented net of taxes, cancellations and unconditional discounts, and also net of eliminations of transactions not realized between related parties.

### **(i) Provision of services**

The Company considers to have been provided any services which, by formal commercial agreement, result in an irrecoverable obligation to deliver to its clients the benefits arising from the operational activities exercised by the Company, independently of the way in which they are settled.

Services are provided continuously to clients for the period agreed in the contract. Revenues are recognized in the Profit and loss account based on the stage of delivery or availability of the services contracted.

#### a) Telecoms

Article 60 of the General Telecommunications Law (LGT), Law 9472 of July 16, 1997, defines telecommunication service as: The group of activities that makes possible the offer of capacity for transmission, emission or reception, by wire, radio, optical means or any other electromagnetic process, of symbols, characters, signals, written matter, images, sounds or information of any type. Such services are divided into various modalities. The Company is authorized by Anatel to provide telecommunication services in Multimedia Communication Service (*Serviço de Comunicação Multimídia*, or SCM) modality, under the SCM regulations approved by Anatel Resolution 614 of May 28, 2013. The contracts for provision of services are remunerated on fixed monthly bases, the values of which are negotiated principally as a function of the rate of transmission, distance between the connected points, quantity contracted and fidelity period, which generally varies between one and five years.

Telecommunications revenues comprise the initial amount agreed in the contract, plus any variations arising from additional requests, less any amounts agreed to be omitted and/or other discounts arising from incentive arrangements based on volume of contracting. Revenues are recognized as long as it is probable that they will result in revenue and can be reliably measured.

The amount attributable of revenue in relation to the stage of delivery or availability of the telecommunication services is measured, on a monthly basis, in the manner specified in contracts. Services begun or canceled during the course of the month of reference are valued on a *pro-rata-die* basis, in proportion to the extent of delivery or having been placed at disposal of clients.

### **(ii) Other revenues**

#### a) Rental of networks

Certain commercial agreements provide for use by the client of part of the Company's fiber optic networks, without, however, any equipment or services of its ownership or responsibility being allocated to these networks. This is not to be confused with telecommunication service, since it does not fulfill the characteristics of the definition in the General

Telecommunications Law.

Rental revenue is recognized in the Profit and loss account by the accrual method in the period of a contract.

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### **b) Right of way (sub-rental of transmission and distribution infrastructure)**

The Company has a Right of way contract on the transmission and distribution lines of Cemig, for which concession it pays monthly to the concession grantor, through a share of revenue, which constitutes a type of royalty varying with the revenue received by the Company. This operational agreement confers on the Company the possibility of subrogation of these rights of passage to third parties, provided there is express agreement by the grantor. The revenue from right of way arising from subrogation of such rights is recognized by the accrual method, according to the essence of the applicable contracts.

### **c) Indemnity for early rescission of contract**

Contracts for telecommunication services have protection clauses that guarantee for the company the right of indemnity (pre-set penalty representing losses and damages) in the event of early and unilateral cancellation of the agreement by clients, so as to ensure the minimum return on the investment realized by the Company in providing the service contracted.

### **(h) Financial revenue (expenses)**

Financial revenues are, principally, revenue from cash investments, late charges on overdue telecoms service account, and interest on other financial assets. Interest income is recognized in the Statement of income using the effective interest method.

Financial expenses are, principally, financial costs on debentures and loans. Interest expense on the Company's borrowings is recognized in the Profit and loss account using the effective interest method.

### **(i) Leasing transactions**

#### **1) Operational leasing transactions**

Leasings in which a significant portion of the risks and benefits of the ownership is retained by the lessor are classified as operational leasing. Payments made under operational leasing agreements (net of any incentive amounts received from the lessor) are recognized by the lessee in the Profit and loss account by the straight-line method during the period of contracting of the leasing.

#### **2) Financial leasing assets and liabilities**

Leasings of PP&E assets in which the Company substantially holds all the risks and benefits inherent to ownership are classified as financial leasings, the minimum payments of which are systematically and separately allocated between unrealized assets and liabilities and revenues or expenses to be appropriated. Financial expenses are allocated at each period during the period of the leasing, aiming to produce a constant periodic rate of interest on remaining balance of the asset or liability.

At the same time, as shown in Note 9, the Company leased certain assets and liabilities in which the main characteristics of the contract indicated their classification as financial leasing, and as a result recorded the transaction



as a disposal.

The assets acquired in the modality of financial leasing, and lessee, are classified in PP&E and depreciated in accordance with their estimated useful life.

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**Table of Contents****3) Policy on identification and classification of leasing transactions**

At the beginning of a contract, it is defined whether or not the document is or contains a leasing agreement. A specific asset is the object of a leasing agreement if compliance with the contract depends on the use of that specific asset. Leasing agreements in the terms of which the lessee assumes the risks and benefits inherent to ownership are classified as financial leaseings. In the initial recognition, asset and liability are recognized at amounts equal to the fair value of the asset leased, or if lower, to the present value of the minimum payments of the leasing contract, each one being determined at the start of the leasing contract. The Company, when it is lessee, depreciates the asset leased in accordance with the expected useful life in the same way as its own assets, or for a shorter period, if applicable, as per terms of the leasing contract in question. At the same time, when the Company is lessor, it writes down the asset leased against the profit for the business year. Receipts or minimum payments of financial leaseings are segregated into two components: The financial expense, and the reduction of the outstanding asset or liability.

Other leasing agreements are classified as operational leasing and are recognized as an expense on the straight-line basis during the period of the leasing, unless any other systematic basis is more representative of the timing pattern of the benefit.

**(j) Income tax and Social Contribution tax**

Income tax and the Social Contribution tax, current and deferred, are calculated based on the rates of: income tax at 15%, plus the additional rate of 10% on taxable income exceeding R\$ 240,000 (two hundred and forty thousand Reais) per year; and for the Social Contribution tax, 9% on taxable profit. They include the offsetting of tax losses/carryforwards for both taxes, the aggregate total of which offsetting is limited to 30% of the real profit.

The expense on Income tax and the Social Contribution tax comprises current and deferred tax. The current tax and the deferred tax are recognized in the Profit and loss account unless they relate to a business combination, or items directly recognized in Stockholders' equity or in Other comprehensive income.

**1) Current income tax and Social Contribution tax**

The current tax is the expected tax payable or receivable on the taxable profit for the business year, at the rates currently in force or substantially in force on the reporting date, and any adjustment to the taxes payable in relation to prior years. The taxable profit is different from the profit presented in the income statement, because it excludes revenues or expenses that are taxable or deductible in other reporting periods, and also excludes items that are non-taxable or non-deductible permanently. The provision for income tax and Social Contribution tax is calculated based on the rates in force at the close of the reporting period.

**2) Deferred income tax and Social Contribution tax**

This is the effect arising from the difference of treatment between the accounting profit and the taxable profit ascertained in each period – these figures can arise from calculation of tax losses offsetable in future periods or recording of accounting transactions which, due to express provisions of law, have their tax effects (positive or negative) suspended or postponed – also known as temporary differences.

Deferred tax is not recognized for the following temporary differences: initial recognition of assets or liabilities in a transaction that is not a business combination and which does not affect accounting, nor taxable profit or loss; and

differences related to investments in subsidiaries and controlled entities, when it is probable that they will not be reversed in a foreseeable future.

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Positive (receivable) deferred income tax ceases to be recognized in the financial statements when it is probable that, in the light of existing evidence, the economic benefits of tax deductibility of the credits which gave rise to it will not be available for use to offset future taxable profit, or their realization is uncertain, indeterminate, or does not fulfill the requirements for accounting recognition specified in CVM (Securities Commission) Instruction 371/02. Deferred income tax and Social Contribution tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the rates that it is expected will be applied to the temporary differences when they are realized, based on the legislation in effect on the reporting date.

Deferred tax assets and liabilities are classified individually as Non-current assets or liabilities, independently of whether there is any expectation of realization or reversal in the subsequent business year, and may be set off against each other if there is a legal right to offset current tax liabilities and assets, and if they are related to income taxes posted by the same tax authority on the same taxable entity.

### **(k) Profit per share**

#### **1) Basic**

Basic earnings per share (EPS) is calculated by dividing the profit or loss attributable to the controlling shareholders and non-controlling interest of the Company by the common shares outstanding in the respective period.

#### **2) Diluted**

Diluted EPS is calculated by the said average number of shares in circulation, adjusted for any instruments potentially convertible into shares, with dilutive effect, in the periods presented, in the terms of CPC 41 (IAS 33).

In view of the non-existence of financial instruments that could cause dilution of the capital, no differences were calculated between basic and diluted profits of the Company.

### **(l) Segment reporting**

Operational segments are strategic units of a business that offer different services, whose operations are separately managed and which require the application of different technologies and operational strategies Reportable operational segments are defined based on the reports used by Management for taking decisions and monitoring business, and are frequently reviewed by the Executive Board of the Company.

The financial statements of the Company include only one material operational segment. This being so, for the purpose of these financial statements only the operational segment related to the business of provision of telecommunications infrastructure was considered.

### **(m) Statements of added value**

The Company has prepared an Added Value Statement (DVA) in accordance with technical pronouncement CPC 09 *Added Value Statements*, which is presented as an integral part of the financial statements in accordance with BRGAAP applicable to listed companies, while under IFRS its status is that of additional information.

**Table of Contents****(n) Distribution of Interest on Equity, and dividends**

Distribution of dividends, and Interest on Equity, to the Company's stockholders is recognized as a liability in the financial statement at the moment when these benefits are declared. Under the Company's by-laws, decision on payment of interim Interest on Equity is a decision for the Board of Directors. The tax benefit arising from Interest on Equity is recognized in the Profit and loss account, by reduction of the taxable amount of current income tax and Social Contribution tax.

**(o) Adoption of new and/or revised accounting pronouncements, orientations and interpretations***1) New and revised rules and interpretations, applicable for the business year ending December 31, 2016*

The following new and revised elements of IFRS, in effect for business years starting on or after January 1, 2016, were adopted in the financial statement. Adoption of these new and revised components of IFRS applicable to the Company had no material effect on the amounts reported and/or disclosed for the current and prior periods.

| <b>Pronouncement</b>                   | <b>Description</b>   |
|--|--|
| Changes to IFRS 10, IFRS 12 and IAS 28 | Investment entities: Applying the exception of consolidation |
| Alterations to IFRS 11                 | Accounting of acquisitions of interests in joint operations  |
| Alterations to IAS 1                   | Disclosure initiative  |
|  | Clarification on acceptable methods of depreciation and      |
| Alterations to IAS 16 and IAS 38       | amortization   |
| Alterations to IAS 16 and IAS 41       | Agriculture: Carrying amounts for plants                     |
| Alterations to IAS 27                  | Equity reporting method and separate financial statement     |
| Annual Improvements                    | 2012-2014 IFRS Cycle   |

*2) New and revised rules and interpretations already issued and not yet adopted:*

| <b>Pronouncement</b>              | <b>Description</b>   |
|-----------------------------------|--|
| IFRS 9                            | Financial instruments (b)                                    |
| IFRS 15                           | Revenue from contracts with clients (b)                      |
| IFRS 16                           | Leasing (c)  |
| Alterations to IFRS 2             | Share-based Payment  |
|                                   | Sale or contribution of assets between an investor and its   |
| Alterations to IFRS 10 and IAS 28 | affiliate or joint venture (d)                               |
| Alterations to IAS 7              | Disclosure initiative (d)                                    |
| Alterations to IAS 12             | Recognition of deferred tax assets for unrealized losses (a) |
| IFRIC 22                          | Advances in foreign currencies (b)                           |
| Annual Improvements               | 2014-2016 IFRS Cycle (a) (b)                                 |
| Alterations to IAS 40             | Transfer of investment properties (b)                        |

(a) In effect for annual periods starting on or after January 1, 2017, with early adoption allowed.

(b) In effect for annual periods starting on or after January 1, 2018, with early adoption allowed.

(c) In effect for annual periods starting on or after January 1, 2019, with early adoption allowed.

(d) In effect for annual periods starting on or after a date to be decided.

The Company's Management is evaluating the possible effects arising from the revisions of IFRS 9, 15 and 16, and adjustments to IFRS 12.

**Table of Contents****4. Determination of fair value of assets and liabilities**

Numerous accounting policies and disclosures of the Company call for determination of the fair value of assets and liabilities, financial and non-financial. The fair values have been calculated for the purposes of measurement and/or disclosure based on the methods below. When applicable, the additional information on the assumptions used in calculation of fair values is disclosed in specific notes to the asset or liability concerned.

**(i) Derivatives**

When applicable, derivatives are recognized initially at their fair value; and the attributable transaction costs are recognized in the Profit and loss account when they are incurred. After the initial recognition, derivative are measured at fair value.

**(ii) Non-derivative financial liabilities**

Fair value, which is determined for the purposes of disclosure, is calculated based on the present value of the principal, and future cash flows, discounted at the market interest rate found on the reporting date. For financial leasing transactions, the interest rate is found by reference to similar leasing contracts.

**5. Re-representation of the financial statements**

The Company's financial information for the period ended December 31, 2005, presented for the purpose of comparison, has been adjusted and is being re-presented, as specified in CPC 23 *Accounting policies, changes in estimates and correction of errors*, and CPC 26(R1) *Presentation of accounting statements*, due to certain adjustments made in the financial statements of the affiliated company Ativas. The effects resulting from these adjustments have an impact on the gain accounted by the equity method on holdings in non-consolidated investees, in the Profit and loss account, and the balances of accounts of uncovered liabilities of the subsidiary, and retained losses in the Statement of financial position (Balance sheet). The Management of CemigTelecom believes that this change presents its operations in the most reliable form and results in reliable and material information. These alterations have no effect on the initial balances at January 1, 2015, which is why the column relating to the balances on that base date has not been presented.

The effects on the financial statements of the Company can be demonstrated as follows:

**STATEMENT OF FINANCIAL POSITION**

|                     | <b>Initial<br/>balance</b> | <b>Dec. 31, 2015<br/>Adjustments</b> | <b>Balance<br/>Re-presented</b> |
|---------------------|----------------------------|--------------------------------------|---------------------------------|
| Current assets      | 41,455                     |                                      | 41,455                          |
| Non-current assets  | 276,320                    |                                      | 276,320                         |
| <b>Total assets</b> | <b>317,775</b>             |                                      | <b>317,775</b>                  |



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|  |                |         |                |
|--|----------------|---------|----------------|
| Current liabilities                                | 57,626         |         | 57,626         |
| Non-current liabilities                            | 90,127         |         | 92,132         |
| Uncovered liabilities of jointly controlled entity | 74,703         | 2,005   | 76,708         |
| Other non-current liabilities                      | 15,424         |         | 15,424         |
| Stockholders' equity                               |                |         |                |
| Share capital                                      | 225,081        |         | 225,081        |
| Equity valuation adjustments                       | (75)           |         | (75)           |
| Retained losses                                    | (54,984)       | (2,005) | (56,989)       |
| Total equity                                       | 170,022        | (2,005) | 168,017        |
| <b>Total liabilities and Stockholders' equity</b>  | <b>317,775</b> |         | <b>317,775</b> |

**Table of Contents****PROFIT AND LOSS ACCOUNT**

|  | <b>Initial<br/>balance</b> | <b>Dec. 31, 2015<br/>Adjustments</b> | <b>Balance<br/>Re-presented</b> |
|--|----------------------------|--------------------------------------|---------------------------------|
| Net revenue from provision of services                 | 120,614                    |                                      | 120,614                         |
| Cost of services provided                              | (83,367)                   |                                      | (83,367)                        |
| Gross profit   | 37,247                     |                                      | 37,247                          |
| Net operational revenue (expenses)                     | (26,380)                   |                                      | (26,380)                        |
| Equity method gains in non-consolidated investees, net | (26,828)                   | (2,005)                              | (28,833)                        |
| Total  | (53,208)                   | (2,005)                              | (55,213)                        |
| Operational profit before Financial revenue (expenses) | (15,961)                   | (2,005)                              | (17,966)                        |
| Net financial revenues (expenses)                      | (1,725)                    |                                      | (1,725)                         |
| Profit before income and Social Contribution taxes     | (17,686)                   | (2,005)                              | (19,691)                        |
| Current income tax and Social Contribution tax         | (6,589)                    |                                      | (6,589)                         |
| Deferred income tax and Social Contribution tax        | (9,551)                    |                                      | (9,551)                         |
| Net loss for the period                                | (33,826)                   | (2,005)                              | (35,831)                        |

**STATEMENT OF COMPREHENSIVE INCOME**

|  | <b>Initial<br/>balance</b> | <b>Dec. 31, 2015<br/>Adjustments</b> | <b>Balance<br/>Re-presented</b> |
|--|----------------------------|--------------------------------------|---------------------------------|
| Net loss for the period                          | (33,826)                   | (2,005)                              | (35,831)                        |
| Other comprehensive income:                      |                            |                                      |                                 |
| Actuarial losses, net of taxes                   | (323)                      |                                      | (323)                           |
| <b>Total Comprehensive income for the period</b> | <b>(34,149)</b>            | <b>(2,005)</b>                       | <b>(36,154)</b>                 |

**STATEMENTS OF CASH FLOW**

|   | <b>Initial<br/>balance</b> | <b>Dec. 31, 2015<br/>Adjustments</b> | <b>Balance<br/>re-presented</b> |
|---|----------------------------|--------------------------------------|---------------------------------|
| Net loss for the period   | (33,826)                   | (2,005)                              | (35,831)                        |
| <b>Adjustments to reconcile net profit to cash generated by operations:</b> | <b>98,588</b>              | <b>2,005</b>                         | <b>100,593</b>                  |

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|   |                 |       |                 |
|---|-----------------|-------|-----------------|
| Provision made for doubtful receivables                           | 1,195           |       | 1,195           |
| Equity method gains in non-consolidated investees, net            | 26,828          | 2,005 | 28,833          |
| Depreciation and amortization                                     | 48,968          |       | 48,968          |
| Other adjustments for reconciliation of Net profit for the period | 22,792          |       | 22,792          |
| <b>Variations in assets and liabilities</b>                       | <b>(7,791)</b>  |       | <b>(7,791)</b>  |
| <br>  |                 |       |                 |
| <b>Net cash from operational activities</b>                       | <b>56,971</b>   |       | <b>56,971</b>   |
| <b>Net cash applied in investment activities</b>                  | <b>(51,927)</b> |       | <b>(51,927)</b> |
| <b>Net cash applied in financing activities</b>                   | <b>(4,887)</b>  |       | <b>(4,887)</b>  |
| <br>  |                 |       |                 |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>                      | <b>157</b>      |       | <b>157</b>      |
| <br>  |                 |       |                 |
| <b>CASH AND CASH EQUIVALENTS</b>                                  |                 |       |                 |
| At start of period  | 4,712           |       | 4,712           |
| At end of period  | 4,869           |       | 4,869           |
| <br>  |                 |       |                 |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>                      | <b>157</b>      |       | <b>157</b>      |

**Table of Contents****6. Cash and cash equivalents**

|                                  | <b>Dec. 31, 2016</b> | <b>Dec. 31, 2015</b> |
|----------------------------------|----------------------|----------------------|
| <b>Cash and bank deposits</b>    | 261                  | 1,359                |
| <b>Fixed-income funds</b>        |                      |                      |
| Bank certificates of deposit (a) | 105                  | 872                  |
| Overnight (b)                    | 668                  | 2,638                |
| <b>Total</b>                     | <b>1,034</b>         | <b>4,869</b>         |

On December 31, 2016, the Company had 100.00% of its cash investments (cash equivalents and securities – Note 7) in the Pampulha Fund (*Fundo Pampulha*), an exclusive investment fund of the Cemig Group. The weighted average profitability of the financial investments of the Pampulha Fund in this period was approximately 106.31% of the rate for interbank certificates of deposit, published by Cetip S.A. – the CDI Rate (this percentage was 103.0% on December 31, 2015).

- (a) Floating rate bank CDs, remunerated at a percentage of the CDI Rate (which varies between 100.5% and 105.25%, depending on the transaction).
- (b) Short-term (*overnight*) transactions (usually Treasury bonds, notes, etc., referenced to a fixed rate), with availability for redemption on the next day after investment.

**7. Securities**

*Securities* refers to: (i) fixed-income securities, comprising units in funds managed by financial institutions that meet the requirements for reputation, reliability and solidity established by the controlling stockholder group; and (ii) investments in securities and bank CDs (CDBs), with maturities of more than 90 days, the amounts of which, reported in Current assets, take into account the expectation of realization in the short term.

|                                  | <b>Dec. 31, 2016</b> | <b>Dec. 31, 2015</b> |
|----------------------------------|----------------------|----------------------|
| <b>Fixed income securities</b>   |                      |                      |
| <b>Current</b>                   |                      |                      |
| <b>Fixed-income funds</b>        |                      |                      |
| Bank certificates of deposit (a) | 59                   | 2,873                |
| Debentures (b)                   | 131                  | 3,242                |
| Treasury Financial Notes (c)     | 349                  | 1,890                |
| Financial Notes – Banks (d)      | 1,316                | 9,308                |
| <b>Subtotal</b>                  | <b>1,855</b>         | <b>17,313</b>        |
| <b>Non-current</b>               |                      |                      |
| Financial Notes – Banks (d)      | 25                   | 338                  |
| Other                            |                      | 4                    |

|                      |              |               |
|----------------------|--------------|---------------|
| Debentures and Notes | 58           |               |
| <b>Subtotal</b>      | <b>83</b>    | <b>342</b>    |
| <b>Total</b>         | <b>1,938</b> | <b>17,655</b> |

- (a) Floating-rate bank CDs, remunerated at a percentage of the CDI rate (varying between 100.5% and 105.25%, depending on the transaction).
- (b) Floating-rate debentures, remunerated at a percentage of the CDI rate (varying between 100% and 113%, depending on the transaction).
- (c) Floating-rate treasury Financial Notes, the remuneration of which is given by the variation of the daily Selic rate recorded between the date of settlement of the purchase and date of maturity of the security plus, if any, premium or discount at the moment of purchase.
- (d) Floating-rate bank Financial Notes, remunerated at a percentage of the CDI (between 104.25% and 112.7%, depending on the transaction).

**Table of Contents****8. Accounts receivable from clients**

|                                 | <b>Dec. 31, 2016</b> | <b>Dec. 31, 2015</b> |
|---------------------------------|----------------------|----------------------|
| Related parties (Note 21) (*)   | 5,210                | 1,919                |
| Third parties                   | 15,464               | 16,713               |
| Allowance for doubtful accounts | (1,425)              | (2,459)              |
| <b>Total</b>                    | <b>19,249</b>        | <b>16,173</b>        |

(\*) Excluding the amounts of ICMS tax of the entities linked to the Government.  
Below is a summary of past due accounts receivable, by time overdue:

| <b>Past due accounts receivable</b> | <b>Dec. 31, 2016</b>   |                      |              | <b>Dec. 31, 2015</b> |
|-------------------------------------|------------------------|----------------------|--------------|----------------------|
|                                     | <b>Related parties</b> | <b>Third parties</b> | <b>Total</b> |                      |
| 1 to 30 days                        | 1,059                  | 1,847                | 2,906        | 1,880                |
| 31 to 60 days                       | 1,070                  | 311                  | 1,381        | 179                  |
| 61 to 90 days                       | 543                    | 100                  | 643          | 85                   |
| 91 to 180 days                      | 201                    | 223                  | 424          | 242                  |
| Over 180 days                       | 766                    | 1,749                | 2,515        | 2,456                |
| <b>Total</b>                        | <b>3,639</b>           | <b>4,230</b>         | <b>7,869</b> | <b>4,842</b>         |

|                                     |         |         |         |
|-------------------------------------|---------|---------|---------|
| Provision for doubtful receivables) | (1,425) | (1,425) | (2,459) |
|-------------------------------------|---------|---------|---------|

|  |    |     |     |     |
|--|----|-----|-----|-----|
| Percentage loss recognized on past due accounts receivable | 0% | 34% | 18% | 51% |
|--|----|-----|-----|-----|

The estimate for losses on doubtful receivables is recorded after individual assessment of the receivables. Those on which there is doubt as to realization have their losses recognized in the Profit and loss account in the amount expected to be incurred.

The change in the estimate for losses on accounts receivable can be expressed as follows:

|                                   | <b>2016</b>    | <b>2015</b>    |
|-----------------------------------|----------------|----------------|
| Balance on January 1              | (2,459)        | (1,264)        |
| Provision permanently written off | 853            |                |
| New provisions                    | (101)          | (1,195)        |
| Reversals                         | 282            |                |
| <b>Balance at December 31</b>     | <b>(1,425)</b> | <b>(2,459)</b> |

On December 31, 2016 the Company had a total of R\$ 5,354 in accounts receivable from clients up to 180 days past due, of which R\$ 4,504 was settled by February 2017. The other credits are in negotiation.



**Table of Contents****9. Financial leasing**

Leasing transactions in which the Company is lessor and substantially transfers the risks and benefits of ownership to the lessee are classified as financial leaseings. These transactions are recognized as a receivable at the lower of: Fair value of the asset leased; and Present value of the flow of receipts specified in the contract, discounted at a risk-free interest rate. Interest related to leasing is recognized in the Profit and loss account as Financial revenue during the period that the contract is in force.

|                           |                      |
|---------------------------|----------------------|
|                           | <b>Dec. 31, 2016</b> |
| GPON network condominiums | 12,179               |
| <b>Total</b>              | <b>12,179</b>        |
| <b>Current</b>            | <b>303</b>           |
| <b>Non-current</b>        | <b>11,876</b>        |

GPON network condominiums

On July 5, 2016 Cemig signed an irrecoverable leasing contract with Algar Telecom S.A. (Algar) for the FTTH GPON Network owned by CemigTelecom, located in 39 residential districts and condominiums in the Southern Zone of the Metropolitan Region of Belo Horizonte. The contract, signed for a period of 15 years, specifies monthly remuneration of R\$ 112 in the first 60 months, and R\$ 132 as from the 61<sup>st</sup> month, with annual adjustment by the IGP-M inflation index.

The nominal value of the flows of receipts specified in the contract was as follows:

|               |                      |
|---------------|----------------------|
|               | <b>Dec. 31, 2016</b> |
| Up to 1 year  | 1,344                |
| 1 to 5 years  | 7,080                |
| After 5 years | 13,494               |
| <b>Total</b>  | <b>21,918</b>        |

The value of the considerations receivable on the transaction date was R\$ 12,306, discounted to present value based on a real interest rate of 9% per year.



**Table of Contents****10. Taxes recoverable**

|  | <b>Dec. 31, 2016</b> | <b>Dec. 31, 2015</b> |
|--|----------------------|----------------------|
| ICMS (local state value added tax) (a)             | 4,929                | 4,695                |
| Income tax and Social Contribution tax recoverable | 595                  | 426                  |
| Income tax withheld at source                      | 1,098                | 401                  |
| Other  | 59                   | 14                   |
| <b>Total</b>                                       | <b>6,681</b>         | <b>5,536</b>         |
| <b>Current</b>                                     | <b>3,684</b>         | <b>2,787</b>         |
| <b>Non-current</b>                                 | <b>2,997</b>         | <b>2,749</b>         |

(a) This refers, basically, to ICMS tax credits recoverable, stated separately on tax invoices for acquisitions of PP&E assets. These can be used in up to 48 months from their being recording in the CIAP (Fixed Assets ICMS Tax Credit Monitoring) book.

**11. Current and deferred income tax and Social Contribution tax**

The item Deferred income tax and Social Contribution tax refers to the deferred tax credit constituted, principally, on temporary differences, tax losses and negative balances of Social Contribution tax ascertained up to the reporting date. Reporting of the deferred income tax is based on a technical study of viability made by the Executive Board and approved by the Audit Board and the Board of Directors on March 18, 2016.

The assumptions used in the preparation of that technical feasibility study were based on the projection of future taxable profits. On December 31, 2015, considering the Company's business plan and the outlook for the macroeconomic scenario, the feasibility study indicated that future taxable profits foreseen for the period of 10 years would not be sufficient to exhaust the totality of tax credits recorded, and for this reason the Company reverted part of the deferred income tax and Social Contribution tax recognized in prior years, in the amount of R\$ 13,491, of which R\$ 12,057 referred to the tax loss and negative base for Social Contribution tax, and R\$ 1,434 in temporary differences. Since this is a change of estimate, the adjustment was recognized in the Profit and loss account with a counterpart in Expenses on income tax and deferred Social Contribution tax.

On December 31, 2016 a further technical study was made, which indicated the possibility of complementing the balance of deferred income tax and Social Contribution tax with the amount of R\$ 1,569.

The portion of tax credits not recognized amounts to R\$ 10,385. This amount will be maintained under monitoring in the tax records until it satisfies the technical requirements for its accounting recognition.

The accounting value of the deferred tax asset is reviewed periodically, and the forecasts, annually. If there are material factors that change the forecasts, the technical feasibility study will be reviewed by the Company during the business year.



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|   | Dec. 31, 2016  | Dec. 31, 2015 |
|---|----------------|---------------|
| <b>Assets</b>   |                |               |
| <u>Deferred tax credits</u>                                       |                |               |
| Tax losses and negative Social Contribution balances              | 4,973          | 1,599         |
| Allowance for doubtful accounts                                   | 451            | 425           |
| Provision for swap balance in the assets of Ativas                | 1,159          |               |
| Voluntary retirement program                                      | 539            |               |
| Profit sharing ( PLR )  |                | 844           |
| Depreciation Law 11941/09   | 7,018          | 6,834         |
| Actuarial loss recorded in Other comprehensive income             | 390            | 38            |
| Provision for obsolescence  | 390            |               |
| Provision for impairment of investment                            | 1,495          | 1,495         |
| Other temporary additions   | 623            | 593           |
| <b>Total, deferred income tax/Social Contribution receivable</b>  | <b>17,038</b>  | <b>11,828</b> |
| <b>Liabilities</b>  |                |               |
| <u>Deferred tax obligations</u>                                   |                |               |
| GPON network condominium leasing                                  | (764)          |               |
| Gain on derivative financial instruments                          | (1,559)        |               |
| Appreciation of assets received from Eletronet                    | (6,678)        |               |
| <b>Total, deferred income tax and Social Contribution payable</b> | <b>(9,001)</b> |               |
| <b>Net non-current assets</b>                                     | <b>8,037</b>   | <b>11,828</b> |

The reconciliation of the expense calculated by application of the nominal tax rates and of the expense of income tax and Social Contribution reported in the Profit and loss account for the year is as follows:

|  | Year           |                 |
|--|----------------|-----------------|
|  | 2016           | 2015            |
| <b>Profit (loss) before income tax and Social Contribution tax</b> | <b>14,124</b>  | <b>(19,691)</b> |
| Gain on change in percentage equity holding                        | (24,717)       |                 |
| Equity in earnings of unconsolidated investees, net                | 27,165         | 28,833          |
| <b>Profit before income and Social Contribution taxes</b>          | <b>16,572</b>  | <b>9,142</b>    |
| Nominal rate of income and Social Contribution tax                 | 34%            | 34%             |
| <b>Income tax and the Social Contribution tax</b>                  | <b>(5,635)</b> | <b>(3,108)</b>  |
| <b>Adjustments to obtain effective rate:</b>                       |                |                 |
| Tax effects applicable to:   |                |                 |
| Deductions for tax incentives                                      |                | 312             |
| Other additions and exclusions, net                                | (75)           | 147             |
| Partial posting (reversal) of deferred income tax and Social Cont. | 1,569          | (13,491)        |

|   |                          |                |                 |
|---|--------------------------|----------------|-----------------|
| <b>Income and social contribution taxes</b> | <b>effective expense</b> | <b>(4,141)</b> | <b>(16,140)</b> |
| Income tax and Social Contribution tax      |                          |                |                 |
| Current                                     |                          |                | (6,589)         |
| Deferred                                    |                          | (4,141)        | (9,551)         |
| <b>Total</b>                                |                          | <b>(4,141)</b> | <b>(16,140)</b> |

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The Company's statements of the Company's earnings are subject to review by the tax authorities for a period of five years. Other taxes, charges and contributions are also subject to the conditions, under applicable legislation.

The changes in the deferred tax assets during the 2016 business year can be shown as follows:

|  | <b>Balance on<br/>Dec. 31, 2015</b> | <b>Accumulated in the year<br/>Inclusions</b> | <b>Utilization</b> | <b>Balance on<br/>Dec. 31, 2016</b> |
|--|-------------------------------------|---|--------------------|-------------------------------------|
| <b>Deferred tax credits</b>  |                                     |   |                    |                                     |
| Tax losses and negative Social Contribution balances                 | 1,599                               | 3,374   |                    | 4,973                               |
| Allowance for doubtful accounts                                      | 425                                 | 26  |                    | 451                                 |
| Provision for swap balance in the assets of Ativas                   |                                     | 1,159   |                    | 1,159                               |
| Voluntary retirement program   |                                     | 539   |                    | 539                                 |
| Profit sharing ( PLR )   | 844                                 |   | (844)              |                                     |
| Depreciation - Law 11941/09  | 6,834                               | 184   |                    | 7,018                               |
| Provision for obsolescence   |                                     | 390   |                    | 390                                 |
| Provision for impairment of investment                               | 1,495                               |   |                    | 1,495                               |
| Other temporary additions  | 593                                 | 30  |                    | 623                                 |
| <b>Total</b>   | <b>11,790</b>                       | <b>5,750</b>                                  | <b>(844)</b>       | <b>16,648</b>                       |
| <b>Deferred tax obligation</b>                                       |                                     |   |                    |                                     |
| GPON network condominium leasing                                     |                                     | (764)   |                    | (764)                               |
| Gain on derivative financial instruments                             |                                     | (1,559)                                       |                    | (1,559)                             |
| Appreciation of assets received from Eletronet                       |                                     | (6,678)                                       |                    | (6,678)                             |
| <b>Total</b>   |                                     | <b>(9,298)</b>                                |                    | <b>(9,001)</b>                      |
| <b>Tax credit (obligation) recognized in Profit and loss account</b> | <b>11,790</b>                       | <b>(3,548)</b>                                | <b>(844)</b>       | <b>7,647</b>                        |
| Actuarial loss recorded in Other comprehensive income                | 38                                  | 352   |                    | 390                                 |
| <b>Total of tax credit (obligation) recognized</b>                   | <b>11,828</b>                       | <b>(3,196)</b>                                | <b>(844)</b>       | <b>8,037</b>                        |

**12. Investment in affiliated company**

On December 31, 2015 the Company was holder of 49% (forty nine per cent) of the voting stock of the company Ativas Data Center S.A. On December 31, 2015 the Company was holder of 49% (forty nine per cent) of the voting stock of the company Ativas Data Center S.A. On October 19, 2016 entry of the new strategic stockholder, Sonda Procwork Outsourcing Informática Ltda. ( Sonda ) as one of the stockholders of Ativas Data Center S.A. was concluded. The closing took place after approval of the transaction without restrictions by Brazil's Monopolies Authority, Cade, and compliance with the other conditions precedent, on October 19, 2016.

Following the subscription by Sonda of R\$ 114,000, through a capital increase, Sonda holds 60% of the equity of Ativas; CemigTelecom holds 19.6% (representing share capital of R\$ 98,900); and Ativas Participações holds 20.4% (representing share capital of R\$ 102,937). Since after the transaction CemigTelecom no longer had shared control of

Ativas, its interest was from that point onward recognized as investment in an affiliated company.

Until the finalization of the phase of construction of its datacenter, in January 2011, Ativas was pre-operational and by December 31, 2016 it had reported accounting losses of R\$ 323,867 since its constitution in 2009 (R\$ 194,040 up to Dec. 31, 2015).

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The principal information on this affiliated company is given below, aligning the accounting practice of Ativas with those of CemigTelecom:

|                                  | Dec. 31, 2016 | Dec. 31, 2015<br>(Re-presented) |
|----------------------------------|---------------|---------------------------------|
| Assets                           | 180,449       | 230,698                         |
| Liabilities                      | 51,735        | 292,450                         |
| Net equity (uncovered liability) | 128,714       | (61,752)                        |
| Net revenue                      | 67,557        | 59,212                          |
| Profit (loss) for the period     | (126,744)     | (39,047)                        |

The development of the investment in the capital of Ativas in 2015 and 2016 is as follows:

|  | Dec. 31, 2015<br>Re-presented |                  |                  | Dec. 31, 2016              |                  |                                   |        |
|--|-------------------------------|------------------|------------------|----------------------------|------------------|-----------------------------------|--------|
|  | Jan. 1, 2015                  | Equity<br>income | Dec. 31,<br>2015 | Balance<br>Jan. 1,<br>2016 | Equity<br>income | Gain on<br>dilution of<br>holding |        |
|  | (47,875)                      | (28,833)         | (76,708)         | (76,708)                   | (27,165)         | 24,717                            | 98,900 |
|  |                               |                  |                  |                            |                  |                                   | 19,744 |

The value of the investment on December 31, 2016 and 2015 can be shown as follows:

|  | Dec. 31,<br>2016 | Dec. 31,<br>2015 |
|--|------------------|------------------|
| Stockholders' equity of the investee as per company's accounts | 128,714          | (61,752)         |
| Effect of deferred income tax asset recognized by investee     | (27,979)         | (94,796)         |
| Adjusted stockholders' equity of investee                      | 100,735          | (156,548)        |
| Percentage interest (%)  | 19,6%            | 49%              |
| Investments valued by the equity method                        | 19,744           | (76,708)         |
| Premium paid on subscription                                   | 4,397            | 4,397            |
| Provision for impairment of the premium                        | (4,397)          | (4,397)          |
| Balance of the investment (uncovered liability)                | 19,744           | (76,708)         |
| Loss by equity method  | (27,165)         | (28,833)         |

This shows the stockholding structure of Ativas on December 31, 2016 and 2015:

| Stockholder | Dec. 31, 2016      |             | Dec. 31, 2015      |             |
|-------------|--------------------|-------------|--------------------|-------------|
|             | Thousand<br>shares | Stake,<br>% | Thousand<br>shares | Stake,<br>% |

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|  |         |        |         |        |
|--|---------|--------|---------|--------|
| Ativas Participações S.A.                    | 93,134  | 20.40% | 68,144  | 51.00% |
| Cemig Telecomunicações S.A.                  | 89,482  | 19.60% | 65,472  | 49.00% |
| Sonda Procwork Outsourcing Informática Ltda. | 273,925 | 60.00% |         |        |
| Total  | 456,541 | 100%   | 133,616 | 100%   |



**Table of Contents****Capital increase****Injections of capital in 2016**

|                      |                      |                      | <b>October 19, 2016</b> |                    |                |
|----------------------|----------------------|----------------------|-------------------------|--------------------|----------------|
|                      | <b>Feb. 16, 2016</b> | <b>Mar. 14, 2016</b> | <b>1st tranche</b>      | <b>2nd tranche</b> | <b>Total</b>   |
| CemigTelecom         | 3,800                | 12,860               | 45,000                  | 37,240             | 98,900         |
| Ativas Participações | 3,955                | 13,385               | 46,837                  | 38,760             | 102,937        |
| Sonda Procwork       |                      |                      |                         | 114,000            | 114,000        |
| <b>Total</b>         | <b>7,755</b>         | <b>26,245</b>        | <b>91,837</b>           | <b>190,000</b>     | <b>315,837</b> |

**Financial assets/liabilities relating to sale/purchase options**

On October 19, 2016, Cemig Telecomunicações S.A. (CemigTelecom), Ativas Participações S.A. (Ativas Participações) and Sonda Procwork Outsourcing Informática Ltda. (Sonda) signed an investment contract, for entry of Sonda as stockholder of the investee Ativas Data Center S.A. (Ativas Data Center), which until that date was an exclusive investee of CemigTelecom (49%) and Ativas Participações (51%).

After the entry of the new partner Sonda, by dilution of CemigTelecom and Ativas Participações, Sonda assumed stockholding control, as owner of 60.0% of the shares of Ativas Data Center, the stockholder CemigTelecom and Ativas Participações S.A. now holding 19.6% and 20.4%, respectively.

As part of the process of stockholding restructuring, CemigTelecom and Sonda signed a Purchase Option Agreement (issued by CemigTelecom) and a Sale Option Agreement (issued by Sonda).

These resulted in CemigTelecom simultaneously having a right (put option) and an obligation (call option). The exercise price of the put option will be equivalent to fifteen times the adjusted net profit of Ativas in the business year prior to the exercise date. The exercise price of the call option will be equivalent to sixteen times the adjusted net profit of Ativas in the business year prior to the exercise date. Both options, if exercised, result in the sale of the shares in Ativas currently owned by the Company, and the exercise of one of the options results in nullity of the other. The options may be exercised as from January 1, 2021.

The put and call options in Ativas (the Ativas Options) were measured at fair value and posted at their net value, i.e. the difference between the fair values of the two options on the reporting date of the financial statements for the business year 2016. Depending on the value of the options, the net value of the Ativas Options may be an asset or a liability of the Company.

The measurement was carried out by specialized consulting company through the use of the Black-Scholes-Merton (BSM) model, it being ensured that its results were consistent with other stochastic approaches involving numerical procedures.

In the calculation of the fair value of the Ativas Options based on the BSM model, the following variables are taken into account: closing price of the underlying asset on December 31, 2016; the risk-free interest rate; the volatility of the price of the underlying asset; the time to maturity of the option; and the exercise prices on the exercise date.



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The closing price of the underlying asset was based on the value of the transaction in shares of Ativas by Sonda, which took place on October 19, 2016. The calculation of the risk-free interest rate was based on yields of National Treasury Bills (*Letras do Tesouro Nacional* - LTNs). The time to maturity was calculated assuming exercise date on March 31, 2021. Considering that the exercise prices of the options are contingent upon the future financial accounting results of Ativas, the estimate of the exercise prices on the date of maturity was based on statistical analyzes and on information of comparable listed companies. The exercise prices of adopted in the BSM method were corroborated with statistical distributions analyzed through numerical procedures. On December 31, 2016, the derivative financial instrument is recorded, with the amount of R\$ 4,586, in the account line Derivative financial instrument, in Assets.

**13. Property, plant and equipment**

|                            | Cost           | Dec. 31, 2016<br>Accumulated<br>depreciation | Net<br>value   | Dec. 31,<br>2015<br>Net<br>value |
|----------------------------|----------------|--|----------------|----------------------------------|
| Land                       | 82             |  | 82             | 82                               |
| Real estate property       | 55             | (16)   | 39             | 40                               |
| Facilities                 | 68             | (25)   | 43             | 102                              |
| Machinery and equipment    | 11             | (2)  | 9              | 10                               |
| Furniture and utensils     | 1,524          | (1,074)                                      | 450            | 472                              |
| Computers and peripherals  | 1,953          | (1,760)                                      | 193            | 270                              |
| Test instruments           | 2,833          | (2,674)                                      | 159            | 238                              |
| Improvements               | 246            | (227)  | 19             | 33                               |
| Satellite reception system | 9,283          | (9,282)                                      | 1              | 2                                |
| Telecoms network equipment | 361,943        | (266,084)                                    | 95,859         | 94,869                           |
| Materials                  | 61,098         | (38,694)                                     | 22,404         | 25,009                           |
| Cable                      | 192,373        | (91,632)                                     | 100,741        | 106,141                          |
| OPGW cables                | 18,894         | (630)  | 18,264         |                                  |
| ADSS cables                | 1,529          | (153)  | 1,376          |                                  |
| Network infrastructure     | 19,342         | (13,140)                                     | 6,202          | 7,869                            |
| Fixed assets in progress   | 17,146         |  | 17,146         | 14,849                           |
| <b>Subtotal</b>            | <b>688,380</b> | <b>(425,393)</b>                             | <b>262,987</b> | <b>249,986</b>                   |
| Provision for obsolescence |                | (1,374)                                      | (1,374)        | (225)                            |
| <b>Total, net</b>          | <b>687,006</b> | <b>(425,393)</b>                             | <b>261,613</b> | <b>249,761</b>                   |

The depreciation rates and remaining useful lives were determined through technical opinions issued by engineers of the Company, and reflect the expectation of useful life of the goods and assets, as follows:

**Table of Contents**Depreciation rates and useful lives of the assets:

| Class of asset             | Average percentage depreciated up to Dec. 31, 2016 | Average remaining useful life (years) | Annual average depreciation rates |
|----------------------------|--|---------------------------------------|-----------------------------------|
| Real estate property       | 29%  | 35.5                                  | 2%                                |
| Facilities                 | 37%  | 6.3                                   | 10%                               |
| Machinery and equipment    | 18%  | 8.2                                   | 10%                               |
| Furniture and utensils     | 70%  | 3.0                                   | 10%                               |
| Computers and peripherals  | 90%  | 0.5                                   | 20%                               |
| Test instruments           | 94%  | 0.6                                   | 10%                               |
| Improvements               | 92%  | 0.4                                   | 20%                               |
| Satellite reception system | 100%   | 0.0                                   | 8%                                |
| Telecoms network equipment | 74%  | 2.4                                   | 11%                               |
| Materials                  | 63%  | 5.2                                   | 7%                                |
| Cable                      | 48%  | 10.5                                  | 5%                                |
| OPGW cables                | 3%   | 14.5                                  | 7%                                |
| ADSS cables                | 10%  | 4.5                                   | 20%                               |
| Network infrastructure     | 68%  | 5.8                                   | 3 to 10%                          |

The movement in PP&E in 2016 can be shown as follows:

|                            | Dec. 31, 2015  | Additions     | Written off     | Transfers      | Dec. 31, 2016  |
|----------------------------|----------------|---------------|-----------------|----------------|----------------|
| Land                       | 82             |               |                 |                | 82             |
| Real estate property       | 55             |               |                 |                | 55             |
| Facilities                 | 152            |               | (84)            |                | 68             |
| Machinery and equipment    | 11             |               |                 |                | 11             |
| Furniture and utensils     | 1,469          | 55            |                 |                | 1,524          |
| Computers and peripherals  | 1,934          | 19            |                 |                | 1,953          |
| Test instruments           | 2,833          |               |                 |                | 2,833          |
| Improvements               | 246            |               |                 |                | 246            |
| Satellite reception system | 9,283          |               |                 |                | 9,283          |
| Telecoms network equipment | 342,087        |               | (7,684)         | (d) 27,540     | 361,943        |
| Materials                  | 61,301         |               | (2,560)         | (d) 2,357      | 61,098         |
| Cable                      | 190,788        |               | (3,983)         | (d) 5,568      | 192,373        |
| OPGW cables                |                | 18,894        | (c)             |                | 18,894         |
| ADSS cables                |                | 1,529         | (c)             |                | 1,529          |
| Network infrastructure     | 19,342         |               |                 |                | 19,342         |
| Fixed assets in progress   | 14,849         | 41,716        | (a) (225)       | (39,194)       | 17,146         |
| <b>Total cost</b>          | <b>644,432</b> | <b>62,213</b> | <b>(14,536)</b> | <b>(3,729)</b> | <b>688,380</b> |
| Accumulated depreciation   | (394,446)      | (35,976)      | 5,029           | (d)            | (425,393)      |
| Provision for obsolescence | (225)          | 225           | (1,374)         |                | (1,374)        |

|                               |                |               |                 |                |     |                |
|-------------------------------|----------------|---------------|-----------------|----------------|-----|----------------|
| <b>Net amount depreciable</b> | <b>249,761</b> | <b>26,462</b> | <b>(10,881)</b> | <b>(3,729)</b> | (b) | <b>261,613</b> |
|-------------------------------|----------------|---------------|-----------------|----------------|-----|----------------|

- (a) Spending relating to projects in progress for expansion of telecommunications networks and inventories.
- (b) Transfers made between PP&E lines and intangible assets (Note 14).
- (c) Assets transmitted by Eletronet S.A.
- (d) The write-offs made in the period are as described in Note 9, goods which the Company has leased, the main characteristics of the contract of which indicated their classification as financial leasing, the transaction consequently being posted as a disposal.

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The Company periodically evaluates the useful lives applied to its assets that have defined useful life. The evaluation of useful lives of the assets are carried out by professionals of the Company's technical engineering team, and they consider, among other aspects, the following principal indications for formation of their opinion: (i) technical information related to the use and maintenance of the assets; (ii) outlook for technological and market changes; (iii) the Company's capacity to obtain services and parts in the market for replacement of goods; and (iv) the possibility of realizing upgrades in the related equipment and software, and also of the capacity for its combination with future technologies.

For tax purposes, the useful lives of the assets accepted by the tax legislation were maintained, and the difference between the accounting and tax bases are treated as temporary differences, the effects resulting from which are recognized as a deferred tax credit or debit in the period in which those differences occur.

**Receipt of assets by reason of a contract**

In the third quarter of 2016 the Company recognized ownership of certain assets transferred by Eletronet S.A, comprising 715 Km of OPGW cables, in the amount of R\$ 18,894 and ADSS cables in the amount of R\$ 1,529, by reason of a provision in a contract which transferred ownership and domain over these assets to CemigTelecom.

During the period of the contract, bankruptcy of Eletronet was declared, on May 16, 2003, with continuity of its operations being maintained. This fact had no effect on compliance with the contract signed between the parties, but the legal uncertainty caused by the possibility of these assets being confiscated by the receiver and the unpredictable consequences, led to a scenario of uncertainty that continued even after the date of extinction of the contract in 2015.

In the first quarter of 2016 a Rio de Janeiro court gave judgment ratifying the settlement with the creditors governing the assets of the company, and the bankruptcy was ended. Due to the complexity of the case, the Company's legal advisors, for prudence, recommended that these assets should be recorded in the accounts only when all the elements indicating that the risks of loss of this right, and of the legal uncertainties, were no longer present.

In view of the present stage of the process and the expiration of the period for a contrary statement by the creditors and the Public Attorneys' office, and also the acceptance of the conditions of payment ratified in the court agreement referred to, the Company's legal advisors concluded that the chance of modification of the judgment could be considered improbable.

The Company's management, based on the existing evidence as a whole and on the conviction of its internal and external legal advisors as to the remoteness of the possibility of reversal of the legal situation of Eletronet, decided in favor of accounting recognition of these assets, and contracted a specialized company for their valuation. That Company's opinion, issued on June 30, 2016, indicated the total amount of R\$ 20,423, and remaining useful economic life of 15 years, for the OPGW cables and five years for the ADSS cables.

**14. Intangible assets**

|                      | <b>Accumulated in the</b> |                  |                  |                      |
|----------------------|---------------------------|------------------|------------------|----------------------|
|                      | <b>year</b>               |                  |                  |                      |
|                      | <b>Dec. 31, 2015</b>      | <b>Additions</b> | <b>Transfers</b> | <b>Dec. 31, 2016</b> |
| Software use license | 1,137                     | 901              |                  | 2,037                |

|                              |               |              |              |               |
|------------------------------|---------------|--------------|--------------|---------------|
| Grant of radio concession    | 230           |              |              | 230           |
| Management systems           | 9,268         |              | 3,729        | 12,998        |
| <b>Total cost</b>            | <b>10,635</b> | <b>901</b>   | <b>3,729</b> | <b>15,265</b> |
| Accumulated amortization     | (4,010)       | (1,765)      |              | (5,775)       |
| <b>Net value amortizable</b> | <b>6,625</b>  | <b>(864)</b> | <b>3,729</b> | <b>(a)</b>    |

(a) The remaining balances in the transfers shown in the table above refer to the transfers made between the accounts Fixed assets and Intangible assets (Note 13).

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Amortization rates and useful lives: The annual amortization rates practiced for the 2016 business year were as follows:

| <b>Class of asset</b>     | <b>Estimated useful life (years)</b> | <b>Average percentage amortized up to Dec. 31, 2016</b> | <b>Average remaining useful life (years)</b> | <b>Annual average depreciation rates</b> |
|---------------------------|--------------------------------------|---|--|--|
| Software use license      | 5 years                              | 83%   | 0.8  | 20%                                      |
| Grant of radio concession | 15 years                             | 11%   | 13.4   | 6.7%                                     |
| Management systems        | 10 years                             | 30%   | 7.0  | 10%                                      |

**15. Loans and debentures**

|                      | <b>Dec. 31, 2016</b> | <b>Dec. 31, 2015</b> |
|----------------------|----------------------|----------------------|
| Debentures (a)       |                      | 16,414               |
| Promissory Notes (b) |                      | 22,609               |
| Loan (c)             | 101,372              |                      |
| <b>Total</b>         | <b>101,372</b>       | <b>39,023</b>        |
| <b>Current</b>       | <b>63,751</b>        | <b>30,519</b>        |
| <b>Non-current</b>   | <b>37,621</b>        | <b>8,504</b>         |

**(a) Debentures**

The movement of the financing via BNDES Debentures in the year was as follows:

| <b>Debentures</b> | <b>Accumulated in the year</b>  |                            |                     |                                 |
|-------------------|---------------------------------|----------------------------|---------------------|---------------------------------|
|                   | <b>Balance on Dec. 31, 2015</b> | <b>Payment of interest</b> | <b>Amortization</b> | <b>Charges appropriated</b>     |
| <b>BNDES</b>      |                                 |                            |                     | <b>Balance on Dec. 31, 2016</b> |
| 1st. Series       | 8,157                           | (524)                      | (8,157)             | 524                             |
| 2nd. Series       | 3,003                           | (606)                      | (3,003)             | 606                             |
| 3rd. Series       | 1,119                           | (60)                       | (1,119)             | 60                              |



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|                 |               |                |                 |              |
|-----------------|---------------|----------------|-----------------|--------------|
| 4th. Series     | 2,434         | (145)          | (2,434)         | 145          |
| 5th. Series     | 1,001         | (79)           | (1,001)         | 79           |
| 6th. Series     | 758           | (39)           | (758)           | 39           |
| <b>Subtotal</b> | <b>16,472</b> | <b>(1,453)</b> | <b>(16,472)</b> | <b>1,453</b> |
| Funding costs   | (58)          |                |                 | 58           |
| <b>Total</b>    | <b>16,414</b> | <b>(1,453)</b> | <b>(16,472)</b> | <b>1,511</b> |

On October 14, 2016, the Company made early settlement of the debtor balance on the First Debenture Issue, as specified in Clause 15 of the Debenture Deed. The debtor balance including financial charges on the date of payment was R\$ 10,741. On October 17, 2016 the BNDES issued the term of quittance and release of the guarantees. On November 3, 2016 the guarantee account in the amount of R\$ 4,187 was redeemed.

**Table of Contents****(b) Promissory Notes**

On December 23, 2015, under CVM Instructions 566 (of July 31, 2015) and 476 (January 16, 2009), the Company made its second issue, in a single series, of commercial Promissory Notes ( 2nd NP ) in the total amount of R\$ 23,000, represented by 46 (forty six) Promissory Notes with nominal unit value of R\$ 500, guaranteed by a surety from Companhia Energética de Minas Gerais - Cemig, under the regime of firm guarantee of subscription, through public distribution, with restricted distribution efforts, and maturity at 360 (three hundred and sixty) days from issue date, paying remuneratory interest at 120.0% (one hundred and twenty per cent) of the CDI Rate. The proceeds from the issue were used to replenish the Company's cash position.

The movement of the loan in the modality Promissory Notes in the year was as follows:

|               | Dec.<br>31,<br>2015 | Payment<br>of<br>interest | Accumulated in the year |                         |
|---------------|---------------------|---------------------------|-------------------------|-------------------------|
|               |                     |                           | Amortization            | Charges<br>appropriated |
| Single Series | 23,073              | (3,889)                   | (23,000)                | 3,816                   |
| Funding costs | (464)               |                           |                         | 464                     |
| <b>Total</b>  | <b>22,609</b>       | <b>(3,889)</b>            | <b>(23,000)</b>         | <b>4,280</b>            |

On December 19, 2016, the Company made settlement of the debtor balance on the promissory notes. On the date of payment the total of the amount due and financial charges was R\$ 26,889.

**(c) Loans**

|                           | Dec. 31,<br>2015 | Funds<br>raised | Charges<br>appropriated | Dec. 31,<br>2016 |
|---------------------------|------------------|-----------------|-------------------------|------------------|
| Sonda Procwork (1)        |                  | 45,000          | 1,310                   | 46,310           |
| Sonda Procwork (2)        |                  | 37,240          | 1,086                   | 38,326           |
| Cemig Holding company (3) |                  | 18,000          | 134                     | 18,134           |
| <b>Subtotal</b>           |                  | <b>100,240</b>  | <b>2,530</b>            | <b>102,770</b>   |
| Funding transaction costs |                  | (1,558)         | 160                     | (1,398)          |
| <b>Total</b>              |                  | <b>98,682</b>   | <b>2,690</b>            | <b>101,372</b>   |

(1) Loan from Sonda, at 110% of CDI, due October 19, 2017, to support the investment in Ativas Datacenter.

(2) Loan from Sonda, rate 110% of CDI, to support the investment in Ativas Datacenter. The loan becomes due on date of exercise of the put option by the Company, as regulated by the Stockholders' Agreement.

(3) Loan from Cemig Holding company, at 132.9% of CDI, due April 30, 2017, to support working capital.

**16. Suppliers**

|                               | <b>Dec.<br/>31,<br/>2016</b> | <b>Dec.<br/>31,<br/>2015</b> |
|-------------------------------|------------------------------|------------------------------|
| Third parties                 | 11,606                       | 6,369                        |
| Related parties (Note 21) (*) | 10,144                       | 4,946                        |
| <b>Total</b>                  | <b>21,750</b>                | <b>11,315</b>                |

(\*) Leaves out of account the amounts of ICMS tax of the entities linked to the Government, and indemnity for contingencies in Ativas.

The Company's exposure to currency and liquidity risks on suppliers and accounts payable is given in Note 27.

**Table of Contents****17. Payroll-associated and employment-law obligations**

|   | <b>Dec. 31,<br/>2016</b> | <b>Dec. 31,<br/>2015</b> |
|---|--------------------------|--------------------------|
| Vacation pay, 13 <sup>th</sup> salary and charges payable | 2,906                    | 2,284                    |
| Employee profit shares                                    | 1,257                    | 2,483                    |
| Long-term benefits to employees (Note 28)                 | 2,801                    | 1,454                    |
| Voluntary retirement program                              | 1,583                    |                          |
| Other   | 90                       | 89                       |
| <b>Total</b>  | <b>8,637</b>             | <b>6,310</b>             |
| <b>Current</b>  | <b>5,836</b>             | <b>4,856</b>             |
| <b>Non-current</b>  | <b>2,801</b>             | <b>1,454</b>             |

**Voluntary retirement program**

On March 18, 2016 the Company's management launched the Incentivated Voluntary Retirement Program (PDVI) for 2016, with the objective of adapting the workforce to the needs of the Company's Business Plan, for preservation of the staff necessary for optimization of its processes and costs, maintaining the focus on achieving the targets of its strategic plan and generation of value. Employees could accept the terms of the plan as from March 21, to May 19, 2016.

12% of the Company's staff joined the program. It was available to employees with administrative and technical careers with at least 13 years' work at CemigTelecom or with any other company provided they were retired or qualified for retirement. The retirement dates were programmed at the Company's option, and may occur in up to 18 months after the termination of the acceptance period. The plan provides a financial incentive equivalent to 0.4 times the monthly salary for each year of employment relationship with the company, for those who joined in the first 30 days of the joining period, and of 0.2 times the salary for those who joined between the 31st day of the period and its closing date. Additionally, the program grants those with eligible employment the right to receive the 40% penalty payment on the balance of the employee's FGTS account, as well as receipt of the other dismissal amount specified by law.

**18. Tax obligations**

|  | <b>Dec. 31,<br/>2016</b> | <b>Dec. 31,<br/>2015</b> |
|--|--------------------------|--------------------------|
| Income tax withheld at source (IRRF)                 | 341                      | 284                      |
| Corporate income tax (IRPJ)                          |                          | 497                      |
| The Social Contribution tax on net profit (CSLL)     |                          | 269                      |
| ICMS (local state value added tax)                   | 2,560                    | 1,838                    |
| The Contribution to Finance Social Security - Cofins | 1,320                    | 459                      |
| Social Integration Program (PIS)                     | 286                      | 99                       |

|   |              |               |
|---|--------------|---------------|
| Telecommunication Services Universalization Fund (FUST) | 90           | 77            |
| Telecoms Technical Development Account FUNTTEL          | 7,137        | 6,722         |
| Other   | 305          | 231           |
| Total   | 12,039       | 10,476        |
| <b>Current</b>  | <b>9,573</b> | <b>10,476</b> |
| <b>Non-current</b>                                      | <b>2,466</b> |               |

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- (a) As from January 2016, various Brazilian states increased the rate of ICMS tax on telecommunication service to improve the cash situation of the states, as follows:

| State               | Change in rate (from to) |     | Legislation    |
|---------------------|--------------------------|-----|----------------|
| Minas Gerais        | 25%                      | 27% | Law 21781/2015 |
| Pernambuco          | 28%                      | 30% | Law 15599/2015 |
| Ceará               | 27%                      | 30% | Law 5892/2015  |
| Rio de Janeiro      | 27%                      | 30% | Law 7175/2015  |
| Rio Grande do Norte | 27%                      | 30% | Law 9991/2015  |

- (b) With the conversion of Provisional Measure 638/14 into Law 12996/14, and consequent renewal of permission for payment in installments as per Laws 11941/09 and 12249/10, the Company sought to include the debits to FUNTTEL for the years 2006 to 2013 within the REFIS program. This was however negated on administrative basis, due to its not being inscribed in the national receivable debt.

The Company reacted to this by seeking an order of *mandamus* against the act of an allegedly coercive authority, seeking to force those debits into the debt refinancing program referred to, but the case and the application for mandamus were refused and the case set aside. This case awaits judgment in appeal to the Regional Federal Appeal Court of the 1st Region.

The accumulated value of the tax obligation on December 31, 2016 is R\$ 7,137, including interest and penalty payments calculated up to that date on the debts past due.

The debits incurred as from 2014 are being paid regularly.

Due to the remote possibility of inclusion of the FUNTTEL debits in the REFIS program, the company awaits the inscription of these debits in the Federal Receivable Debt register, with a view to arrangement for payment of the outstanding balance in installments, directly with the federal government. Until December 31, 2016, the debits for the years 2008 and 2009 were inscribed in the Federal Receivable Debt. The amounts receivable were agreed to be paid in ordinary installment in 60 months.

The movement on the installment payment of debits to FUNTTEL, inscribed in the Federal Receivable Debt, was as follows:

| Tax year     | Accumulated in the period |              |                      | Balances at December 31, 2016 |
|--------------|---------------------------|--------------|----------------------|-------------------------------|
|              | Consolidated costs        | Amortization | Charges appropriated |                               |
| 2008         | 1,006                     | (132)        | 44                   | 918                           |
| 2009         | 880                       | (90)         | 45                   | 835                           |
| <b>Total</b> | <b>1,886</b>              | <b>(222)</b> | <b>89</b>            | <b>1,753</b>                  |



**Table of Contents****19. Advances from clients**

| Contract                        | Contract Signed | Period of contract | Amount contracted | Dec. 31, 2016 |              | Dec. 31, 2015 |              |
|---------------------------------|-----------------|--------------------|-------------------|---------------|--------------|---------------|--------------|
|                                 |                 |                    |                   | Appropriated  | Appropriated | Appropriated  | Appropriated |
|                                 |                 |                    |                   | To be         | To be        | To be         | To be        |
| 1 optical fiber pair for 181 km | 08/08/2011      | 10 years           | 2,187             | 1,149         | 1,041        | 930           | 1,257        |
| 1 optical fiber pair for 46 km  | 12/10/2012      | 20 years           | 925               | 185           | 740          | 138           | 787          |
| 1 optical fiber pair for 231 km | 12/04/2013      | 20 years           | 3,822             | 584           | 3,238        | 392           | 3,430        |
| Other                           |                 |                    | 515               | 495           | 20           | 460           | 55           |
| <b>Total</b>                    |                 |                    | <b>7,449</b>      | <b>2,413</b>  | <b>5,039</b> | <b>1,920</b>  | <b>5,529</b> |
| Current                         |                 |                    |                   |               | <b>460</b>   |               | <b>460</b>   |
| Non-current                     |                 |                    |                   |               | <b>4,579</b> |               | <b>5,069</b> |

The contracts related to the advances from clients are for irrevocable concession of dark fiber pairs, not including the grant of any equipment or provision of any telecommunication services.

The contracts have average duration of 17 years and do not contain clauses for renewal or option for sale of the assets. The revenue linked to these contracts, recognized in the year ended December 31, 2016, was R\$ 493.

**20. Provisions for risks**

|                      | Dec. 31, 2016 | Dec. 31, 2015 |
|----------------------|---------------|---------------|
| Civil cases          |               | 313           |
| Employment-law cases | 82            |               |
|                      | <b>82</b>     | <b>313</b>    |

On December 31, 2016, the Company had a provision for risks and contingencies identified by management of R\$ 83 (R\$ 313 on December 31, 2015), representing employment-law claims, in which the chances of loss have been assessed as probable .

**Classification of the contingencies in relation to expectation of loss****Chances of loss assessed as:**



|                          | <b>Remote</b> | <b>Possible</b> | <b>Probable</b> | <b>Total</b> |
|--------------------------|---------------|-----------------|-----------------|--------------|
| Tax cases (a)            | 80            |                 |                 | 80           |
| Employment-law cases (b) | 188           | 1,801           | 82              | 2,071        |
| Civil cases (c)          | 31            | 479             |                 | 510          |
| <b>Total</b>             | <b>299</b>    | <b>2,280</b>    | <b>82</b>       | <b>2,661</b> |

- (a) The tax cases are for claims of incorrect allocation of tax liabilities in charging of social contributions in the telecommunication sector (Fust/Funtel), which Anatel has the responsibility for collecting. There are also tax disputes on the legitimacy of the manner of joint charging of federal and state taxes, and also defenses in tax execution.
- (b) A great majority of the employment law cases are from employees of other companies, contractual partners of CemigTelecom, in which CemigTelecom is included as defendant, in which the plaintiff requests concession of salary equality and the same advantages that the Company pays to its employees.
- (c) The civil cases include a class action by the Public Attorney's Office of Minas Gerais, questioning the legality of outsourcing of services, where the manpower employed is alleged to be related to the Company's end-activity. Judgment was given against CemigTelecom at first instance and it was ordered to pay a fine of R\$ 200, and prohibited from continuing to employ outsourced labor in these activities. In 2014, the Company obtained an injunction from the Higher Employment Law Appeal Court, suspending the effects of the first instance judgment until the result of a General Precedent Case currently before the Federal Supreme Court. The Company's lawyers have assessed the chances of loss as possible and in the event of the judgment against it being upheld the Company may be compelled to carry out part or all of those activities with direct employees. On March 22, 2017, the lower house of Congress approved Draft Law 4302/1998, which closes the discussion by allowing companies to outsource their end-activities. This Draft Law was sanctioned by the President of the Republic and published in the Federal Official Gazette on March 31, 2017.

**Table of Contents****21. Related party transactions**

CemigTelecom is a wholly-owned subsidiary of Companhia Energética de Minas Gerais S.A. Cemig, which has as its principal stockholders, with the right to vote, the Government of the State of Minas Gerais (51%) and Andrade Gutierrez Concessões Energia (20%). The controlling group, Cemig, also has direct stockholding interests in the following principal companies: Axxiom Soluções Tecnológicas S.A. (49%), Cemig Geração e Transmissão S.A. (100%), Cemig Distribuição S.A. (100%), Companhia de Gás do Estado de Minas Gerais S.A. Gasmig (99.57%), Rosal Energia (100%), Sá Carvalho (100%), Light S.A. (26.06%) and Transmissora Aliança de Energia Elétrica TAESA (31.54%).

The Company considers as related parties, as well as its affiliated company ( Ativas ), the controlling stockholder and its related legal entity, companies or people that directly or indirectly have significant influence of the management of the Company, the private pension plan entities (Forluz) and the administrator of the health and dental plan (Cemig Saúde), in which the Company is co-sponsor jointly with the other companies of the Cemig Group and the managers and employees of the Company.

Asset transactions (sales) The principal asset commercial transactions maintained by the Company with related parties concern the sale of circuits and other telecommunication services in general, in which the companies of the controlling group, Cemig, currently account for 15.11% of the Company's billing (12.79% in 2015).

Liability transactions (purchases) The principal liability transactions of the Company with related parties are the supply of electricity to feed the telecommunications equipment, provision of services of management and maintenance of the telecommunications network, and rental (sharing) of the power transmission and distribution infrastructure for installation of telecommunication cables and equipment.

The affiliated company Ativas has an item in its accounts receivable, from the minority stockholders, in the amount of R\$ 6,958, relating to the indemnity clause arising from liabilities pre-existing, or not revealed, on the date of the transaction, as specified in the investment contract signed on August 25, 2016 between CemigTelecom, Ativas and Sonda Procwork Outsourcing Informática Ltda. Of this amount recorded, 49% is attributed as the responsibility of CemigTelecom, and a provision was constituted of R\$ 3,410 in relation to this.

The principal balances of assets and liabilities on December 31, 2016 and the transactions that influenced the result for the period, in relation to transactions with related parties, arise from transactions made for conditions and periods agreed between the parties for the respective types of operation.

**Table of Contents****Balances on December 31, 2016**

|  | Dec. 31, 2016 |              | Accumulated in the year |              |
|--|---------------|--------------|-------------------------|--------------|
|  | Assets        | Liabilities  | Sales                   | Bought       |
| <b>Companhia Energética de Minas Gerais</b>                |               |              |                         |              |
| Telecoms services  | 26            |              |                         |              |
| Reimbursement of costs of seconded personnel               | 1,170         | 2,566        | 1,653                   | 1,878        |
| Other  | 3             |              | 3                       |              |
| <b>Total</b>   | <b>1,199</b>  | <b>2,566</b> | <b>1,656</b>            | <b>1,878</b> |
| <b>Cemig Distribuição S.A.</b>                             |               |              |                         |              |
| Telecoms services  | 3,399         |              | 11,870                  |              |
| Revenue from supply of electricity                         |               | 263          |                         | 3,158        |
| Network maintenance services                               |               | 3,319        |                         | 1,878        |
| Right of way/infrastructure                                |               | 2,771        |                         | 3,955        |
| Other  | 38            |              |                         |              |
| <b>Total</b>   | <b>3,437</b>  | <b>6,353</b> | <b>11,870</b>           | <b>8,991</b> |
| <b>Cemig Geração e Transmissão S.A.</b>                    |               |              |                         |              |
| Telecoms services  | 272           |              | 3,255                   |              |
| Network maintenance services                               |               | 328          |                         | 187          |
| Other  | 23            |              |                         | 16           |
| <b>Total</b>   | <b>295</b>    | <b>328</b>   | <b>3,255</b>            | <b>203</b>   |
| <b>Fundação Forluminas de Seguridade Social ( Forluz )</b> |               |              |                         |              |
| Telecoms services  | 4             |              | 61                      |              |
| Private pension plan                                       |               | 482          |                         |              |
| <b>Total</b>   | <b>4</b>      | <b>482</b>   | <b>61</b>               |              |
| <b>Cemig Saúde (Health)</b>                                |               |              |                         |              |
| Communication services                                     | 2             |              | 63                      |              |
| Medical and dental care                                    |               | 228          |                         | 9            |
| <b>Total</b>   | <b>2</b>      | <b>228</b>   | <b>63</b>               | <b>9</b>     |
| <b>Companhia de Gás de Minas Gerais (Gasmig),</b>          |               |              |                         |              |
| Communication services                                     | 21            |              | 193                     |              |
| Reimbursement of costs of seconded personnel               |               |              |                         |              |
| <b>Total</b>   | <b>21</b>     |              | <b>193</b>              |              |



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|   | Dec. 31, 2016 |               | Accumulated in<br>the year   |               |
|---|---------------|---------------|------------------------------|---------------|
|   | Assets        | Liabilities   | Sales                        | Bought        |
| <b>Entities linked to the Minas Gerais State Government</b> |               |               |                              |               |
| <b>Current</b>  |               |               |                              |               |
| Communication services                                      | 94            |               | 659                          |               |
| Recoverable taxes ICMS                                      | 1,552         | 2,034         | (25,851)                     |               |
| <b>Non-current</b>  |               |               |                              |               |
| Recoverable taxes ICMS                                      | 2,020         |               |                              |               |
| <b>Total</b>  | <b>3,666</b>  | <b>2,034</b>  | <b>(25,192)</b>              |               |
| <b>Axxiom</b>   |               |               |                              |               |
| Communication services                                      | 3             |               | 40                           |               |
| Software maintenance  |               | 131           |                              | 1,078         |
| <b>Total</b>  | <b>3</b>      | <b>131</b>    | <b>40</b>                    | <b>1,078</b>  |
| <b>Ativas Data Center S.A.</b>                              |               |               |                              |               |
| Communication services                                      | 249           |               | 2,474                        |               |
| Indemnity for contingencies in Ativas                       |               | 3,410         |                              |               |
| Data Center Outsourcing Service                             |               | 56            |                              | 739           |
| Reimbursement of costs of seconded personnel                |               |               | 318                          |               |
| <b>Total</b>  | <b>249</b>    | <b>3,466</b>  | <b>2,792</b>                 | <b>739</b>    |
| <b>Total at December 31, 2016</b>                           | <b>8,876</b>  | <b>15,588</b> | <b>(5,262)</b>               | <b>12,898</b> |
| <b>Balances on December 31, 2015</b>                        |               |               |                              |               |
|   | Dec. 31, 2015 |               | Accumulated in<br>the period |               |
|   | Assets        | Liabilities   | Sales                        | Bought        |
| <b>Companhia Energética de Minas Gerais</b>                 |               |               |                              |               |
| Communication services                                      | 26            |               |                              |               |
| Reimbursement of costs of seconded personnel                | 389           | 1,286         | 1,132                        | 1,065         |
| Other   | 3             |               |                              |               |
| <b>Total</b>  | <b>418</b>    | <b>1,286</b>  | <b>1,132</b>                 | <b>1,065</b>  |
| <b>Cemig Distribuição S.A.</b>                              |               |               |                              |               |
| Communication services                                      | 955           |               | 11,655                       |               |
| Revenue from supply of electricity                          |               | 861           |                              | 5,124         |
| Network maintenance services                                |               | 1,418         |                              | 1,890         |
| Sharing of infrastructure                                   |               | 647           |                              | 4,786         |
| Other   | 38            |               |                              |               |
| <b>Total</b>  | <b>993</b>    | <b>2,926</b>  | <b>11,655</b>                | <b>11,800</b> |

**Cemig Geração e Transmissão S.A.**

|                              |     |     |       |     |
|------------------------------|-----|-----|-------|-----|
| Communication services       | 273 |     | 3,410 |     |
| Network maintenance services |     | 141 |       | 188 |
| Other                        | 23  |     |       |     |

|              |            |            |              |            |
|--------------|------------|------------|--------------|------------|
| <b>Total</b> | <b>296</b> | <b>141</b> | <b>3,410</b> | <b>188</b> |
|--------------|------------|------------|--------------|------------|

**Fundação Forluminas de Seguridade Social ( Forluz )**

|                        |   |     |     |       |
|------------------------|---|-----|-----|-------|
| Communication services | 9 |     | 102 |       |
| Private pension plan   |   | 374 |     | 1,097 |

|              |          |            |            |              |
|--------------|----------|------------|------------|--------------|
| <b>Total</b> | <b>9</b> | <b>374</b> | <b>102</b> | <b>1,097</b> |
|--------------|----------|------------|------------|--------------|

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| Balances on December 31, 2015                               | Dec. 31, 2015 |              | Accumulated in the period |               |
|---|---------------|--------------|---------------------------|---------------|
|   | Assets        | Liabilities  | Sales                     | Bought        |
| <b>Cemig Saúde (Health)</b>                                 |               |              |                           |               |
| Communication services                                      | 2             |              | 56                        |               |
| Medical and dental care                                     |               | 176          |                           | 408           |
| <b>Total</b>  | <b>2</b>      | <b>176</b>   | <b>56</b>                 | <b>408</b>    |
| <b>Companhia de Gás de Minas Gerais (Gasmig),</b>           |               |              |                           |               |
| Communication services                                      | 19            |              | 172                       |               |
| Reimbursement of costs of seconded personnel                |               |              |                           |               |
| <b>Total</b>  | <b>19</b>     |              | <b>172</b>                |               |
| <b>Entities linked to the Minas Gerais State Government</b> |               |              |                           |               |
| <b>Current</b>  |               |              |                           |               |
| Recoverable taxes ICMS                                      | 3,099         | 1,425        | (17,927)                  |               |
| <b>Total</b>  | <b>3,099</b>  | <b>1,425</b> | <b>(17,927)</b>           |               |
| <b>Axxiom</b>   |               |              |                           |               |
| Communication services                                      | 3             |              | 37                        |               |
| Software maintenance  |               | 21           |                           | 460           |
| <b>Total</b>  | <b>3</b>      | <b>21</b>    | <b>37</b>                 | <b>460</b>    |
| <b>Ativas Data Center S.A.</b>                              |               |              |                           |               |
| Communication services                                      | 150           |              | 1,736                     |               |
| Data Center Outsourcing Service                             |               | 22           |                           | 988           |
| Reimbursement of costs of seconded personnel                | 29            |              | 347                       | 22            |
| <b>Total</b>  | <b>179</b>    | <b>22</b>    | <b>2,083</b>              | <b>1,010</b>  |
| <b>Total at December 31, 2015</b>                           | <b>5,018</b>  | <b>6,371</b> | <b>720</b>                | <b>16,028</b> |

**Fixed income fund – Pampulha** The Company is a unit holder of the Pampulha Fund, which has the characteristics of fixed income and follows the investment policy of the Company. On December 31, 2016 the amounts invested by the fund, corresponding to CemigTelecom's participation, are recorded in *Cash and cash equivalents*, and *Securities*, in Current and Non-Current assets.

The Cemig Group has investments in the Pampulha Fund (see breakdown below), which in turn has investments in promissory notes and debentures of companies of the Cemig Group.

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| <b>Pampulha Fund</b>  | <b>Period of validity</b> | <b>Contractual conditions</b> | <b>Assets corresponding to CemigTelecom's participation</b> |                      |
|---|---------------------------|-------------------------------|---|----------------------|
|   |                           |                               | <b>Dec. 31, 2016</b>  | <b>Dec. 31, 2015</b> |
| CemigTelecom investment in Pampulha Fund ref. Axxiom (Debentures)   | April 2013 to Jan. 2016   | 112.0% of CDI + 1.3% p.a.     |   | 173                  |
| CemigTelecom investment in Pampulha Fund ref. CEMIG GT (Debentures) | Jan. 2014 to Dec. 2016    | CDI + 0.8% p.a.               |   | 761                  |
| CemigTelecom investment in Pampulha Fund ref. CEMIG GT (Debentures) | Apr. 2013 to Feb. 2017    | CDI + 0.9% p.a.               | 15  | 165                  |
| CemigTelecom investment in Pampulha Fund ref. CEMIG GT (Debentures) | Jul. 2015 to Jul 2018     | CDI + 1.60%                   | 74  | 817                  |
| CemigTelecom investment in Pampulha Fund ref. ATIVAS (Notes)        | Jul. 2014 to Oct. 2016    | CDI + 3.5% p.a.               |   | 332                  |
| CemigTelecom investment in Pampulha Fund ref. ATIVAS (Notes)        | Jul. 2014 to Oct. 2016    | CDI + 3.5% p.a.               |   | 415                  |
| CemigTelecom investment in Pampulha Fund ref. ETAU (Debentures)     | Dec. 2014 to Dec. 2019    | 108% of the CDI Rate          | 14  | 154                  |
| CemigTelecom investment in Pampulha Fund ref. CEMIG GT (Debentures) | Mar. 2016 to Dec. 2018    | CDI + 3.9%                    | 14  |                      |
| CemigTelecom investment in Pampulha Fund ref. CEMIG GT (Debentures) | Jul. 2016 to Dec. 2018    | CDI + 4.2% p.a.               | 13  |                      |
| CemigTelecom investment in Pampulha Fund ref. Axxiom (Debentures)   | April 2016 - Jan. 2017    | 112.00% of CDI Rate           | 8   |                      |

The return of the Pampulha Fund, in the year ended December 31, 2016, was R\$ 2,325 (R\$ 1,566 in December 31, 2015).

**Loan** On December 16, 2016, CemigTelecom signed a loan contract with Cemig in the amount of R\$ 18,000, to complement the funds necessary for full payment of the first Promissory Note. This was for 137 days, with payment scheduled for April 30, 2017, in a single payment, plus interest at 132.9% of the average DI (Interbank Deposit) rate. The balance recorded at December 31, 2016, plus financial charges, calculated pro-rata temporis was R\$ 18,134 see Note 15.

**Remuneration of Managers** In 2016 the Company paid remuneration and other benefits to the Managers totaling R\$ 3,579 (R\$ 2,934 in 2015), as follows:



| Position       | Remuneration     |                  | Benefits         |                  | Total            |                  |
|----------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                | Dec. 31,<br>2016 | Dec. 31,<br>2015 | Dec. 31,<br>2016 | Dec. 31,<br>2015 | Dec. 31,<br>2016 | Dec. 31,<br>2015 |
| Chief Officers | 2,489            | 2,213            | 291              | 189              | 2,780            | 2,402            |
| Board members  | 799              | 532              |                  |                  | 799              | 532              |
| <b>Total</b>   | <b>3,288</b>     | <b>2,745</b>     | <b>291</b>       | <b>189</b>       | <b>3,579</b>     | <b>2,934</b>     |

On April 29, 2016 a General Meeting of Stockholders of the Company set the global annual limit for the 2016 business year of R\$ 5,450 (R\$ 3,900 for the 2015 business year) for remuneration of Chief Officers, the Board of Directors and the Audit Board.

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**Private Pension Plans and other benefits to employees** As per Note 28, the Company is co-sponsor of the private pension plan for Forluz and Cemig Saúde, which is responsible for management of medical and dental plan of the employees. The contributions by the Company were as follows:

|   | Dec. 31, 2016 |              | Dec. 31, 2015 |              |
|---|---------------|--------------|---------------|--------------|
|   | Forluz        | Cemig Saúde  | Forluz        | Cemig Saúde  |
| Mixed Benefit Private Pension Plan ( Plan B ) | 3,235         |              | 2,549         |              |
| Pró-Saúde Integrado (PSI) Plan                |               | 1,469        |               | 1,077        |
| Dental Plan                                   |               | 52           |               | 43           |
| <b>Total</b>                                  | <b>3,235</b>  | <b>1,521</b> | <b>2,549</b>  | <b>1,120</b> |

Additionally, as well as the benefits specified in Law, the Company also gave its employees: access to a day-care center, group life insurance, restaurant and food meal tickets, and culture vouchers.

**Employees profit shares** The Company s bylaws specify distribution to the employees as profit shares of an annual amount as a way of incentivizing the employees to achieve better results. The indicators and targets are established periodically in a collective working negotiation. In the year 2016, the Company made a profit for distribution, and the amount provisioned was of the order of R\$ 1,856, for payment of profit shares by April 2017. A tranche, of R\$ 599, was paid in 2016, and on December 31, 2016 the amount of the provision for employees profit shares was R\$ 1,257.

**22. Stockholders equity****(a) Share capital**

On February 18, 2016 Cemig mad a capital increase in CemigTelecom of R\$ 16,660, having subscribed 16,660 new nominal shares without par value, thus altering the Company s share capital from R\$ 225,081 to R\$ 241,741 from that date.

The capital subscribed and paid up on December 31, 2016 and 2015, is in nominal common shares, as follows:

**December 31, 2016**

| Shareholders                         | Shares             | Amount         | Stake       |
|--------------------------------------|--------------------|----------------|-------------|
| Companhia Energética de Minas Gerais | 397,683,384        | 241,741        | 100%        |
| Other                                | 1                  |                |             |
| <b>Total</b>                         | <b>397,683,385</b> | <b>241,741</b> | <b>100%</b> |



**Table of Contents****December 31, 2015**

| <b>Shareholders</b>                  | <b>Shares</b>      | <b>Amount</b>  | <b>Stake</b> |
|--------------------------------------|--------------------|----------------|--------------|
| Companhia Energética de Minas Gerais | 381,023,384        | 225,081        | 100%         |
| Other                                | 1                  |                |              |
| <b>Total</b>                         | <b>381,023,385</b> | <b>225,081</b> | <b>100%</b>  |

**(b) Remuneration to stockholders**

The stockholders are guaranteed a minimum mandatory dividend of 50% of the adjusted net profit of each year.

**(c) Legal reserve**

This is constituted as 5% of the net profit found in any business year in accordance with Article 193 of Law 6404/76, up to the limit of when it totals 20% of the share capital.

As a result of a balance of accumulated losses, no constitution of the legal reserve was made in 2016.

**(d) Retained earnings reserve**

This aims to strengthen working capital and meet needs for funds for the Company's investment in the subsequent years.

**(e) Profit (loss) per share**

The profit (loss) and the weighted average number of common shares used in the calculation of the basic and diluted profit per share are as follows:

|  | <b>2016</b>  | <b>2015</b>     |
|--|--------------|-----------------|
| Basic and diluted profit (loss) per share  | <b>9,983</b> | <b>(35,831)</b> |
| Profit (loss) for the period   | 397,683      | 381,023         |
| Weighted average number of common shares in circulation<br>(thousands of shares) |              |                 |
| Basic and diluted profit (loss) per share (in Reais)                             | <b>25.10</b> | <b>(94.04)</b>  |

The Company does not have any dilutive instruments. Hence diluted profit (loss) is the same as basic profit (loss).

**23. Net revenue**

|   | <b>2016</b>    | <b>2015</b>    |
|---|----------------|----------------|
| Dedicated circuits  | 103,698        | 91,541         |
| Transport of signal                                       | 7,374          | 34,634         |
| Integrated services                                       | 21,973         | 17,497         |
| Other   | 3,478          | 3,427          |
| <b>Gross revenue</b>                                      | <b>136,523</b> | <b>147,099</b> |
| Taxes, returns, adjustment to present value and discounts | (34,077)       | (26,485)       |
| <b>Net revenue</b>  | <b>102,446</b> | <b>120,614</b> |

**Table of Contents****24. Costs and expenses**

| <b>Classification by type</b>                          | <b>2016</b>      | <b>2015</b>      |
|--|------------------|------------------|
| Network infrastructure                                 | (13,258)         | (14,413)         |
| Electricity  | (3,342)          | (5,298)          |
| Depreciation and amortization                          | (37,741)         | (48,968)         |
| Maintenance and repair service                         | (17,553)         | (19,680)         |
| Personnel  | (25,479)         | (17,517)         |
| Outsourced services                                    | (3,293)          | (3,159)          |
| Real estate properties rented                          | (1,701)          | (1,976)          |
| Equity method gains in non-consolidated investees, net | (27,165)         | (28,833)         |
| PIS and Cofins taxes on financial leasing              | (1,636)          |                  |
| Indemnity for contingencies in Ativas                  | (3,410)          |                  |
| Provision for obsolescence                             | (1,149)          |                  |
| Other  | (1,041)          | (692)            |
| <b>Total</b>   | <b>(136,768)</b> | <b>(140,536)</b> |

(\* ) Expenses on personnel allocates in telecommunications network construction projects were recorded in Fixed Assets. They totaled R\$ 7,865 in 2016, and R\$ 6,923 in 2015.

| <b>Classification by function</b>                      | <b>2016</b>      | <b>2015</b>      |
|--|------------------|------------------|
| <b>COST OF SERVICES PROVIDED</b>                       | <b>(67,868)</b>  | <b>(83,367)</b>  |
| Selling expenses                                       | (523)            | (1,280)          |
| General and administrative expenses                    | (34,184)         | (26,364)         |
| Equity method gains in non-consolidated investees, net | (27,165)         | (28,833)         |
| Other expenses   | (7,028)          | (692)            |
| <b>Total</b>   | <b>(136,768)</b> | <b>(140,536)</b> |

**25. Other operational revenues****Other operational revenues**

|  | <b>2016</b>   | <b>2015</b>  |
|--|---------------|--------------|
| Appreciation of assets received from Eletronet (Note 13) | 20,423        |              |
| Gain on financial leasing                                | 3,215         |              |
| Gain on financial derivative (Note 27)                   | 4,586         |              |
| Fines and penalty payments                               | 283           | 1,956        |
| Other revenues   | 384           |              |
| <b>Total</b>   | <b>28,891</b> | <b>1,956</b> |



**Table of Contents****26. Financial revenue and expenses recognized in the P&L****Financial revenues**

|                               | <b>2016</b>  | <b>2015</b>  |
|-------------------------------|--------------|--------------|
| Revenue from cash investments | 2,792        | 2,185        |
| Interest (received)           | 169          | 640          |
| Other financial revenues      | 1,038        | 1,228        |
| <b>Total</b>                  | <b>3,999</b> | <b>4,053</b> |

**Financial expenses**

|                          | <b>2016</b>    | <b>2015</b>    |
|--------------------------|----------------|----------------|
| Interest (paid)          | (7,956)        | (5,408)        |
| Other financial expenses | (1,205)        | (370)          |
| <b>Total</b>             | <b>(9,161)</b> | <b>(5,778)</b> |

**27. Financial instruments****(a) Financial risk management**

The Company has exposure to the following risks arising from the use of financial instruments:

Credit risk

Market risk

Liquidity risk

This note presents information on the Company's exposure to each of these risks, the Company objectives, policies and processes for measurement and management of risk, and the Company's capital management.

**Risk management structure**

The Board of Directors has the global responsibility for establishment and supervision of the Company's risk management structure. The risk management policies applied by the Company and its jointly-controlled subsidiary entity are subordinated to those of the Cemig Group, which is responsible for development and monitoring of the risk management policies of the Company as a whole.



The Company's risk management policies are established to identify and analyze the risks faced, to define appropriate risk limits and controls and to monitor risks and adherence to the limits established. The risk management policies and systems are frequently reviewed to reflect changes in market conditions and in the Company's activities. The Company, through its training and management rules and procedures, is to develop a disciplined and constructive control environment, in which all the employees understand their roles and obligations.

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**Table of Contents****CREDIT RISK**

Credit risk is the risk of financial loss in the event that a client or counterparty in a financial instrument fails to comply with its contractual obligation, which arise principally from the Company's receivables from clients and investment securities.

The Company's sales policies are subordinated to the credit policies set by its Management and aimed to minimize any problems arising from default by its clients. The portfolio of clients is mainly in large fixed and mobile telephone operators and operators of cable TV and internet broadband, and also corporate clients and internet service providers, as well as the parent company itself. In view of the change of focus of the Company aiming to increase its market share in the corporate and ISP providers market, and the gradual decline in operators' market share, since 2015, the risk of loss on receipt of credit by the Company has been significantly diluted through diversification of its portfolio of clients. The sales efforts for the corporate market have been sufficient to offset the losses of cancellation of circuits by operators and to significantly reduce the market risk. The share of CemigTelecom's gross revenue provided by operators fell from 58% in 2015 to 35% in 2016, while the number of corporate clients, including internet service providers, increased from 216 in January 2016 to 755 in December 2016. Further, as from 2015 the Company's management has reviewed the policy for granting of credit. Even so, the main instrument that guarantees minimization of credit risk continues to be the Company's right to interrupt supply of signal in the event of noncompliance with a contract (including lack of payment).

The Company's exposure to credit risk is principally influenced by the individual characteristics of each client. However, Management also takes into account the market segment in which clients operate, since this factor can influence credit risk, especially through the sensitivity of the telecommunication sector to the economic services of the country. The maximum concentration of the Company's revenue attributable to a single client is approximately 15%.

The level of losses arising from lack of payment is insignificant. This can be attributed to the fact that the policy established by the Company specifies constant monitoring of default, in which contractual penalties are applied in the event of delay in payment, and can in extreme cases even culminate in discontinuation of services to clients.

The Company establishes a provision for impairment, which represents its estimate of losses in relation to accounts receivable from clients and other creditors. The sensitivity and the expectation of losses related to significant individual risks are the only parameters considered in this analysis. This is because the Company is substantially centered on the market of service to the large telecoms operators and the corporate market, and for this reason historic losses or global, geographical sector analysis do not usually provide a reasonable basis to estimate losses on accounts receivable. At December 31, 2016 the Company has a provision for losses on doubtful receivables of R\$ 1,425 (R\$ 2,459 in 2015), which represents 7% (13% in 2015) of the total balance of accounts receivable and not received, and 18% (51% in 2015) of past due accounts receivable.

In relation to the risk of losses arising from insolvency of the financial institutions at which the Company has deposits, the Cemig Group has had a cash investment policy in effect since 2004, in which each institution is analyzed according to criteria of current liquidity, degree of leverage, level of default, profitability, and costs. Additionally, the Company takes into consideration the ratings given by three financial risk rating agencies. The Company assigns each financial institution a maximum fund allocation limit, which is reviewed for appropriateness both periodically and also in the event of any change in the macroeconomic scenarios of the Brazilian economy.

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**MARKET RISK**

Market risk is the risk that exposes the Company to changes in market prices, such as exchange rates and interest rates, which can have a significant financial impact on the Company. The objective of market risk management is to keep exposures to market risks under control, within acceptable parameters, and at the same time to optimize return.

1. **Currency risk**

The Company is not subject to currency risk in the balances payable to suppliers or loans denominated in a currency other than its functional currency.

2. **Interest rate risk**

Interest rate risk arises from issuance of non-convertible securities. These liabilities, when linked to variable interest rates, expose the Company to cash flow risk. At the same time, liabilities linked to fixed interest rates expose the Company to the risk of fair value associated with interest rates.

The Company is permanently evaluating its exposure to interest rate risk. Various scenarios are simulated, taking into account the alternatives of refinancing, renewal of existing positions or acquisition of new financings and alternative hedges.

The Company has exposure to the risk of increase in interest rates, with an effect on loans with floating interest rates linked principally to indices referenced to the basic interest rate in Brazilian economy, in the amount of R\$ 101,372 (Note 15).

In relation to the most significant interest rate risk, the Company estimates that, in a probable scenario, the CDI rate will be approximately 10.40%, and the TJLP will be 7.10%. The Company has made a sensitivity analysis of the effects on the Company's profit arising from higher values for the indicators in relation to this probable scenario. As part of the definitions of this analysis, the expected variation in the CDI rate has been considered to be similar to the variation in the Selic rate.

The table below shows the sensitivity of the financial instruments. It is prepared in accordance with CVM Instruction 475/2008, to show the balances of the principal assets and liabilities, calculated at a rate projected up to the final settlement date of each contract, considering a probable scenario (Scenario I), appreciation of 25% (Scenario II), and appreciation of 50% (Scenario III).

The purpose of this sensitivity analysis is to measure the impact of the changes in market variables on the Company's financial instruments referred to, assuming all other market indicators are constant. These amounts may be different, at the time of settlement, from the figures shown above, due to the estimates used in their preparation. The table below includes the amounts of principal and interest.

| Book<br>value | Base | Risk of increase in domestic interest<br>rates scenarios (percent p.a.) |
|---------------|------|---|
|---------------|------|---|

|   |       | Scenario<br>I<br>CDI<br>14.00% | Scenario<br>II<br>CDI<br>11.73% | Scenario<br>III<br>CDI<br>14.07% |
|---|-------|--------------------------------|---------------------------------|----------------------------------|
| <b><u>Assets</u></b>                    |       |                                |                                 |                                  |
| <b><u>Cash and cash equivalents</u></b> |       |                                |                                 |                                  |
| Fixed-income funds                      | 773   | 881                            | 846                             | 864                              |
| <b><u>Securities</u></b>                |       |                                |                                 |                                  |
| Fixed-income funds                      | 1,938 | 2,209                          | 2,120                           | 2,165                            |
| <b>Positive net exposure</b>            |       | <b>3,090</b>                   | <b>2,966</b>                    | <b>3,029</b>                     |

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### 3. Price risk

The Company operates in a business segment where prices are freely agreed, thus there is no need to maintain a policy of mitigation of this type of risk.

### Fair value of financial instruments

The balances of financial instruments used by the Company on December 31, 2016 are, mostly, recorded at accounting cost, which does not significantly differ from the corresponding estimated market value. They are classified as follows:

Financial assets held to maturity: This category includes financial assets which are expected to be held to maturity. These are valued at amortized cost using the effective rates method, less any impairments. After the initial evaluation, investments held to maturity are valued at amortized cost using the effective rates method, less any impairments.

Financial assets measured at fair value through profit or loss: Fixed-income security held for trading are in this category. They are valued at fair value through profit or loss, as per Level 2.

Loans and receivables: Balances receivable from clients are in this category. They are recognized at their nominal realization value, which is similar to fair value.

Loans: Measured at amortized cost, using the effective interest method.

Suppliers: These are balances payable to suppliers, and are recognized at nominal settlement value, similar to fair value.

Fair value is a market-based measurement based on assumptions that market participants would use in pricing an asset or liability. The Fair Value Hierarchy aims to increase consistency and comparability: it divides the inputs used in measuring fair value into three broad levels, as follows:

Level 1 Active market Quoted prices: A financial instrument is considered to be quoted in an active market if the prices quoted are promptly and regularly made available by an exchange or organized over-the-counter market, by operators, by brokers or by a market association, by entities whose purpose is to publish prices, or by regulatory agencies, and if those prices represent regular arm's length market transactions made without any preference.

Level 2 No active market Valuation technique: For an instrument that does not have an active market, fair value should be found by using a method of valuation/pricing. Criteria such as data on the current fair value of another instrument that is substantially similar, or discounted cash flow analysis or option pricing models, may be used. The objective of the valuation technique is to establish what would be the transaction price on the measurement

date in an arm's-length transaction motivated by business considerations.

Level 3 - No active market - No observable inputs: The fair value of investments in securities for which there are no prices quoted on an active market, or of derivatives linked to them which are to be settled by delivery of unquoted securities,

In the 2015 business year the Company did not operate with derivatives.

### LIQUIDITY RISK

Liquidity risk is the risk that the Company may find difficulties in complying with the obligations associated with the financial liabilities that are settled by payment in cash or with another financial asset. The Company's approach to management of liquidity is to guarantee, to the maximum possible, that there is always sufficient liquidity to comply with its obligation on maturity, under normal conditions and stress conditions, without causing unacceptable losses or risk of loss to the Company's reputation.

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The Company operates with a profit margin that provides it with positive operational cash flow. Typically, the Company maintains immediate cash availability ensuring it can comply with commitments for at least 60 days operation, including financial obligations and investments. Events with potential impact arising from extreme circumstances that cannot be reasonably foreseen, such as natural disasters or major economic crisis, are not taken into consideration in this analysis.

To provide feasibility for the entry of a new partner into Ativas, CemigTelecom assumed a significant amount in short-term debt. As a result, on December 31, 2016 CemigTelecom's current liabilities exceeded its current assets by R\$ 74,312. On December 31, 2016, CemigTelecom's short and long-term loans and debentures totaled R\$ 63,751 and R\$ 37,621 respectively, with maturities in the second and fourth quarters of 2017 in the amounts of R\$ 18,134 and R\$ 46,310, respectively; however, the Company reported positive operational cash flow in 2016 and 2015 of R\$ 46,827 and R\$ 56,971 respectively.

For the purpose of amortization of the program debt maturities, the Company expects to raise significant amounts of capital from third parties and/or entry of cash from its stockholder, and it can continue to depend on the contracting of additional debts.

The Company has various initiatives to increase liquidity through signing of new loan contracts to roll over debts, and also has the benefit of financial support from its controlling stockholder, Companhia Energética de Minas Gerais Cemig.

Management believes that the Company has satisfactory capacity to generate operational cash flow, and the conditions necessary to comply with its short-term obligations and continue to make the necessary investments for continuation of the projects in progress.

The Company manages liquidity risk with a group of methods, procedures and instruments that are coherent with the complexity of the business, and applied in permanent control of the financial processes, to guarantee appropriate risk management.

The Company manages liquidity risk by permanently monitoring its cash flow in a conservative, budget-oriented manner. Balances are projected monthly, for a period of 12 months ahead, and daily liquidity balances are projected over 90 days.

Short-term allocations also obey rigid principles established in a Cash Investment Policy, investing in exclusive private credit investment funds. Excess amounts are applied in repos, remunerated by the CDI rate, as per the orientations set by the Cemig Group, with a view to consolidating management of the funds available, and do not depend on any individual analysis by CemigTelecom.

In managing cash investments, the Company seeks to obtain profitability through a rigid analysis of financial institutions' credit, applying operational limits for each bank, based on assessments that take into account their ratings, exposures and balance sheets.

The table below shows the Company's financial liabilities, by maturity, including the portions of future principal and interest to be paid in accordance with contractual clauses.

## **Non-derivative financial liabilities**

|              | <b>Dec.<br/>31,<br/>2016</b> | <b>Contractual<br/>flow</b> | <b>Up to 1<br/>year</b> |
|--------------|------------------------------|-----------------------------|-------------------------|
| Cemig loan   | 18,134                       | 18,134                      | 18,134                  |
| Sonda loan   | 46,310                       | 45,617                      | 45,617                  |
| <b>Total</b> | <b>64,444</b>                | <b>63,751</b>               | <b>63,751</b>           |



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**(b) Criteria and assumptions used in the calculation of market values**

Cash and cash equivalents, securities, accounts receivable from clients, suppliers: due to the short-term nature of these balances, the amounts reported are close to the fair values of the instruments on the reporting date.

Debentures: The fair value of the debentures on December 31, 2015 was R\$ 15,345.

**28. Benefits to employees**

The obligations under employee benefit plan include private pension plans, a health plan, a dental plan and group life insurance.

**Private pension plan – Forluz**

The Company is co-sponsor of *Fundação Forluminas de Seguridade Social*, or Forluz, a nonprofit legal entity created to provide its participants and related dependents with an income to supplement retirement and other pensions.

The pension plan, co-sponsored by the Company, named the *Mixed Benefit Private Pension Plan – Plan B*, comprises benefits such as: (i) Addition to Pension for Time of Service, Special Reasons or Age (MAT); (ii) Addition to Retirement Pension due to Disablement (MAI); (iii) Annual Bonus (AA); (iv) Continuous Income for Death (RCM); and Imprisonment Assistance (AR).

The Sponsor's contribution to this plan is 27.52% for the portion with defined-benefit characteristics – this refers to coverage for disablement and death for participants still employed, and is used to amortize obligations defined by an actuarial calculation. The remaining 72.48%, for the part of the plan with defined contribution characteristics, goes to the nominal accounts of the participants. These contributions are recognized in the Profit & loss account in accordance with the payments made by the sponsors under Personnel expenses.

**Health plan – Cemig Saúde**

The Company is co-sponsor of health and dental plans of its employees, which are administered by Cemig Saúde.

The amounts of the contributions to the pension, health and dental plans are determined annually, by the amounts considered to be sufficient for coverage of the respective expenses expected in each business year, as per an evaluation made by an independent actuary contracted for the purpose. The three plans are optional to join, for the employee, and the participants make a contribution equal to that of the employee.

In this Note the Company demonstrates the net actuarial assets/liabilities and the expenses in connection with the Retirement Plan, Health Plan and Dental Plan, in accordance with the terms of CPC Technical Pronouncement 33 (*Benefits to employees*) and an independent actuarial opinion for base-date December 31, 2016.

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This table shows a reconciliation of the actuarial assets and liabilities:

|  | <b>Forluz<br/>Mixed Benefit Private<br/>Pension Plan (</b> | <b>Cemig Saúde (Health)<br/>Integrated Pro-Saúde<br/>Health Plan Dental Plan</b> |              |
|--|--|--|--------------|
| <b>December 31, 2016</b>                                   |  |  |              |
| Fair value of plan assets                                  | (2,112)  |  |              |
| Present value of the actuarial obligation of the plan, net | 2,112  | (2,695)  | (106)        |
| Net actuarial assets (liabilities) recognized              |  | <b>(2,695)</b>   | <b>(106)</b> |

|   | <b>Forluz<br/>Mixed Benefit Private<br/>Pension Plan (</b> | <b>Cemig Saúde (Health)<br/>Integrated Pro-Saúde<br/>Health Plan Dental Plan</b> |      |
|---|--|--|------|
| <b>December 31, 2015</b>  |  |  |      |
| Fair value of plan assets   | 1,350  |  |      |
| Present value of the actuarial obligation of the plan, net                            | (1,578)  | (1,174)  | (52) |
| Present value of funded obligations (total)   | (228)  | (1,174)  | (52) |
| Changes in the limiting effect of the net defined benefit assets on the asset ceiling |  |  |      |
| Net actuarial assets (liabilities) recognized   | (228)  | (1,174)  | (52) |

This table shows the changes in the present value of the benefit obligation:

|  | <b>Mixed Benefit Private<br/>Pension Plan (</b> | <b>Plan B )</b> | <b>PSI Health Plan</b> | <b>Dental Plan</b> |
|--|---|-----------------|------------------------|--------------------|
| <b>Defined-benefit obligation on December 31, 2015</b> |   |                 |                        |                    |
|  | <b>(1,578)</b>                                  |                 | <b>(1,174)</b>         | <b>(52)</b>        |
| Cost of current service                                | (70)  |                 | (104)                  | (5)                |
| Interest on the actuarial obligation                   | (204)   |                 | (154)                  | (7)                |
| Actuarial (losses) recognized                          | (302)   |                 | (1,281)                | (43)               |
| Benefits paid  | 111   |                 | 18                     | 1                  |
| <b>Defined-benefit obligation on December 31, 2015</b> | <b>(2,043)</b>                                  |                 | <b>(2,695)</b>         | <b>(106)</b>       |

This table shows the changes in the fair value of the assets of the pension benefits plan:

|   | <b>Mixed Benefit Private<br/>Pension Plan ( Plan B )</b> |
|---|--|
| <b>Fair value of the plan assets at December 31, 2015</b> | <b>1,350</b>   |
| Real return on the investments                            | 840  |
| Contributions from the employer                           | 33   |
| Benefits paid   | (111)  |
| <b>Fair value of the plan assets at December 31, 2016</b> | <b>2,112</b>   |

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This table shows the annual expense on the plans:

|  | <b>Mixed Benefit Private</b>   |                    |                    |              |
|--|--------------------------------|--------------------|--------------------|--------------|
|  | <b>Pension Plan ( Plan B )</b> | <b>Health Plan</b> | <b>Dental Plan</b> | <b>Total</b> |
| Cost of current service                                    | (70)                           | (104)              | (5)                | (179)        |
| Net interest on the defined-benefit liabilities (assets)   | (28)                           | (154)              | (7)                | (189)        |
| <b>Expense recognized in the Profit &amp; loss account</b> | <b>(98)</b>                    | <b>(258)</b>       | <b>(12)</b>        | <b>(368)</b> |

Table showing the change in net actuarial assets (liabilities):

|   | <b>Mixed Benefit Private</b>   |                    |                    |                |
|---|--------------------------------|--------------------|--------------------|----------------|
|   | <b>Pension Plan ( Plan B )</b> | <b>Health Plan</b> | <b>Dental Plan</b> | <b>Total</b>   |
| <b>Net liabilities on December 31, 2015</b>   | <b>(228)</b>                   | <b>(1,174)</b>     | <b>(52)</b>        | <b>(1,454)</b> |
| Expense recognized in Profit and loss account   | (98)                           | (258)              | (12)               | (368)          |
| Gain (loss) recognized in Other comprehensive income                                  | 363                            | (1,281)            | (43)               | (961)          |
| Changes in the limiting effect of the net defined benefit assets on the asset ceiling | (70)                           |                    |                    | (70)           |
| Contributions paid  | 33                             | 18                 | 1                  | 52             |
| <b>Net liabilities on December 31, 2016</b>   |                                | <b>(2,695)</b>     | <b>(106)</b>       | <b>(2,801)</b> |

**Actuarial assumptions used**

The assumptions used by the independent actuary in determination of the actuarial calculations are as follows:

|  | <b>Mixed Benefit Private</b>   |                      | <b>Integrated</b>           |                      | <b>Dental Plan</b>   |                      |
|--|--------------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
|  | <b>Pension Plan ( Plan B )</b> | <b>Plan B</b>        | <b>Pro-Saúde Plan (PSI)</b> |                      |                      |                      |
|  | <b>Dec. 31, 2016</b>           | <b>Dec. 31, 2015</b> | <b>Dec. 31, 2016</b>        | <b>Dec. 31, 2015</b> | <b>Dec. 31, 2016</b> | <b>Dec. 31, 2015</b> |
| Nominal discount rate for the actuarial obligation | 10.50%                         | 13.20%               | 10.40%                      | 13.14%               | 10.04%               | 13.14%               |
| Nominal expected return on plan assets             | 10.50%                         | 13.20%               | N/A                         | N/A                  | N/A                  | N/A                  |
| Estimated nominal salary increase index            | 6.59%                          | 5.50%                | N/A                         | N/A                  | N/A                  | N/A                  |
|  | 4.50%                          | 5.50%                | N/A                         | N/A                  | N/A                  | N/A                  |

|  |                         |                         |                         |                         |                         |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Estimated nominal benefit increase index |                         |                         |                         |                         |                         |                         |
| Nominal growth rate of medical costs     | N/A                     | N/A                     | 4.50%                   | 5.50%                   | 4.50%                   | 5.50%                   |
| Estimated long-term inflation            | 4.50%                   | 5.50%                   | 4.50%                   | 5.50%                   | 4.50%                   | 5.50%                   |
| General mortality rate table             | AT-2000M, 20% smoothing | AT-2000M, 20% smoothing | AT-2000M, 20% smoothing | AT-2000M, 20% smoothing | AT-2000M, 20% smoothing | AT-2000M, 20% smoothing |
| Disability rate table                    | Álvaro Vindas D10%      | Álvaro Vindas           | Álvaro Vindas           | Álvaro Vindas           | Álvaro Vindas           | Álvaro Vindas           |
| Disabled mortality rate                  | Winklevoss less 30%     | Winklevoss less 30%     | Winklevoss less 30%     | Winklevoss less 30%     | Winklevoss less 30%     | Winklevoss less 30%     |
| Expected turnover rate                   |                         |                         |                         |                         |                         |                         |
| Retirement probability rate              | (a)                     | (a)                     | (a)                     | (a)                     | (a)                     | (a)                     |

(a) 100% at first age of acquisition of full benefit right.

**Table of Contents****29. Commitments**

The Company has contractual obligations and commitments, mainly amortization of loans and financing, contracts to share infrastructure and leasing of dark fiber as follows:

| <b>R\$ 000</b>            | <b>2017</b>   | <b>2018</b>  | <b>2019</b>  | <b>2020</b> | <b>2021</b>   | <b>After 2021</b> | <b>Total</b>   |
|---------------------------|---------------|--------------|--------------|-------------|---------------|-------------------|----------------|
| Sharing of infrastructure | 3,180         | 2,607        | 1,178        | 312         | 230           |                   | 7,507          |
| Dark fiber leasing        | 2,438         | 1,966        | 1,344        | 83          | 142           | 399               | 6,372          |
| Loans and financing s     | 69,747        |              |              |             | 61,944        |                   | 131,691        |
| <b>Total</b>              | <b>75,365</b> | <b>4,573</b> | <b>2,522</b> | <b>395</b>  | <b>62,316</b> | <b>399</b>        | <b>145,570</b> |

**30. Insurance**

The Company has reassessed the risks involving its telecommunications assets, and the probability of interruption of its operations as a result of potential claim events. This study shows that the probability of simultaneous large-scale adverse events that could represent significant financial operation losses for the Company is significantly remote, due mainly to the diversity of the geographical distribution of the assets exposed to risks. For this reason, the Company's management has opted, for the moment, not to contract insurance cover against adverse events involving its Operations Center and Headends, and other events that could affect its network equipment, cables and other fixed assets. Since the start of its operations the Company has not experienced any significant losses as a result of the above-mentioned risks. The risk assessment assumptions adopted by the Company, due to their nature, are not part of the scope of an audit of the financial statements, and consequently not examined by the external auditors.

**31. Subsequent Events**

- i. On March 15, 2017 the Federal Supreme Court, in a judgment on Extraordinary Appeal (RE) 574.706, decided by majority to exclude ICMS tax paid or payable from the base amount on which the PIS and Cofins taxes are calculated, on the grounds that the amount collected as ICMS does not become part of the taxpayer patrimony, so that it cannot be part of the calculation base of the contributions referred to. The Company has Special and Extraordinary Appeals still outstanding on this subject, on which judgment has not yet been given, which indicates good probabilities of success in which it expects to recover amounts unduly paid since 2003, estimated at R\$ 7,000. A position statement by the Supreme Court on whether this judgment shall have the effect of obligatory precedent (affecting all cases) is awaited as is also awaited the application of this understanding to the specific case of CemigTelecom.
- ii. On January 9, 2017, the Board of Directors of CemigTelecom approved the second issue of nonconvertible debentures, in a single series, for R\$ 34,000, with surety guarantee and collateral guarantee by finding assignment of the Issuer receivables in the amount of 130% (one hundred and thirty percent) of the amounts of amortization and remuneration becoming due. On January 20, 2017 the Company's Board of Directors adjusted the amount to R\$ 27,000, and on the same date the Board of Directors of Cemig approved provision of a surety for this transaction. Management believes that receipt of funding from the second debenture issue will be complete by

April 15, 2017.

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**Appendix IX**

**COMMENTS ON RESULTS FOR**

**3RD QUARTER 2017**

In the quarter ended September 30, 2017 (**3Q17**), CemigTelecom reports Net operational revenue of R\$ 30,593, or 18% more than in 3<sup>rd</sup> quarter 2016 (R\$ 25,952). We attribute this to the Company's sales efforts, aiming to increase its activities in the segment of internet providers, and the corporate segment, serving both companies and government.

Cost of sales, including depreciation, were 12% higher year-on-year, accompanying the increase in sales; while general and administrative expenses were 29% higher, at R\$ 8,051 in 3Q17, vs. R\$6,264 in 3<sup>rd</sup> quarter 2016 (3Q16).

Management's internal adjusted Ebitda<sup>(\*)</sup> was R\$ 13,252, or 11% higher than in 3Q16 (R\$11,952), the result of operational efficiency, and was reflected in net profit for the quarter of R\$ 535.

As a result of financial leverage, the Company had negative working capital at the end of the quarter of R\$ 61,458 (R\$ 74,312 on December 31, 2016), improved due to a debenture issue and lengthening of some maturities to 2018 and 2019.

In the first half of 2017 the Company invested R\$ 34,734 (R\$ 28,459 in the first half 2016), in formation of fixed and intangible assets, with forces concentrated on serving the last mile for clients, who are usually interested in obtaining the associated revenue.

The Management

(\*) Adjusted management Ebitda = Ebitda as per CVM instruction 527/12, adjusted for the effects of equity gain/loss in nonconsolidated investees, and other revenues and expenses that have no effect on cash and cash equivalents.



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**Cemig Telecomunicações S.A.**

Interim Accounting Statements for the quarter ended

September 30, 2017

with external auditor's report on review of the Quarterly Information

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**Cemig Telecomunicações S.A.**

Interim Accounting information at September 30, 2017

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**Edifício Phelps Offices Towers**

Rua Antônio de Albuquerque, 156 11º andar Savassi

30112-010 Belo Horizonte MG Brazil

Tel: +55 31 3232-2100

Fax: +55 31 3232-2106

ey.com.br

**External auditor s report on review of the quarterly information**

To the

Stockholders, Members of the Board of Directors, and Managers of

**Cemig Telecomunicações S.A.**

Belo Horizonte, Minas Gerais

**Introduction**

We have reviewed the interim financial statements of Cemig Geração e Telecomunicações S.A. ( the Company ), contained in the ITR (Quarterly Information) form for the quarter ended September 30, 2017, which comprise the statement of financial position (balance sheet) at September 30, 2017, the related statements of income and comprehensive income for the periods of three and nine months ended on that date, and the statements of changes in equity, and of cash flows, for the period of nine months ended on that date, including the explanatory notes.

The company s management has the responsibility for preparing the interim financial information in accordance with Technical Pronouncement CPC 21(R1) *Interim Reporting ( Demonstração Intermediária )*, and in accordance with international standard IAS 34 *Interim Financial Reporting*, issued by the International Accounting Standards Board (IASB); and also for presenting that information in a manner compliant with the rules issued by the Brazilian Securities Commission (*Comissão de Valores Mobiliários, CVM*) governing the preparation of Quarterly Information ( ITR ). Our responsibility is to express a conclusion on this interim accounting information based on our review.

**Scope of the review**

We conducted our review in accordance with the Brazilian and international rules for review of interim information: respectively, Brazilian Accounting Standard (NBC) TR 2410 *Review of Interim Information Performed by the Auditor of the Entity (Revisão de Informações Intermediárias Executada pelo Auditor da Entidade)*, and ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*). A review of interim

information consists of questioning, principally of the persons responsible for the financial and accounting matters, and application of analytical procedures and other procedures of review. The scope of a review is significantly less than that of an audit conducted in accordance with the rules of auditing and, consequently, did not enable us to obtain certainty that we had become aware of all the material matters that could be identified in an audit. Thus, we do not express an auditing opinion.

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**Conclusion**

Based on our review, we are not aware of any fact that could lead us to believe that the interim accounting information included in the Quarterly Information referred to above was not prepared, in all material aspects, in accordance with CPC 21(R1) and IAS 34, applicable to the preparation of Quarterly Information, and presented in a way that is in accordance with the rules issued by the CVM (*Comissão de Valores Mobiliários*).

**Other matters**

**Added value statement**

We have also reviewed the Statement of added value (DVA), for the nine-month period ended September 30, 2017. This was prepared under the responsibility of the Company's management. Presentation of these statements is required under the rules issued by the CVM for preparation of Quarterly Information (ITR); and is considered to be supplementary information under IFRS which do not require presentation of the DVA. This statement was submitted to the same procedures of review described above, and based on our review we are not aware of any fact that could lead us to believe that it was not prepared, in all material aspects, in a way consistent with the interim accounting information taken as a whole.

**Financial statements of prior periods examined, and interim accounting information reviewed by another independent auditor**

The examination of the Statement of financial position on December 31, 2016, and the review of the interim accounting information for the periods of three and nine months ended on September 30, 2016, presented for the purposes of comparison, were conducted under the responsibility of other independent auditors, who issued an audit report and a report on review, without qualifications, dated April 6, 2017 and November 11, 2016, respectively.

Belo Horizonte, November 10, 2017.

Ernst & Young Auditores Independentes S.S.

CRC-2SP015199/O-6

**Table of Contents****CEMIG TELECOMUNICAÇÕES S.A. - CEMIGTELECOM**

## STATEMENT OF FINANCIAL POSITION

AT SEPTEMBER 30, 2017 AND DECEMBER 31, 2016

R\$ 000

| ASSETS                           | Note | Sep. 30,<br>2017 | Dec. 31,<br>2016 | LIABILITIES AND STOCKHOLDERS EQUITY               | Note | Sep. 30,<br>2017 | Dec. 31,<br>2016 |
|----------------------------------|------|------------------|------------------|---|------|------------------|------------------|
| Current assets                   |      |                  |                  |   |      |                  |                  |
| Cash and cash equivalents        | 3    | 1,616            | 1,034            | Current liabilities                               |      |                  |                  |
| Securities                       |      |                  |                  | Loans and debentures                              | 12   | 58,973           | 63,751           |
| Cash investments                 | 4    | 6,110            | 1,855            | Suppliers   | 13   | 18,723           | 21,750           |
| Accounts receivable from clients | 5    | 17,258           | 19,249           | Payroll-associated and employment-law obligations | 14   | 4,848            | 5,836            |
| Financial leasing                | 6    | 323              | 303              | Tax obligations                                   | 15   | 9,525            | 9,573            |
| Taxes recoverable                | 7    | 5,181            | 3,684            | Deferred revenues                                 | 16   | 460              | 460              |
| Prepaid expenses                 |      | 62               | 34               | Total, Current liabilities                        |      | 92,529           | 101,370          |
| Other                            |      | 535              | 899              |   |      |                  |                  |
| Total, current assets            |      | 31,085           | 27,058           | Non-current liabilities                           |      |                  |                  |
|                                  |      |                  |                  | Loans and debentures                              | 12   | 58,998           | 37,621           |
|                                  |      |                  |                  | Payroll-associated and employment-law obligations | 14   | 3,192            | 2,801            |
| Long term assets                 |      |                  |                  | Tax obligations                                   | 15   | 1,982            | 2,466            |
| Securities                       |      |                  |                  |   |      |                  |                  |
| Cash investments                 | 4    | 203              | 83               | Deferred revenues                                 | 16   | 4,219            | 4,579            |
| Financial leasing                | 6    | 11,631           | 11,876           | Provisions for risks                              | 17   | 67               | 82               |

|   |    |         |         |   |    |          |          |
|---|----|---------|---------|---|----|----------|----------|
| axes<br>coverable<br>ferred<br>come tax<br>and Social<br>ontribution<br>x | 7  | 3,334   | 2,997   | Related parties                               | 18 | 6,394    | 3,410    |
|   | 8  | 8,935   | 8,037   | Other   |    | 84       | 84       |
| erivative<br>nancial<br>struments   | 9  | 4,484   | 4,586   | Total, Non-current liabilities                |    | 74,936   | 51,043   |
| ther  |    | 239     | 908     | STOCKHOLDERS EQUITY                           |    |          |          |
| vestment<br>affiliated<br>company   | 9  | 17,793  | 19,744  | Share capital                                 | 19 | 241,741  | 241,741  |
| roperty,<br>ant and<br>quipment   | 10 | 269,946 | 261,613 | Equity valuation adjustments                  |    | (756)    | (756)    |
| tangible<br>sets  | 11 | 9,917   | 9,490   | Retained losses                               |    | (50,883) | (47,006) |
| total,<br>on-current<br>sets  |    | 326,482 | 319,334 | Total equity                                  |    | 190,102  | 193,979  |
| TOTAL<br>SSETS  |    | 357,567 | 346,392 | TOTAL LIABILITIES AND STOCKHOLDERS EQUITY NET |    | 357,567  | 346,392  |

The notes are an integral part of the Interim Accounting Information.

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Cemig Telecomunicações S.A. ( CemigTelecom )

Profit and loss accounts

FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2017

(R\$ 000, except net loss per share)

| <b>3Q17</b>   | <b>NOTE</b> | <b>Third quarter:</b> |                      | <b>Nine months to:</b> |                      |
|---|-------------|-----------------------|----------------------|------------------------|----------------------|
|   |             | <b>3Q16</b>           | <b>Sep. 30, 2017</b> | <b>Sep. 30, 2016</b>   | <b>Sep. 30, 2016</b> |
| NET REVENUE FROM PROVISION OF SERVICES  | 20          | 30,593                | 25,952               | 88,303                 | 74,641               |
| COSTS OF SERVICES PROVIDED  | 21          | (17,671)              | (15,922)             | (52,624)               | (46,348)             |
| <b>GROSS PROFIT</b>   |             | <b>12,922</b>         | <b>10,030</b>        | <b>35,679</b>          | <b>28,293</b>        |
| <b>OTHER OPERATIONAL REVENUES (EXPENSES):</b>   |             |                       |                      |                        |                      |
| General and administrative expenses   | 21          | (8,285)               | (6,641)              | (24,881)               | (23,806)             |
| Sales and marketing expenses  | 21          | (238)                 | (124)                | (728)                  | (259)                |
| Other operational revenues  |             | 76                    | 20,963               | 87                     | 21,225               |
| Other operational expenses  | 21          | (233)                 | (466)                | (3,522)                | (572)                |
| Equity gain in investees  | 9           | (459)                 | (10,141)             | (1,951)                | (25,647)             |
| Total   |             | (9,139)               | 3,591                | (30,995)               | (29,059)             |
| <b>NET PROFIT BEFORE FINANCIAL REVENUE (EXPENSES), INCOME TAX AND SOCIAL CONTRIBUTION TAX</b> |             |                       |                      |                        |                      |
| Financial revenues  | 22          | 1,226                 | 844                  | 2,147                  | 3,039                |
| Financial expenses  | 22          | (3,857)               | (1,628)              | (11,501)               | (5,047)              |
| <b>PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION TAX</b>                                   |             | <b>1,152</b>          | <b>12,837</b>        | <b>(4,670)</b>         | <b>(2,774)</b>       |
| Current income tax and Social Contribution tax  | 8           | (105)                 | 62                   | (105)                  | (24)                 |
| Deferred income tax and Social Contribution tax   | 8           | (512)                 | (7,918)              | 898                    | (7,766)              |
| <b>PROFIT (LOSS) FOR THE PERIOD</b>   |             | <b>535</b>            | <b>4,981</b>         | <b>(3,877)</b>         | <b>(10,564)</b>      |
| <b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES IN CIRCULATION (thousands of shares)</b>          |             |                       |                      |                        |                      |
|   |             | 397,683               | 397,683              | 397,683                | 397,683              |
| <b>BASIC AND DILUTED PROFIT (LOSS) PER SHARE (Reais)</b>                                      |             |                       |                      |                        |                      |
|   |             | 0.00                  | 0.01                 | (0.01)                 | (0.03)               |

The notes are an integral part of the Interim Accounting Information.





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Cemig Telecomunicações S.A. ( CemigTelecom )

**CEMIG TELECOMUNICAÇÕES S.A. - CEMIGTELECOM**

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2017

R\$ 000

|  | <b>Third quarter:</b> |              | <b>Nine months:</b> |                 |
|--|-----------------------|--------------|---------------------|-----------------|
|  | <b>3Q17</b>           | <b>3Q16</b>  | <b>9M17</b>         | <b>9M16</b>     |
| Profit (loss) for the period                     | 535                   | 4,981        | (3,877)             | (10,564)        |
| Other comprehensive income                       |                       |              |                     |                 |
| <b>Total comprehensive income for the period</b> | <b>535</b>            | <b>4,981</b> | <b>(3,877)</b>      | <b>(10,564)</b> |

The notes are an integral part of the Interim Accounting Information.

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Cemig Telecomunicações S.A. ( CemigTelecom )

**CEMIG TELECOMUNICAÇÕES S.A. CEMIGTELECOM****STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY**

FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

R\$ 000

|                                | <b>Share<br/>capital</b> | <b>Equity<br/>valuation<br/>adjustment</b> | <b>Retained<br/>losses</b> | <b>Total</b> |
|--------------------------------|--------------------------|--|----------------------------|--------------|
| BALANCES AT DECEMBER 31, 2015  | 225,081                  | (75)                                       | (56,989)                   | 168,017      |
| Capital increase               | 16,660                   |  |                            | 16,660       |
| Loss for the period            |                          |  | (10,564)                   | (10,564)     |
| BALANCES AT SEPTEMBER 30, 2016 | 241,741                  | (75)                                       | (67,553)                   | 174,113      |
| BALANCES AT DECEMBER 31, 2016  | 241,741                  | (756)                                      | (47,006)                   | 193,979      |
| Loss for the period            |                          |  | (3,877)                    | (3,877)      |
| BALANCES AT SEPTEMBER 30, 2017 | 241,741                  | (756)                                      | (50,883)                   | 190,102      |

The Notes are an integral part of the Interim Accounting Information.

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Cemig Telecomunicações S.A. ( CemigTelecom )

**CEMIG TELECOMUNICAÇÕES S.A. CEMIGTELECOM****STATEMENTS OF CASH FLOW**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

**R\$ \_000**

|   | <b>9M17</b>   | <b>9M16</b>   |
|---|---------------|---------------|
| <b>CASH FLOW FROM OPERATIONS</b>                                    |               |               |
| Profit (loss) for the period  | (3,877)       | (10,564)      |
| Adjustments to reconcile net profit to cash generated by operations | 41,143        | 41,968        |
| Depreciation and amortization                                       | 25,974        | 24,947        |
| Costs of financings   | 10,690        | 4,433         |
| Deferred income tax and Social Contribution tax                     | (898)         | 7,766         |
| Cost of fixed assets written off                                    |               | 117           |
| Appreciation of assets received from Eletronet                      |               | (20,423)      |
| Fair value of financial derivative                                  | 102           |               |
| Reversal of provision for risks                                     | (15)          | (32)          |
| Net addition (reversal) of provision for doubtful receivables       | 355           | (262)         |
| Equity in earnings of unconsolidated investees, net                 | 1,951         | 25,647        |
| Constitution of provision for indemnity                             | 2,984         |               |
| Reversal of provision for obsolescence                              |               | (225)         |
| Variations in assets and liabilities                                | (5,814)       | (5,138)       |
| Reduction (increase) of assets: Accounts receivable from clients    | 1,861         | (2,584)       |
| Taxes recoverable   | (1,938)       | (494)         |
| Other assets  | 1,005         | (672)         |
| Increase (reduction) in liabilities:                                |               |               |
| Accounts payable to suppliers and others                            | (3,028)       | 680           |
| Payroll-related and tax obligations                                 | (1,129)       | 371           |
| Deferred revenues   | (360)         | (368)         |
| Income tax and Social Contribution tax paid                         | 105           | (1,097)       |
| Interest paid   | (2,330)       | (974)         |
| <b>Net cash from operational activities</b>                         | <b>31,452</b> | <b>26,266</b> |
| <b>CASH FLOW IN INVESTMENT ACTIVITIES</b>                           |               |               |

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|  |            |            |
|--|------------|------------|
| Acquisition of fixed and intangible assets               | (34,734)   | (28,459)   |
| Reductions (increase) in securities and cash investments | (4,375)    | 8,461      |
| Capital increase in affiliated company                   |            | (16,660)   |
| <b>CASH FLOW IN FINANCING ACTIVITIES</b>                 |            |            |
| Net cash used in investment activities                   | (39,109)   | (36,658)   |
| Capital increase   |            | 16,660     |
| Loans and financings obtained, and debentures issued     | 26,239     |            |
| Payment of principal of loans, financings and debentures | (18,000)   | (5,961)    |
| Net cash from financial activities                       | 8,239      | 10,699     |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>         | <b>582</b> | <b>307</b> |
| <b>CASH AND CASH EQUIVALENTS</b>                         |            |            |
| At start of period                                       | 1,034      | 4,869      |
| At end of period   | 1,616      | 5,176      |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>         | <b>582</b> | <b>307</b> |

The Notes are an integral part of the Interim Accounting Information.

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Cemig Telecomunicações S.A. ( CemigTelecom )

**CEMIG TELECOMUNICAÇÕES S.A. CEMIGTELECOM****ADDED VALUE STATEMENT**

FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

**R\$ \_000**

|   | <b>3Q17</b>    | <b>3Q16</b>     |
|---|----------------|-----------------|
| <b>1 REVENUES</b>   | <b>146,797</b> | <b>153,977</b>  |
| 1.1) Sales of services                                      | 117,853        | 99,087          |
| 1.2) Reversal (provision) for doubtful receivables          | (355)          | 262             |
| 1.3) Additions to fixed assets in progress                  | 23,973         | 27,934          |
| 1.5) Appreciation of assets received from Eletronet         |                | 20,423          |
| 1.6) Gain (loss) on financial derivative                    | (102)          |                 |
| 1.8) Others   | 5,428          | 6,271           |
| <b>2 INPUTS ACQUIRED FROM THIRD PARTIES</b>                 | <b>58,386</b>  | <b>51,282</b>   |
| 2.1) Cost of services sold                                  | 12,856         | 8,279           |
| 2.2) Materials, power, outsourced services and others       | 42,392         | 42,903          |
| 2.3) Loss / recovery of asset value                         | 2,984          |                 |
| 2.3) Others   | 154            | 100             |
| <b>3 GROSS VALUE ADDED (1 2)</b>                            | <b>88,411</b>  | <b>102,695</b>  |
| <b>4 RETENTIONS</b>   | <b>25,974</b>  | <b>24,947</b>   |
| 4.1) Depreciation and amortization                          | 25,974         | 24,947          |
| <b>5 NET ADDED VALUE PRODUCED BY THE ENTITY (3 4)</b>       | <b>62,437</b>  | <b>77,748</b>   |
| <b>6 ADDED VALUE RECEIVED BY TRANSFER</b>                   | <b>197</b>     | <b>(22,608)</b> |
| 6.1) Equity method gains in non-consolidated investees, net | (1,951)        | (25,647)        |
| 6.2) Financial revenues                                     | 2,148          | 3,039           |
| <b>7 TOTAL ADDED VALUE DISTRIBUTABLE (5+6)</b>              | <b>62,634</b>  | <b>55,140</b>   |
| <b>8 DISTRIBUTION OF ADDED VALUE</b>                        | <b>62,634</b>  | <b>55,140</b>   |

|  |         |          |
|--|---------|----------|
| 8.1) Personnel and payroll-related charges           | 17,635  | 19,768   |
| 8.1.1) Direct remuneration                           | 10,547  | 11,067   |
| 8.1.2) Benefits                                      | 3,679   | 4,059    |
| 8.1.3) Workers Time of Service Guarantee Fund (FGTS) | 1,009   | 2,381    |
| 8.1.4) Others  | 2,400   | 2,261    |
| 8.2) Taxes   | 32,095  | 35,952   |
| 8.2.1) Federal                                       | 8,083   | 16,123   |
| 8.2.2) State   | 24,012  | 19,829   |
| 8.3) Remuneration of external capital                | 16,781  | 9,984    |
| 8.3.1) Interest                                      | 11,501  | 5,047    |
| 8.3.2) Rentals                                       | 5,280   | 4,937    |
| 8.4) Remuneration of own capital                     | (3,877) | (10,564) |
| 8.4.1) Loss for the period                           | (3,877) | (10,564) |

The Notes are an integral part of the Interim Accounting Information.

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Cemig Telecomunicações S.A. ( CemigTelecom )

**CEMIG TELECOMUNICAÇÕES S.A. CEMIGTELECOM**

**EXPLANATORY NOTES TO THE QUARTERLY ACCOUNTING INFORMATION AT SEPTEMBER 30, 2017**

(In thousands of Brazilian Reais R\$ 000 except where otherwise indicated)

**1. OPERATING CONTEXT**

**a) The Company**

Cemig Telecomunicações S.A. CemigTelecom ( the Company ) is a listed corporation and a wholly-owned subsidiary of Companhia Energética de Minas Gerais S.A. Cemig. It offers optical fibers for carriage of telecommunication services, in the State of Minas Gerais and other States of Brazil's Northeast and Center-West, using the electrical power transmission and distribution infrastructure of power concession holders, principally Cemig.

It is domiciled in Brazil with address at Rua dos Inconfidentes 1051, Ground Floor, Funcionários, Belo Horizonte, MG. It is authorized by the Brazilian telecoms regulator (*Agência Nacional de Telecomunicações* Anatel) to commercially operate Multimedia Communication Services (SCM), for an indeterminate period, by Act No. 41002 of December 3, 2003.

Created on January 13, 1999, CemigTelecom focuses on providing telecommunication services for the corporate segment of internet access providers (ISPs) and telecommunications operator. It operates in the wholesale market renting specialized circuits to providers of fixed telephony, mobile telephony, cable TV, business carriers, data-centers, broadband and other services.

The Company's core business is provision of telecommunication services in the segment of operators, internet service providers (ISPs) and specialized services for the corporate segment, making available network and internet access solutions such as: corporate internet access, data communication between head office and branch offices, high capacity, high-quality solutions, rental of specialized circuits (links, IP/MPLS networks AND VPNs), customized service for each business, connectivity solutions, and other services.

CemigTelecom makes available the largest optical network for transport of telecommunications in Minas Gerais, with presence in more than 70 cities of the state. Additionally, it makes services available through optical networks in the metropolitan regions of Salvador, Recife, Goiânia and Fortaleza, as well as having points of presence in the cities of São Paulo and Rio de Janeiro. In total, it is present in more than 100 cities.

In fourth quarter 2016, to provide feasibility for the entry of a new partner into Ativas, CemigTelecom assumed a significant amount in short-term debt, with a guarantee from its controlling stockholder. As a result, on September 30, 2017 CemigTelecom's current liabilities exceeded its current assets by R\$ 61,445 (R\$ 74,312 on December 31, 2016). On September 30, 2017, CemigTelecom's short-term loans totaled R\$ 58,973, of which R\$ 50,426 had maturities in



fourth quarter 2017.

Management increased the Company's share capital by R\$ 50,657 for settlement of the loan, on October 23, 2017, and believes that it has satisfactory operational cash generation capacity with adequate conditions to comply with its short-term obligations and continue to make the investments necessary for maintaining its projects.

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Cemig Telecomunicações S.A. ( CemigTelecom )

b) Investment in affiliated company

Until October 18, 2016, the Company had shared control, as a joint venture, of the company Ativas Data Center S.A. ( Ativas ), with a 49% holding in the share capital of that company. As from that date, with the entry of Sonda Procwork Outsourcing Informática Ltda. ( Sonda ), the new partner in the business, its equity interest was diluted to 19.6%, and it classified the investment as an affiliated company. The management and the principal corporate decisions are exercised by the new controlling stockholder, under a stockholders' agreement.

Ativas is an entity domiciled in Brazil. Its headquarters and technological facilities are at Rua Agenério Araújo 20, Camargos, Belo Horizonte, MG, and it has commercial offices in São Paulo, Rio de Janeiro, Porto Alegre and Curitiba. Its corporate Objects are:

- (i) provision of ITC (Information Technology and Communication) infrastructure supply services, comprising physical hosting of IT physical environments;
- (ii) storage of databases and site backup;
- (iii) provision of professional security services in relation to information and availability ;
- (iv) provision of consultancy services in ITC and connectivity with sale of internet access and bandwidth; and
- (v) licensing and assignment of rights to use computer programs.

With the entry of the new controlling stockholder, Sonda, various actions were taken to adapt its organizational, operational and financial structure. As part of the restructuring plan of this affiliated company, in October 2016 early settlement was made of a substantial part of its loans, financings and debentures, with a view to obtaining a capital structure compatible with the size of its business

## 2. BASIS OF PREPARATION

### 2.1. Presentation of the Quarterly Information

The Quarterly Information (ITR) has been prepared in accordance with Technical Pronouncement CPC 21 (R1) *Interim Financial Statements* and IAS International Standard 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (IASB), and in a manner compliant with the rules issued by the Brazilian Securities Commission (CVM) applicable to preparation of Quarterly Information (ITR).

This Interim Accounting Information has been prepared according to principles, practices and criteria consistent with those adopted in the preparation of the annual financial statements at December 31, 2016. Thus these ITRs should be read in conjunction with those Financial Statements, approved by the Board of Directors and filed with the CVM on April 6, 2017.

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

On November 10, 2017 the Executive Board authorized conclusion and publication of this Interim Accounting Information.

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Cemig Telecomunicações S.A. ( CemigTelecom )

**3. CASH AND CASH EQUIVALENTS**

|                                  | <b>Sep. 30, 2017</b> | <b>Dec. 31, 2016</b> |
|----------------------------------|----------------------|----------------------|
| Cash and bank deposits           | 333                  | 261                  |
| Fixed-income funds               |                      |                      |
| Bank certificates of deposit (a) | 218                  | 105                  |
| <i>Overnight</i> (b)             | 1,065                | 668                  |
| <b>Total</b>                     | <b>1,616</b>         | <b>1,034</b>         |

On September 30, 2017, the company had 100% of its cash investments (cash equivalents and securities – Note 4) in the Pampulha fund (*Fundo Pampulha*), an exclusive investment fund of the Cemig Group. The weighted average profitability of the financial investments of the Pampulha Fund in this period was approximately 104.37% of the rate for interbank certificates of deposit, published by Cetip S.A. – the CDI Rate (this percentage was 106.31% on December 31, 2016).

- a) Bank Certificates of Deposit with floating rates, remunerated at a percentage of the CDI Rate (Interbank Rate for Certificates of Deposit – which varies between 100.5% and 105.25%, depending on the transaction) published by Cetip S.A. – Mercados Organizados.
- b) Short-term ( *overnight* ) transactions (usually Treasury bonds, notes, etc., referenced to a fixed rate), with availability for redemption on the next day after investment.

**4. SECURITIES**

*Securities* refers to: (i) fixed-income securities, comprising units in funds managed by financial institutions that meet the requirements for reputation, reliability and solidity established by the Controlling Group; and (ii) investments in securities and bank CDs (CDBs), with maturities of more than 90 days, the amounts of which, reported in Current assets, take into account the expectation of realization in the short term.

| <b>Fixed-income securities</b>                  | <b>Sep. 30, 2017</b> | <b>Dec. 31, 2016</b> |
|---|----------------------|----------------------|
| Current   |                      |                      |
| Fixed-income funds, with portfolios comprising: |                      |                      |
| Bank certificates of deposit (a)                | 75                   | 59                   |
| Repos (b)                                       | 646                  | 131                  |
| Treasury Financial Notes (b)                    | 881                  | 349                  |
| Financial Notes – Banks (c)                     | 4,508                | 1,316                |

|                           |  |              |              |
|---------------------------|--|--------------|--------------|
| Subtotal                  |  | 6,110        | 1,855        |
| <b>Non-current</b>        |  |              |              |
| Financial Notes Banks (c) |  |              | 25           |
| Debentures and Notes (b)  |  | 203          | 58           |
| Subtotal                  |  | 203          | 83           |
| <b>Total</b>              |  | <b>6,313</b> | <b>1,938</b> |

- (a) Bank Certificates of Deposit with floating rates, remunerated at a percentage of the CDI Rate (Interbank Rate for Certificates of Deposit which varies between 100.5% and 105.25%, depending on the transaction) published by Cetip S.A. Mercados Organizados.
- (b) Floating-rate debentures, remunerated at a percentage of the CDI rate (varying between 100% + 0.78% and 113%, depending on the transaction).
- (c) Floating-rate treasury Financial Notes, the remuneration of which is given by the variation of the daily Selic rate recorded between the date of settlement of the purchase and date of maturity of the security plus, if any, premium or discount at the moment of purchase.
- (d) Floating-rate bank Financial Notes, remunerated at a percentage of the CDI (between 100 + 0.52% and 112%, depending on the transaction).

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**5. ACCOUNTS RECEIVABLE FROM CLIENTS**

|                           | <b>Sep.<br/>30,<br/>2017</b> | <b>Dec.<br/>31,<br/>2016</b> |
|---------------------------|------------------------------|------------------------------|
| Related parties (Note 18) | 2,880                        | 5,299                        |
| Third parties             | 16,158                       | 15,375                       |
| Doubtful receivables      | (1,780)                      | (1,425)                      |
| Total                     | 17,258                       | 19,249                       |

Below is a summary of accounts receivable, by time / maturity:

|  | <b>Sep. 30, 2017</b>       |                          |              | <b>Dec.<br/>31,<br/>2016</b> |
|--|----------------------------|--------------------------|--------------|------------------------------|
|  | <b>Related<br/>parties</b> | <b>Third<br/>parties</b> | <b>Total</b> |                              |
| Accounts receivable  |                            |                          |              |                              |
| Not yet due  | 1,010                      | 13,308                   | 14,318       | 12,805                       |
| 1 to 30 days   | 76                         | 891                      | 967          | 2,906                        |
| 31 to 60 days  | 76                         | 58                       | 134          | 1,381                        |
| 61 to 90 days  | 76                         | 39                       | 115          | 643                          |
| 91 to 180 days   | 232                        | 185                      | 417          | 424                          |
| Over 180 days  | 1,410                      | 1,677                    | 3,087        | 2,515                        |
| Total  | 2,880                      | 16,158                   | 19,038       | 20,674                       |
| Provision for doubtful receivables                         |                            | (1780)                   | (1780)       | (1425)                       |
| Total  | 2,880                      | 14,378                   | 17,258       | 19,249                       |
| Percentage loss recognized on past due accounts receivable |                            | 62%                      | 38%          | 18%                          |

The estimate for losses on doubtful receivables is recorded after individual assessment of receivables that are more than 180 days past due. Those on which there is doubt as to realization have their losses recognized in the Profit and loss account in the amount expected to be incurred.

The change in the estimate for losses on accounts receivable can be expressed as follows:

|                                   | <b>Sep.<br/>30,<br/>2017</b> | <b>Dec.<br/>31,<br/>2016</b> |
|-----------------------------------|------------------------------|------------------------------|
| Balances at start of period       | (1,425)                      | (2,459)                      |
| Provision permanently written off |                              | 853                          |
| New provisions                    | (361)                        | (101)                        |
| Reversals                         | 6                            | 282                          |
| Balances at end of period         | (1,780)                      | (1,425)                      |

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Cemig Telecomunicações S.A. ( CemigTelecom )

**6. FINANCIAL LEASING GPON Networks condominiums**

Leasings in which the Company is lessor and substantially transfers the risks and benefits of ownership to the lessee are classified as financial leasings. These transactions are recognized as a receivable at the lower of: Fair value of the asset leased, and Present value of the flow of receipts specified in the contract, discounted at a risk-free interest rate. Interest related to leasing is recognized in the Profit and loss account as Financial revenue during the period that the contract is in force.

|              | <b>Sep.<br/>30,<br/>2017</b> | <b>Dec.<br/>31,<br/>2016</b> |
|--------------|------------------------------|------------------------------|
| Current      | 323                          | 303                          |
| Non-current  | 11,631                       | 11,876                       |
| <b>Total</b> | <b>11,954</b>                | <b>12,179</b>                |

**GPON network condominiums**

On July 5, 2016 CemigTelecom signed an irrecoverable contract with Algar Telecom S.A. (Algar) for the FTTH GPON Network owned by CemigTelecom, located in 39 residential districts and condominiums in the Southern Zone of the Metropolitan Region of Belo Horizonte. The contract, signed for a period of 15 years, specifies monthly remuneration of R\$ 112 in the first 60 months, and R\$ 132 as from the 61<sup>st</sup> month, with annual adjustment by the IGP-M inflation index.

The normal value of the flows of receipts specified in the contract was as follows:

|              | <b>Sep.<br/>30,<br/>2017</b> | <b>Dec.<br/>31,<br/>2016</b> |
|--------------|------------------------------|------------------------------|
| Up to 1 year | 1,345                        | 1,345                        |
| 1 to 5 years | 5,678                        | 7,080                        |
| Over 5 years | 13,887                       | 13,493                       |
| <b>Total</b> | <b>20,910</b>                | <b>21,918</b>                |

**7. TAXES RECOVERABLE**



|   | <b>Sep. 30,<br/>2017</b> | <b>Dec. 31,<br/>2016</b> |
|---|--------------------------|--------------------------|
| ICMS (local state value added tax) (a)            | 6,053                    | 4,929                    |
| Income tax and Social Contribution tax offsetable | 873                      | 595                      |
| Income tax withheld at source                     | 1,550                    | 1,098                    |
| Other   | 39                       | 59                       |
| <b>Total</b>                                      | <b>8,515</b>             | <b>6,681</b>             |
| Current   | 5,181                    | 3,684                    |
| Non-current                                       | 3,334                    | 2,997                    |

(a) This refers, basically, to ICMS tax credits recoverable, stated separately on tax invoices for acquisitions of PP&E assets. These can be used in up to 48 months from their recording in the CIAP book (ICMS tax credits monitoring book).

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Cemig Telecomunicações S.A. ( CemigTelecom )

**8. CURRENT AND DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION TAX**

The item Deferred income tax and Social Contribution tax refers to the deferred tax credit constituted, principally, on temporary differences, tax losses and negative balances of Social Contribution tax ascertained up to the reporting date. Reporting of the deferred income tax is based on a technical study of feasibility made by the Executive Board and approved by the Audit Board and the Board of Directors on April 6, 2017.

The assumptions used in the preparation of that technical feasibility study were based on the projection of future taxable profits. On December 31, 2015, considering the Company's business plan and the outlook for the macroeconomic scenario, the feasibility study indicated that future taxable profits foreseen for the period of 10 years would not be sufficient to exhaust the totality of tax credits recorded, and for this reason the Company reverted part of the deferred income tax and Social Contribution tax recognized in prior years, in the amount of R\$ 13,491, of which R\$ 12,057 referred to the tax loss and negative base for Social Contribution tax, and R\$ 1,434 in temporary differences. Since this is a change of estimate, the adjustment was recognized in the Profit and loss account with a counterpart in Expenses on income tax and deferred Social Contribution tax.

On December 31, 2016 a further technical study was made, which indicated the possibility of complementing the balance of deferred income tax and Social Contribution tax with the amount of R\$ 1,569. The portion of tax credits not recognized amounts to R\$ 10,385. This amount will be maintained under monitoring in the tax records until it satisfies the technical requirements for its accounting recognition.

The accounting value of the deferred tax assets is reviewed periodically, and the forecasts, annually. If there are material factors that change the forecasts, the technical feasibility study will be reviewed by the Company during the business year.

|  | <b>Sep.<br/>30,<br/>2017</b> | <b>Dec.<br/>31,<br/>2016</b> |
|--|------------------------------|------------------------------|
| <b>Assets</b>  |                              |                              |
| Deferred tax credits   |                              |                              |
| Tax losses and negative Social Contribution balances         | 4,920                        | 4,973                        |
| Allowance for doubtful accounts                              | 573                          | 451                          |
| Tax, social-security, employment-law, third-party provisions | 28                           | 33                           |
| Provision for reimbursement - Ativas                         | 2,174                        | 1,159                        |
| Voluntary retirement program                                 | 373                          | 539                          |
| Depreciation - Law 11941/09                                  | 6,438                        | 7,018                        |
| Actuarial loss recorded in Other comprehensive income        | 390                          | 390                          |
| Provision for obsolescence                                   | 467                          | 390                          |
| Provision for impairment of investment                       | 1,495                        | 1,495                        |
| Other temporary additions                                    | 723                          | 590                          |

|  |         |         |
|--|---------|---------|
| Total, deferred income tax/Social Cont. asset                  | 17,581  | 17,038  |
| <b>Liabilities</b>   |         |         |
| Deferred tax obligations                                       |         |         |
| Leasing of GPON Network Condominiums                           | (843)   | (764)   |
| Gain on derivative financial instruments                       | (1,524) | (1,559) |
| Appreciation of assets received from Eletronet                 | (6,279) | (6,678) |
| Total, deferred income tax and Social Contribution liabilities | (8,646) | (9,001) |
| Total non-current assets, net                                  | 8,935   | 8,037   |

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The reconciliation of the expense calculated by application of the nominal tax rates and of the expense of income tax and Social Contribution reported in the Profit and loss account for the year is as follows:

|   | 3Q17         | 3Q16           | 9M17       | 9M16           |
|---|--------------|----------------|------------|----------------|
| Profit before income tax and Social Contribution tax          | 1,152        | 12,837         | (4,670)    | (2,774)        |
| Equity in earnings of unconsolidated investees, net           | 459          | 10,141         | 1,951      | 25,647         |
| Adjusted profit before income tax and Social Contribution tax | 1,611        | 22,978         | (2,719)    | 22,873         |
| Nominal rate of income tax and Social Contribution tax        | 34%          | 34%            | 34%        | 34%            |
| Expectation for Income tax and Social Contribution tax        | (548)        | (7,813)        | 924        | (7,777)        |
| Adjustments to obtain effective rate:                         |              |                |            |                |
| Tax effects applicable to:                                    |              |                |            |                |
| Other additions and exclusions, net                           | (69)         | (43)           | (131)      | (13)           |
| Net effect of income tax and Social Contribution tax          | (617)        | (7,856)        | 793        | (7,790)        |
| Income tax and Social Contribution tax                        |              |                |            |                |
| Current   | (105)        | 62             | (105)      | (24)           |
| Deferred  | (512)        | (7,918)        | 898        | (7,766)        |
| <b>Total</b>  | <b>(617)</b> | <b>(7,856)</b> | <b>793</b> | <b>(7,790)</b> |

The Company's statements of earnings are subject to review by the tax authorities for a period of five years. Other taxes, charges and contributions are also subject to these conditions, under applicable legislation.

The changes in the deferred tax assets in the period can be shown as follows:

|   | Dec.<br>31.<br>2016 | Added        | Used         | Sep.<br>30,<br>2017 |
|---|---------------------|--------------|--------------|---------------------|
| <b>Deferred tax credits</b>   |                     |              |              |                     |
| Tax losses and negative Social Contribution tax amounts             | 4,973               |              | (53)         | 4,920               |
| Allowance for doubtful accounts                                     | 451                 | 122          |              | 573                 |
| Provisions for tax, social-security, employment-law and civil cases | 33                  |              | (5)          | 28                  |
| Provision for reimbursement - Ativas                                | 1,159               | 1,015        |              | 2,174               |
| Voluntary retirement program  | 539                 |              | (166)        | 373                 |
| Depreciation - Law 11941/09   | 7,018               |              | (580)        | 6,438               |
| Provision for obsolescence  | 390                 | 77           |              | 467                 |
| Provision for impairment of investment                              | 1,495               |              |              | 1,495               |
| Other temporary differences   | 590                 | 133          |              | 723                 |
| <b>Total</b>  | <b>16,648</b>       | <b>1,347</b> | <b>(804)</b> | <b>17,191</b>       |

Deferred tax obligations

|   |         |       |       |         |
|---|---------|-------|-------|---------|
| GPON Network Leasing Condominiums                             | (764)   | (79)  |       | (843)   |
| Gain on derivative financial instruments                      | (1,559) |       | 35    | (1,524) |
| Appreciation of assets received from Eletronet                | (6,678) |       | 399   | (6,279) |
| Total   | (9,001) | (79)  | 434   | (8,646) |
| Tax credit (obligation) recognized in Profit and loss account | 7,647   | 1,268 | (370) | 8,545   |
| Actuarial loss recorded in Other comprehensive income         | 390     |       |       | 390     |
| Total of tax credit (obligation) recognized                   | 8,037   | 1,268 | (370) | 8,935   |

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**9. INVESTMENT IN AFFILIATED COMPANY**

Up to the third quarter of 2016 the Company was holder of 49% (forty nine per cent) of the voting stock of the company Ativas Data Center S.A. On October 19, 2016 entry of the new strategic stockholder, Sonda Procwork Outsourcing Informática Ltda. ( Sonda ) as one of the stockholders of Ativas Data Center S.A. was concluded. The closing took place after approval of the transaction without restrictions by Brazil's Monopolies Authority, CADE, and compliance with the other conditions precedent.

Following the subscription by Sonda of R\$ 114,000, through a capital increase, Sonda holds 60% of the equity of Ativas; CemigTelecom holds 19.6% (representing share capital of R\$ 98,900); and Ativas Participações holds 20.4% (representing share capital of R\$ 102,937). Since after the transaction CemigTelecom no longer had shared control of Ativas, its interest was from that point onward recognized as investment in an affiliated company.

Until the finalization of the phase of construction of its datacenter, in January 2011, Ativas was pre-operational and by September 30, 2017 it had reported accounting losses of R\$ 330,065 since its constitution in 2009 (R\$ 322,122 up to Dec. 31, 2016).

The principal information on this affiliated company is given below, aligning the accounting practices of Ativas with those of CemigTelecom:

|                      | <b>Sep. 30,<br/>2017</b> | <b>Dec. 31,<br/>2016</b> |
|----------------------|--------------------------|--------------------------|
| Assets               | 168,873                  | 180,449                  |
| Liabilities          | 50,112                   | 51,735                   |
| Stockholders' equity | 118,761                  | 128,714                  |
|                      | <b>9M17</b>              | <b>9M16</b>              |
| Net Revenue          | 49,370                   | 46,654                   |
| Loss for the period  | (9,954)                  | (52,342)                 |

The movement of investment in the capital of Ativas in the periods ended September 30, 2017 and 2016 was as follows:

|                     | <b>9M16</b>               |                         |                      | <b>9M17</b>         |                           | <b>Sep. 30,<br/>2017</b> |
|---------------------|---------------------------|-------------------------|----------------------|---------------------|---------------------------|--------------------------|
| <b>Jan. 1, 2016</b> | <b>Equity method gain</b> | <b>Capital increase</b> | <b>Sep. 30, 2016</b> | <b>Jan. 1, 2017</b> | <b>Equity method gain</b> | <b>2017</b>              |
| (76,708)            | (25,647)                  | 16,660                  | (85,695)             | 19,744              | (1,951)                   | 17,793                   |

The value of the investment can be shown as follows:

|  | <b>30/09/2017</b> | <b>31/12/2016</b> |
|--|-------------------|-------------------|
| Stockholders' equity of the investee as per accounting records | 118,761           | 128,714           |
| Effect of deferred income tax asset recognized by investee     | (27,979)          | (27,979)          |
| Adjusted stockholders' equity of the investee                  | 90,782            | 100,735           |
| Percentage interest (%)  | 19,6%             | 19,6%             |
| Investments valued by the equity method                        | 17,793            | 19,744            |
| Premium paid on subscription                                   | 4,397             | 4,397             |
| Provision for impairment of the premium                        | (4,397)           | (4,397)           |
| Balance of the investment                                      | 17,793            | 19,744            |
| Loss by equity method  | (1,951)           | (27,165)          |

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The stockholding structure of Ativas on September 30, 2017 and December 31, 2016 is as follows:

| <b>Stockholder</b>                          | <b>Shares<br/>(thousands)</b> | <b>Stake %</b> |
|---|-------------------------------|----------------|
| Ativas Participações S.A.                   | 93,134                        | 20,40%         |
| CEMIG Telecomunicações S.A.                 | 89,482                        | 19,60%         |
| Sonda Procwork Outsourcing Informática Ltda | 273,925                       | 60,00%         |
| Total                                       | 456,541                       | 100%           |

**Capital increase**

Subscriptions of capital in 2016

|                      | <b>Feb.<br/>16,<br/>2016</b> | <b>Mar.<br/>14,<br/>2016</b> | <b>1st<br/>tranche</b> | <b>2nd<br/>tranche</b> | <b>Total</b> |
|----------------------|------------------------------|------------------------------|------------------------|------------------------|--------------|
| CemigTelecom         | 3,800                        | 12,860                       | 45,000                 | 37,240                 | 98,900       |
| Ativas Participações | 3,955                        | 13,385                       | 46,837                 | 38,760                 | 102,937      |
| Sonda Procwork       |                              |                              |                        | 114,000                | 114,000      |
| Total                | 7,755                        | 26,245                       | 91,837                 | 190,000                | 315,837      |

**Financial assets / liabilities relating to sale / purchase options**

On October 19, 2016, Cemig Telecomunicações S.A. ( CemigTelecom ), Ativas Participações S.A. ( Ativas Participações ) and Sonda Procwork Outsourcing Informática Ltda. ( Sonda ) signed an investment contract, permitting entry of Sonda as stockholder of the investee Ativas Data Center S.A. ( Ativas Data Center ), which until that date was an exclusive investee of CemigTelecom (49%) and Ativas Participações (51%).

After the entry of the new partner Sonda, by dilution of CemigTelecom and Ativas Participações, Sonda assumed stockholding control, as owner of 60.0% of the shares of Ativas Data Center, the stockholders CemigTelecom and Ativas Participações S.A. now holding 19.6% and 20.4%, respectively.

As part of the process of stockholding restructuring, CemigTelecom and Sonda signed a Purchase Option Agreement (issued by CemigTelecom) and a Sale Option Agreement (issued by Sonda).

These resulted in CemigTelecom simultaneously having a right (put option) and an obligation (call option). The exercise price of the put option will be equivalent to fifteen times the adjusted net profit of Ativas in the business year prior to the exercise date. The exercise price of the call option will be equivalent to sixteen times the adjusted net



profit of Ativas in the business year prior to the exercise date. Both options, if exercised, result in the sale of the shares in Ativas currently owned by the Company, and the exercise of one of the options results in nullity of the other. The options may be exercised as from January 1, 2021.

The put and call options in Ativas ( the Ativas Options ) were measured at fair value and posted at their net value, i.e. the difference between the fair values of the two options on the reporting date of the financial statements for the quarter ended September 30, 2017. Depending on the value of the options, the net value of the Ativas Options may be an asset or a liability of the Company.

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The measurement was carried out by a specialized consulting company through the use of the Black-Scholes-Merton (BSM) model, it being ensured that its results were consistent with other stochastic approaches involving numerical procedures.

In the calculation of the fair value of the Ativas Options based on the BSM model, the following variables are taken into account: closing price of the underlying asset on September 30, 2017; the risk-free interest rate; the volatility of the price of the underlying asset; the time to maturity of the option; and the exercise prices on the exercise date.

The closing price of the underlying asset was based on the value of the transaction in shares of Ativas by Sonda, which took place on October 19, 2016. The calculation of the risk-free interest rate was based on yields of National Treasury Bills. The time to maturity was calculated assuming exercise date on March 31, 2021. Considering that the exercise prices of the options are contingent upon the future financial accounting results of Ativas, the estimate of the exercise prices on the date of maturity was based on statistical analyzes and on information of comparable listed companies. The exercise prices adopted in the BSM method were corroborated with statistical distributions analyzed through numerical procedures. On September 30, 2017, the derivative financial instrument is recorded, with the amount of R\$ 4,484 (R\$ 4,586 on December 31, 2016) in the account line Derivative financial instrument Assets

**10. PROPERTY, PLANT AND EQUIPMENT**

The depreciation rates and remaining useful lives were determined through technical opinions issued by engineers of the Company, and reflect the expectation of useful life of the goods and assets, as follows:

|                            |             | <b>Sep. 30, 2017</b>                |                      | <b>Dec. 31, 2016</b> |
|----------------------------|-------------|-------------------------------------|----------------------|----------------------|
|                            | <b>Cost</b> | <b>Accumulated<br/>Depreciation</b> | <b>Net<br/>value</b> | <b>Net value</b>     |
| Land                       | 82          |                                     | 82                   | 82                   |
| Real estate property       | 55          | (17)                                | 38                   | 39                   |
| Facilities                 | 107         | (32)                                | 75                   | 43                   |
| Machinery and equipment    | 11          | (3)                                 | 8                    | 9                    |
| Furniture and utensils     | 1,582       | (1,136)                             | 446                  | 450                  |
| Computers and peripherals  | 2,206       | (1,858)                             | 348                  | 193                  |
| Test instruments           | 2,833       | (2,730)                             | 103                  | 159                  |
| Improvements               | 246         | (233)                               | 13                   | 19                   |
| Satellite reception system | 9,283       | (9,283)                             |                      | 1                    |
| Telecoms network equipment | 392,054     | (278,811)                           | 113,243              | 95,859               |
| Materials                  | 64,137      | (40,929)                            | 23,208               | 22,404               |
| Cable                      | 196,331     | (99,263)                            | 97,068               | 100,741              |
| OPGW cables                | 18,894      | (1,575)                             | 17,319               | 18,264               |
| ADSS cables                | 1,529       | (382)                               | 1,147                | 1,376                |
| Network infrastructure     | 19,342      | (13,597)                            | 5,745                | 6,202                |

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|                            |         |           |         |         |
|----------------------------|---------|-----------|---------|---------|
| Spare parts                | 10,413  |           | 10,413  | 9,312   |
| Fixed assets in progress   | 2,064   |           | 2,064   | 7,834   |
| Subtotal                   | 721,169 | (449,849) | 271,320 | 262,987 |
| Provision for obsolescence | (1,374) |           | (1,374) | (1,374) |
| Total, net                 | 719,795 | (449,849) | 269,946 | 261,613 |

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Depreciation rates and useful lives of the assets:

| <u>Class of assets</u>     | <b>Average percentage depreciated up to Sep. 30, 2017</b> | <b>Average remaining useful life (years)</b> | <b>Annual average depreciation rates</b> |
|----------------------------|---|--|--|
| Real estate property       | 31%   | 34.5   | 2%                                       |
| Facilities                 | 30%   | 7.0  | 10%                                      |
| Machinery and equipment    | 27%   | 7.3  | 10%                                      |
| Furniture and utensils     | 72%   | 2.8  | 10%                                      |
| Computers and peripherals  | 84%   | 0.8  | 20%                                      |
| Test instruments           | 96%   | 0.4  | 10%                                      |
| Improvements               | 95%   | 0.3  | 20%                                      |
| Satellite reception system | 100%  | 0.0  | 8%                                       |
| Telecoms network equipment | 71%   | 2.6  | 11%                                      |
| Materials                  | 64%   | 5.2  | 7%                                       |
| Cable                      | 51%   | 9.9  | 5%                                       |
| OPGW cables                | 8%  | 13.7   | 7%                                       |
| ADSS cables                | 25%   | 3.8  | 20%                                      |
| Network infrastructure     | 70%   | 5.4  | 3 a 10%                                  |

The movement in PP&amp;E can be shown as follows:

|                            | <b>Dec. 31, 2016</b> | <b>Accumulated in nine months ended Sep. 30, 2017</b> |                    |                  | <b>Sep. 30, 2017</b> |
|----------------------------|----------------------|---|--------------------|------------------|----------------------|
|                            |                      | <b>Additions</b>                                      | <b>Written off</b> | <b>Transfers</b> |                      |
| Land                       | 82                   |   |                    |                  | 82                   |
| Real estate property       | 55                   |   |                    |                  | 55                   |
| Facilities                 | 68                   | 39  |                    |                  | 107                  |
| Machinery and equipment    | 11                   |   |                    |                  | 11                   |
| Furniture and utensils     | 1,524                | 58  |                    |                  | 1,582                |
| Computers and peripherals  | 1,953                | 253   |                    |                  | 2,206                |
| Test instruments           | 2,833                |   |                    |                  | 2,833                |
| Improvements               | 246                  |   |                    |                  | 246                  |
| Satellite reception system | 9,283                |   |                    |                  | 9,283                |
| Telecoms network equipment | 361,943              |   |                    | 30,111           | 392,054              |
| Materials                  | 61,098               |   |                    | 3,039            | 64,137               |
| Cable                      | 192,373              |   |                    | 3,958            | 196,331              |

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|                            |           |          |              |           |
|----------------------------|-----------|----------|--------------|-----------|
| OPGW cables                | 18,894    |          |              | 18,894    |
| ADSS cables                | 1,529     |          |              | 1,529     |
| Network infrastructure     | 19,342    |          |              | 19,342    |
| Spare parts                | 9,312     | 9,500    | (8,399)      | 10,413    |
| Fixed assets in progress   | 7,834     | 23,973   | (29,713)     | 2,064     |
| Total cost                 | 688,380   | 33,793   | (1,004)      | 721,169   |
| Accumulated depreciation   | (425,393) | (24,456) |              | (449,849) |
| Provision for obsolescence | (1,374)   |          |              | (1,374)   |
| Net value depreciable      | 261,613   | 9,337    | (1,004) (**) | 269,946   |

(a) Spending relating to projects in progress for expansion of telecommunications networks and inventories.

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|                               | <b>Accumulated in nine months ended</b> |                  |                 |                |                  |                    |
|-------------------------------|---|------------------|-----------------|----------------|------------------|--------------------|
|                               | <b>Dec. 31,</b>                         |                  | <b>Sep.</b>     |                |                  | <b>Sep. 30,</b>    |
|                               | <b>2015</b>                             | <b>Additions</b> | <b>30, 2016</b> | <b>Written</b> | <b>Transfers</b> | <b>2016</b>        |
|                               |   |                  |                 | <b>off</b>     |                  |                    |
| Land                          | 82                                      |                  |                 |                |                  | 82                 |
| Real estate property          | 55                                      |                  |                 |                |                  | 55                 |
| Facilities                    | 152                                     |                  |                 | (84)           |                  | 68                 |
| Machinery and equipment       | 11                                      |                  |                 |                |                  | 11                 |
| Furniture and utensils        | 1,469                                   | 6                |                 |                |                  | 1,475              |
| Computers and peripherals     | 1,934                                   | 10               |                 |                |                  | 1,944              |
| Test instruments              | 2,833                                   |                  |                 |                |                  | 2,833              |
| Improvements                  | 246                                     |                  |                 |                |                  | 246                |
| Satellite reception system    | 9,283                                   |                  |                 |                |                  | 9,283              |
| Telecoms network equipment    | 342,087                                 |                  |                 | (239)          | 19,552           | 361,400            |
| Materials                     | 61,301                                  |                  |                 |                | 1,557            | 62,858             |
| Cable                         | 190,788                                 |                  |                 |                | 4,088            | 194,876            |
| OPGW cables                   |   | 18,894           | (**)            |                |                  | 18,894             |
| ADSS cables                   |   | 1,529            | (**)            |                |                  | 1,529              |
| Network infrastructure        | 19,342                                  |                  |                 |                |                  | 19,342             |
| Spare parts                   | 8,030                                   | 5,735            |                 | (225)          | (4,915)          | 8,625              |
| Fixed assets in progress      | 6,819                                   | 21,878           |                 |                | (22,561)         | 6,136              |
| <b>Total cost</b>             | <b>644,432</b>                          | <b>48,052</b>    |                 | <b>(548)</b>   | <b>(2,279)</b>   | <b>689,657</b>     |
| Accumulated depreciation      | (394,446)                               | (23,904)         |                 | 206            |                  | (418,144)          |
| Provision for obsolescence    | (225)                                   |                  |                 | 225            |                  |                    |
| <b>Net amount depreciable</b> | <b>249,761</b>                          | <b>24,148</b>    |                 | <b>(117)</b>   | <b>(2,279)</b>   | <b>(*) 271,513</b> |

(\*) The remaining balances in the transfers shown in the previous table refer to the transfers made between the accounts Fixed assets and Intangible assets (Note 13).

(\*\*) Refers to the assets transferred by Eletronet S.A.  
Assets transmitted by Eletronet S.A.

The Company periodically evaluates the useful lives applied to their assets with defined useful life. The works of valuation of useful lives of the assets are carried out by professionals of the Company's technical engineering team, and they consider, among other aspects, the following principal indications for formation of their opinion: (i) technical information related to the use and maintenance of the assets; (ii) outlook for technological and market changes;

(iii) the Company's capacity to obtain services and parts in the market for replacement of goods; and (iv) the possibility of realizing upgrades in the related equipment and software, and also of the capacity for its combination with future technologies.

For tax purposes, the useful lives of the assets accepted by the tax legislation were maintained, and the difference between the accounting and tax bases are treated as temporary differences, the effects resulting from which are recognized as a deferred tax credit or debit in the period in which those differences occur.

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**11. INTANGIBLE ASSETS**

|                           | <b>Dec.<br/>31,<br/>2016</b> | <b>Accumulated in the<br/>nine months ended<br/>Sep. 30, 2017</b> |                  | <b>Sep. 30,<br/>2017</b> |
|---------------------------|------------------------------|---|------------------|--------------------------|
|                           |                              | <b>Additions</b>  | <b>Transfers</b> |                          |
| Software use license      | 2,037                        | 941   |                  | 2,978                    |
| Grant of radio concession | 230                          |   |                  | 230                      |
| Management systems        | 12,998                       |   | 1,004            | 14,002                   |
| Total cost                | 15,265                       | 941   | 1,004            | 17,210                   |
| Accumulated amortization  | (5,775)                      | (1,518)   |                  | (7,293)                  |
| Net value amortizable     | 9,490                        | (577)   | 1,004            | 9,917                    |

|                           | <b>Dec.<br/>31,<br/>2015</b> | <b>Accumulated in<br/>the<br/>nine months ended<br/>Sep. 30, 2016</b> |                  | <b>Sep. 30,<br/>2016</b> |
|---------------------------|------------------------------|---|------------------|--------------------------|
|                           |                              | <b>Additions</b>  | <b>Transfers</b> |                          |
| Software use license      | 1,137                        | 830   |                  | 1,967                    |
| Grant of radio concession | 230                          |   |                  | 230                      |
| Management systems        | 9,268                        |   | 2,279            | 11,547                   |
| Total cost                | 10,635                       | 830   | 2,279            | 13,744                   |
| Accumulated amortization  | (4,010)                      | (1,043)   |                  | (5,053)                  |
| Net value amortizable     | 6,625                        | (213)   | 2,279 (*)        | 8,691                    |

(\*) The remaining balances in the transfers shown in the previous table refer to the transfers made between the accounts Fixed assets and Intangible assets (Note 10).

Amortization rates and useful lives: The annual rates of amortization were determined as a function of the expectation of use of the asset, and are as follows:



| <b>Class of asset</b>     | Estimated useful life (years) | Average percentage amortized up to Sep. 30, 2017 | Average remaining useful life (years) | Annual average depreciation rates |
|---------------------------|-------------------------------|--|---------------------------------------|-----------------------------------|
| Software use license      | 5 years                       | 45%  | 2.8                                   | 20%                               |
| Grant of radio concession | 15 years                      | 24%  | 11.3                                  | 6.7%                              |
| Management systems        | 10 years                      | 42%  | 5.8                                   | 10%                               |

## 12. LOANS AND DEBENTURES

|              | <b>Sep. 30, 2017</b> | <b>Dec. 31, 2016</b> |
|--------------|----------------------|----------------------|
| Loans        | 91,479               | 101,372              |
| Debentures   | 26,492               |                      |
| <b>Total</b> | <b>117,971</b>       | <b>101,372</b>       |
| Current      | 58,973               | 63,751               |
| Non-current  | 58,998               | 37,621               |

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The movement of loans and debentures in the nine months ended September 30, 2017 was as follows:

|                    | <b>Dec. 31,<br/>2016</b> | <b>Funds<br/>raised</b> | <b>Amortizations</b> | <b>Charges<br/>appropriated<br/>in the<br/>period</b> | <b>Sep. 30,<br/>2017</b> |
|--------------------|--------------------------|-------------------------|----------------------|---|--------------------------|
| Sonda Procwork (1) | 46.310                   |                         |                      | 4.106   | 50.416                   |
| Sonda Procwork (2) | 38.326                   |                         |                      | 3.396   | 41.722                   |
| Cemig Holding (3)  | 18.134                   |                         | (19.235)             | 1.101   |                          |
| Debentures (4)     |                          | 27.000                  | (1.095)              | 1.159   | 27.064                   |
| <b>Subtotal</b>    | <b>102.770</b>           | <b>27.000</b>           | <b>(20.330)</b>      | <b>9.762</b>  | <b>119.202</b>           |
| Funding cost       | (1.398)                  | (761)                   |                      | 928   | (1.231)                  |
| <b>Total</b>       | <b>101.372</b>           | <b>26.239</b>           | <b>(20.330)</b>      | <b>10.690</b>   | <b>117.971</b>           |

- (1) Loan from Sonda, rate 110% of CDI, maturing October 19, 2017, to support the investment in Ativas Data-center.
- (2) Loan taken from Sonda, rate 110% of CDI, to support the investment in Ativas Data Center. The loan will become due on the date of exercise of the put option by the Company, as regulated by the Stockholders Agreement.
- (3) Loan taken from Cemig holding company, at 132.9% of the CDI, maturing May 31, 2017, to support the Company's working capital this was settled early, on May 22, 2017.
- (4) The Company issued 2,700 debentures, under CVM Instruction 476, in a single series, all known and non-convertible, with floating guarantee and nominal unit value of R\$ 10, on May 22, 2017, with maturity May 22, 2019. The debentures issued are remunerated at 128.5% of the CDI rate. This funding was for settlement of loan with the Stockholder Cemig Energética S.A., of R\$ 19,235 and to replenish the Company's cash position.

**13. SUPPLIERS**

|                           | <b>Sep.<br/>30,<br/>2017</b> | <b>Dec.<br/>31,<br/>2016</b> |
|---------------------------|------------------------------|------------------------------|
| Third parties             | 7,945                        | 11,514                       |
| Related parties (Note 18) | 10,778                       | 10,236                       |
| <b>Total</b>              | <b>18,723</b>                | <b>21,750</b>                |

The Company's exposure to risks of currency and liquidity related to suppliers and accounts payable is given in Note 23.

**14. PAYROLL-ASSOCIATED AND EMPLOYMENT-LAW OBLIGATIONS**

|   | <b>Sep. 30,<br/>2017</b> | <b>Dec. 31,<br/>2016</b> |
|---|--------------------------|--------------------------|
| Vacation pay, 13 <sup>th</sup> salary and charges payable | 3,665                    | 2,906                    |
| Employee profit shares                                    |                          | 1,257                    |
| Long-term benefits to employees (Note 24)                 | 3,192                    | 2,801                    |
| Voluntary retirement program                              | 1,097                    | 1,583                    |
| Other   | 86                       | 90                       |
| <b>Total</b>  | <b>8,040</b>             | <b>8,637</b>             |
| <b>Current</b>  | <b>4,848</b>             | <b>5,836</b>             |
| <b>Non-current</b>  | <b>3,192</b>             | <b>2,801</b>             |

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**Voluntary retirement program**

On March 18, 2016 the Company's management launched the Incentivated Voluntary Retirement Program (PDVI) for 2016, with the objective of adapting the workforce to the needs of the Company's Business Plan, for preservation of the staff necessary for optimization of its processes and costs, maintaining the focus on achieving the targets of its strategic plan and generation of value. Employees could accept the terms of the plan as from March 21, to May 19, 2016.

12% of the Company's staff joined the program. It was available to employees with administrative and technical careers with at least 13 years' work in CemigTelecom or with any other company provided they were retired or qualified for retirement. The retirement dates were programmed at the Company's option, and may occur in up to 18 months after the termination of the acceptance period. The plan provides a financial incentive equivalent to 40% of the monthly salary for each year of employment relationship with the company, for those who joined in the first 30 days of the joining period, and 20% times the monthly salary for those who joined between the 31st day of the period and its closing date. Additionally, the program grants those with eligible employment the right to receive the 40% penalty payment on the balance of the employee's FGTS account, as well as receipt of the other dismissal amount specified by law. The PDVI program was concluded, and the last employees left the company on October 18, 2017.

**(512) TAX OBLIGATIONS**

|   | <b>Sep. 30, 2017</b> | <b>Dec. 31, 2016</b> |
|---|----------------------|----------------------|
| Income tax withheld at source (IRRF)                    | 173                  | 341                  |
| Corporate income tax (IRPJ)                             | 90                   |                      |
| The Social Contribution tax on net profit (CSLL)        | 15                   |                      |
| ICMS (local state value added tax) (a)                  | 2,445                | 2,560                |
| The Contribution to Finance Social Security - Cofins    | 1,339                | 1,320                |
| Social Integration Program (PIS)                        | 291                  | 286                  |
| Telecommunication Services Universalization Fund (FUST) | 99                   | 90                   |
| Telecoms Technological Development Fund (FUNNTEL) (b)   | 6,666                | 7,137                |
| Others  | 389                  | 305                  |
| <b>Total</b>  | <b>11,507</b>        | <b>12,039</b>        |
| <b>Current</b>  | <b>9,525</b>         | <b>9,573</b>         |
| <b>Non-current</b>                                      | <b>1,982</b>         | <b>2,466</b>         |

(a)

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As from January 2016, various Brazilian states increased the rate of ICMS tax on telecommunication service to improve the cash situation of the states, as follows:

| <b>State</b>        | <b>Change in rate (from to)</b> |     | <b>Legislation</b> |
|---------------------|---------------------------------|-----|--------------------|
| Minas Gerais        | 25%                             | 27% | Law 21781/2015     |
| Pernambuco          | 28%                             | 30% | Law 15599/2015     |
| Ceará               | 27%                             | 30% | Law 15892/2015     |
| Rio de Janeiro      | 27%                             | 30% | Law 7175/2015      |
| Rio Grande do Norte | 27%                             | 30% | Law 9991/2015      |

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(b) With the conversion of Provisional Measure 638/14 into Law 12996/14, and consequent renewal of permission for payment in installments as per Laws 11941/09 and 12249/10, the Company sought to include the debits to FUNTTEL for the years 2006 to 2013 within the REFIS program. However, this right was denied on an administrative basis, on the grounds of the Revenue Service's allegation that it did not have the standing to manage the funds arising from this revenue specifically.

The Company reacted to this by seeking an order of *mandamus* against the act of an allegedly coercive authority, seeking to force those debits into the debt refinancing program referred to, but the case and the application for mandamus were refused and the case set aside. This case awaits judgment in appeal to the Regional Federal Appeal Court of the First Region.

The accumulated value of the tax obligation on September 30, 2017 is R\$ 6,666, including interest and penalty payments calculated up to that date on the debts past due. The Company joined the PERT program, including the amounts that were in the ordinary agreement for payment by installments, and a tax amnesty in the amount of R\$ 465,000 was recognized in September 2017.

The debits incurred as from 2014 are being paid regularly.

The movements in the payments by installments of the debits to Funttel, which are inscribed in the federal receivable debt, are as follows:

| Period        | Accumulated in the period |              |                         |         | Balances<br>at<br>September 30,<br>2017 |
|---------------|---------------------------|--------------|-------------------------|---------|---|
|               | Consolidated<br>debts     | Amortization | Charges<br>appropriated | Amnesty |   |
| 2008 and 2009 | 1,886                     | (537)        | 165                     | (465)   | 1,049                                   |
| Total         | 1,886                     | (537)        | 165                     | (465)   | 1,049                                   |

The Company joined the PERT program, including the amounts that were in the ordinary agreement for payment by installments, and a tax amnesty in the amount of R\$ 465,000 was recognized in September 2017.

**16. DEFERRED REVENUES**

Sep. 30, 2017

Dec. 31, 2016

| <b>Contract</b>                  | <b>Signature of the contract</b> | <b>Period of the contract</b> | <b>Amount contracted</b> | <b>Accumulated revenue appropriated</b> | <b>To be appropriated</b> | <b>Accumulated revenue appropriated</b> | <b>To be appropriated</b> |
|----------------------------------|----------------------------------|-------------------------------|--------------------------|---|---------------------------|---|---------------------------|
| 1 optical fiber pair, for 181 km | 08/08/2011                       | 10 years                      | 2,187                    | 1,312                                   | 875                       | 1,149                                   | 1,041                     |
| 1 optical fiber pair, for 46 km  | 12/10/2012                       | 20 years                      | 925                      | 221                                     | 704                       | 185                                     | 740                       |
| 1 optical fiber pair, for 231 km | 12/04/2013                       | 20 years                      | 3,822                    | 726                                     | 3,096                     | 584                                     | 3,238                     |
| Other                            |                                  |                               | 515                      | 511                                     | 4                         | 495                                     | 20                        |
| <b>Total</b>                     |                                  |                               | <b>7,449</b>             | <b>2,770</b>                            | <b>4,679</b>              | <b>2,413</b>                            | <b>5,039</b>              |
| Current                          |                                  |                               |                          |   | 460                       |   | 460                       |
| Non-current                      |                                  |                               |                          |   | 4,219                     |   | 4,579                     |

The contracts linked to the advances from clients are for irrevocable assignment of dark optical fiber pairs, not including provision of any equipment or provision telecommunication services.

The contracts have an average period of duration of 17 years, and do not contain clauses for renewal or option for sale of the assets. The revenue linked to these contracts, recognized in the quarter ended September 30, 2017, was R\$ 117.

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**17. PROVISION FOR EMPLOYMENT LAW RISK**

|                       | <b>30/09/2017</b> | <b>31/12/2016</b> |
|-----------------------|-------------------|-------------------|
| Employment- law cases | 67                | 82                |
|                       | 67                | 82                |

On September 30, 2017, the Company had a provision for risks and contingencies identified by management of R\$ 67 (R\$ 82 on December 31, 2016), representing employment-law claims, for which the chances of loss have been assessed as probable .

The Company also has other cases, claims and disputes in both the courts and the administrative sphere, totaling R\$ 2,652 (R\$ 2,661 on December 31, 2016), as follows:

Classification of risk by assessed chances of loss

|                          | <b>Expectation of loss</b> |                 |              |
|--------------------------|----------------------------|-----------------|--------------|
|                          | <b>Possible</b>            | <b>Probable</b> | <b>Total</b> |
| Tax (a)                  |                            |                 |              |
| Employment-law cases (b) | 2,051                      | 67              | 2,118        |
| Civil cases (c)          | 601                        |                 | 601          |
| Total                    | 2,652                      | 67              | 2,719        |

- (a) The tax cases are tax claims seeking to impugn allegedly incorrect tax classification for collection of the FUST and FUNTEL social contributions of the telecommunication sector, which are collected by Anatel. To charge and collect the FUST the agency of the federal government has unduly widened the calculation base for the contribution, and this has been regularly impugned in the administrative sphere. In the courts there is a case in progress in the federal courts which disputes the posting for the year 2010. The whole of the debit related to FUNTEL is under dispute in the courts, in a case questioning the standing of the Federal Revenue Service to administer the debt relating to this contribution and included in the federal scheme for payment by installments. The oldest part of this debt (for the years 2008 and 2009) was constituted, and a tax execution relating to it has been suspended, due to grant of permission for payment by installments; the most recent debits await further agreement for payment by installments. There are other tax claims, discussing the legitimacy of the form of joint collection of federal and state taxes, and defenses in tax executions.



- (b) The employment-law cases are mostly claims by employees of other companies, which had been contractual partners of CemigTelecom in which both companies have been made defendants. The claims for employment-law rights are made against the service providing companies, and in these cases CemigTelecom has been included as defendant solely for the purpose of guaranteeing payment in the case of success in the claim.

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- (c) Among the civil cases is one in which the Minas Gerais Public Attorneys Office for employment-law matters has filed a class action against CemigTelecom on the legality of outsourcing of services when the labor employed is supposedly related to its end-activity. At the court of the first instance, CemigTelecom was ordered to pay a fine of R\$200, and prohibited from continuing to employ outsourced labor in these activities. In 2014, CemigTelecom obtained an injunction in the Higher Employment-Law Appeal Court, suspending the effects of the first instance judgment until a judgment by the Federal Supreme Court (STF) ARE 791.932 on whether its judgment should be given the status of mandatory precedent for all other judgments on the issue. Management has assessed the chances of loss as possible. In the event that it loses, CemigTelecom might be compelled to bring part or all of these activities into direct employment relationships. On March 31, 2017 Law 13429/2017 was published, altering Law 6019/74 to enable outsourcing of the end-activity in contracts for temporary labor. With the treatment of the same subject in the text of the recently-passed Law 13429/17, referred to as the Employment Reform Law, and with the increase in disputes that will take place, we believe there is a tendency for the courts to start to see this subject from a different point of view. This reasoning enables management to infer that there is a trend for making contracting of outsourced labor more flexible, which may have a favorable influence on the judgment in this case.

**18. RELATED PARTY TRANSACTIONS**

CemigTelecom is a listed corporation and a wholly-owned subsidiary of Companhia Energética de Minas Gerais S.A. Cemig.

The principal holders of voting stock in which are the Government of the State of Minas Gerais (51%) and Andrade Gutierrez Concessões Energia (20%). The controlling stockholder, Cemig, has other direct stockholdings in the following main companies, as well as CemigTelecom: Axxiom Soluções Tecnológicas S.A. (49%), Cemig Geração e Transmissão S.A. (100%), Cemig Distribuição S.A. (100%), Companhia de Gás do Estado de Minas Gerais S.A. Gasmig (99.57%), Rosal Energia (100%), Sá Carvalho (100%), Light S.A. (26.06%) and Transmissora Aliança de Energia Elétrica Taesa (31.54%).

As well as its affiliated company Ativas, CemigTelecom considers the following to be related parties: the controlling stockholder and its related parties, the companies or persons who directly or indirectly have significant influence of the Management of the Company, the private pension plan (Forluz) and the administrator of the health and dental plan (Cemig Saúde) in which the Company is co-sponsor together with the other companies of the Cemig Group, and the managers and employees of the Company.

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Asset transactions (sales) The main commercial transactions between the Company and related parties that generate revenue are commercial transactions relating to circuits and other telecommunication services in general, in which the controlling group, Cemig, currently represents 8.38% of the Company's sales revenue (14.39% in 2016).

Purchase transactions (purchases) The Company's principal transactions resulting in outflow with related parties are for supply of electricity to feed the telecommunication equipment, provision of services of management and maintenance of the telecommunications network and rental (sharing) of power transmission distribution infrastructure for installation of telecommunication cables and equipment.

The affiliated company Ativas has an item of R\$ 8,959 in its accounts receivable from the minority stockholders, for an indemnity clause arising from liabilities that predated or were not revealed on the transaction date, as specified in the investment contract signed on August 25, 2016 between CemigTelecom, Ativas and Sonda Procwork Outsourcing Informática Ltda. Of this amount recorded, 49% is attributable to the responsibility of CemigTelecom, and a provision for it has been constituted in the amount of R\$ 3,410, on December 31, 2016, with a complimentary addition of R\$ 2,984 in the nine months ended September 30, 2017, making a total of R\$ 6,394.

The main receivable and payable amounts at September 30, 2017, and the transactions that influenced the profit for the period, in relation to related parties, arise from transactions carried out for conditions and periods agreed between the parties for the respective types of operation.

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|  | Sep. 30, 2017 |              | Accumulated in the<br>period ended<br>Sep. 30, 2017 |              |
|--|---------------|--------------|---|--------------|
|  | Assets        | Liabilities  | Sales   | Bought       |
| <b>Companhia Energética de Minas Gerais S.A.</b>           |               |              |   |              |
| Communications services                                    | 26            |              |   |              |
| Reimbursement of costs of seconded personnel               | 1,780         | 2,789        | 1,066   | 366          |
| Other  | 3             |              |   |              |
| <b>Total</b>   | <b>1,809</b>  | <b>2,789</b> | <b>1,066</b>  | <b>366</b>   |
| <b>Cemig Distribuição S.A.</b>                             |               |              |   |              |
| Communications services                                    | 554           |              | 5,090   |              |
| Supply of electricity                                      |               | 246          |   | 2,561        |
| Network maintenance services                               |               | 4,239        |   | 945          |
| Right of way /infrastructure                               |               | 2,540        |   | 3,208        |
| Other  | 38            |              |   |              |
| <b>Total</b>   | <b>592</b>    | <b>7,025</b> | <b>5,090</b>  | <b>6,714</b> |
| <b>Cemig Geração e Transmissão S.A.</b>                    |               |              |   |              |
| Communications services                                    | 126           |              | 1,143   |              |
| Network maintenance services                               |               | 422          |   | 94           |
| Other  | 23            |              |   |              |
| <b>Total</b>   | <b>149</b>    | <b>422</b>   | <b>1,143</b>  | <b>94</b>    |
| <b>Fundação Forluminas de Seguridade Social ( Forluz )</b> |               |              |   |              |
| Communications services                                    | 4             |              | 38  |              |
| Private pension plan                                       |               | 226          |   | 1,308        |
| <b>Total</b>   | <b>4</b>      | <b>226</b>   | <b>38</b>   | <b>1,308</b> |
| <b>Cemig Saúde (Health)</b>                                |               |              |   |              |
| Communications services                                    | 6             |              | 53  |              |
| Medical and dental care                                    |               | 135          |   | 721          |
| <b>Total</b>   | <b>6</b>      | <b>135</b>   | <b>53</b>   | <b>721</b>   |
| <b>Companhia de Gás de Minas Gerais Gasmig</b>             |               |              |   |              |

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|   |       |        |          |        |
|---|-------|--------|----------|--------|
| Communications services                         |       |        | 23       |        |
| Total   |       |        | 23       |        |
| Entities linked to Minas Gerais State Govt. (*) |       |        |          |        |
| Current   |       |        |          |        |
| Communications services                         | 95    |        | 659      |        |
| Taxes offsettable ICMS                          | 1,650 | 2,023  | (25,851) |        |
| Non-Current                                     |       |        |          |        |
| Taxes offsettable ICMS                          | 2,640 |        |          |        |
| Total   | 4,385 | 2,023  | (25,192) |        |
| Axxiom  |       |        |          |        |
| Communications services                         | 3     |        | 31       |        |
| Software maintenance                            |       | 123    |          | 1,097  |
| Total   | 3     | 123    | 31       | 1,097  |
| Ativas Data Center S.A.                         |       |        |          |        |
| Communications services                         | 222   |        | 2,063    |        |
| Indemnity of contingencies in Ativas            |       | 6,394  |          | 2,984  |
| Data center outsourcing services                |       | 58     |          | 526    |
| Reimbursement of costs of seconded personnel    |       |        | 118      |        |
| Total   | 222   | 6,452  | 2,181    | 3,510  |
| Total at Sep. 30, 2017                          | 7,170 | 19,195 | (15,567) | 13,810 |

(\*) Entities linked to Minas Gerais State Government are not part of accounts receivable and suppliers for the purposes of ICMS tax.

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Cemig Telecomunicações S.A. ( CemigTelecom )

|   | Dec. 31, 2016 |              | Period ended<br>ended Sep. 30, 2016 |              |
|---|---------------|--------------|-------------------------------------|--------------|
|   | Assets        | Liabilities  | Sales                               | Bought       |
| <b><u>Companhia Energética de Minas Gerais S.A</u></b>            |               |              |                                     |              |
| Communications services   | 26            |              |                                     |              |
| Reimbursement of costs of seconded personnel                      | 1,170         | 2,566        | 1,300                               | 1,355        |
| Other   | 3             |              |                                     |              |
| <b>Total</b>  | <b>1,199</b>  | <b>2,566</b> | <b>1,300</b>                        | <b>1,355</b> |
| <b><u>Cemig Distribuição S.A</u></b>                              |               |              |                                     |              |
| Communications services   | 3,399         |              | 7,609                               |              |
| Supply of electricity   |               | 264          |                                     | 2,335        |
| Network maintenance services                                      |               | 3,295        |                                     | 1,417        |
| Right of way /infrastructure others                               |               | 2,771        |                                     | 2,825        |
|   | 38            |              |                                     |              |
| <b>Total</b>  | <b>3,437</b>  | <b>6,330</b> | <b>7,609</b>                        | <b>6,577</b> |
| <b><u>Cemig Geração e Transmissão S.A.</u></b>                    |               |              |                                     |              |
| Communications services   | 272           |              | 2,444                               |              |
| Network maintenance services                                      |               | 328          |                                     | 141          |
| Other   | 23            |              |                                     | 16           |
| <b>Total</b>  | <b>295</b>    | <b>328</b>   | <b>2,444</b>                        | <b>157</b>   |
| <b><u>Fundação Forluminas de Seguridade Social ( Forluz )</u></b> |               |              |                                     |              |
| Communications services   | 4             |              | 48                                  |              |
| Private pension plan  |               | 482          |                                     |              |
| <b>Total</b>  | <b>4</b>      | <b>482</b>   | <b>48</b>                           |              |
| <b><u>Cemig Saúde (Health)</u></b>                                |               |              |                                     |              |
| Communications services   | (3)           |              | 46                                  |              |
| Medical and dental care   |               | 228          |                                     | 6            |
| <b>Total</b>  | <b>(3)</b>    | <b>228</b>   | <b>46</b>                           | <b>6</b>     |
| <b><u>Companhia de Gás de Minas Gerais (Gasmig)</u></b>           |               |              |                                     |              |
|   | 21            |              | 144                                 |              |

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|  |  |       |        |          |       |
|--|--|-------|--------|----------|-------|
| Total  |  | 21    |        | 144      |       |
| <u>Entities linked to Minas Gerais State Govt. (*)</u> |  |       |        |          |       |
| <u>Current</u>   |  |       |        |          |       |
| Communications services                                |  | 94    |        | 660      |       |
| Taxes off-settable ICMS                                |  | 1,553 | 2,035  | (18,495) |       |
| <u>Non-Current</u>                                     |  |       |        |          |       |
| Taxes off-settable ICMS                                |  | 2,020 |        |          |       |
| Total  |  | 3,667 | 2,035  | (17,835) |       |
| <u>Axxiom</u>  |  |       |        |          |       |
| Communications services                                |  | 3     |        | 30       |       |
| Software maintenance                                   |  |       | 131    |          | 744   |
| Total  |  | 3     | 131    | 30       | 744   |
| <u>Ativas Data Center S.A.</u>                         |  |       |        |          |       |
| Communications services                                |  | 249   |        | 1,812    |       |
| Indemnity of contingencies in Ativas                   |  |       | 3,410  |          |       |
| Data center outsourcing service Reimbursement of       |  |       | 171    |          | 565   |
| costs of seconded personnel                            |  |       |        | 231      |       |
| Total  |  | 249   | 3,581  | 2,043    | 565   |
| Total  |  | 8,872 | 15,681 | (4,171)  | 9,404 |

(\*) Entities linked to Minas Gerais State Government are not part of accounts receivable and suppliers for the purposes of ICMS.

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Cemig Telecomunicações S.A. ( CemigTelecom )

|                                  | Sep. 30, 2017 |               | Dec. 31, 2016 |               |
|----------------------------------|---------------|---------------|---------------|---------------|
|                                  | Assets        | Liabilities   | Assets        | Liabilities   |
| ACCOUNTS RECEIVABLE FROM CLIENTS | 2,880         |               | 5,299         |               |
| Suppliers                        |               | 10,778        |               | 10,236        |
| Taxes recoverable (AC)           | 1,650         |               | 1,553         |               |
| Taxes recoverable (PC)           | 2,640         |               | 2,020         |               |
| Tax obligations (PC)             |               | 2,023         |               | 2,035         |
| Related parties                  |               | 6,394         |               | 3,410         |
| <b>Total</b>                     | <b>7,170</b>  | <b>19,195</b> | <b>8,872</b>  | <b>15,681</b> |

**Fixed income fund – Pampulha:** The Company holds units in Fundo Pampulha, which has the characteristics of fixed income and obeys the Company's cash investment policy. On September 30, 2017 the amounts invested by the fund, corresponding to CemigTelecom's participation, are accounted under Cash and Cash Equivalents and Securities in Current and Non-Current assets.

The Cemig Group has cash investments in Pampulha (see breakdown below), which in turn has investments in notes and debentures of companies of the Cemig Group.

| Fundo Pampulha   | Period                | Rate p.a.        | Value of<br>CemigTelecom<br>position R\$ 000 |                     |
|--|-----------------------|------------------|--|---------------------|
|  |                       |                  | Sep.<br>30<br>2017                           | Dec.<br>31,<br>2016 |
| CemigTelecom investment in Pampulha Fund ref.                          |                       |                  |  |                     |
| CEMIG GT (Debentures)<br>CemigTelecom investment in Pampulha Fund ref. | Aug. 2017 – Nov. 2017 | 128% of CDI rate | 28   |                     |
| CEMIG GT (Debentures)<br>CemigTelecom investment in Pampulha Fund ref. | Aug. 2017 – Nov. 2017 | 128% of CDI      | 84   |                     |
| CEMIG GT (Debentures)<br>CemigTelecom investment in Pampulha Fund ref. | Aug. 2017 – Nov. 2017 | 128% of CDI      | 56   |                     |
| CEMIG GT (Debentures)  | Apr. 2013 – Jul. 2015 | CDI + 0.9%       |  | 15                  |
|  | Feb. 2017 – Jul. 2018 | CDI + 1.6%       | 115  | 74                  |



|  |           |           |             |     |    |
|--|-----------|-----------|-------------|-----|----|
| CemigTelecom investment in Pampulha Fund ref.                          |           |           |             |     |    |
| CEMIG GT (Debentures)<br>CemigTelecom investment in Pampulha Fund ref. |           |           |             |     |    |
| ETAU (Debentures)<br>CemigTelecom investment in Pampulha Fund ref.     | Dec. 2014 | Dec. 2019 | 108% of CDI | 48  | 14 |
| CEMIG GT (Debentures)<br>CemigTelecom investment in Pampulha Fund ref. | Mar. 2016 | Dec. 2018 | CDI + 3.9%  | 51  | 14 |
| CEMIG GT (Debentures)<br>CemigTelecom investment in Pampulha Fund ref. | Jul. 2016 | Dec. 2018 | CDI + 4.2%  | 48  | 13 |
| Axxiom (Debentures)<br>CemigTelecom investment in Pampulha Fund ref.   | Apr. 2016 | Jan. 2017 | 112% of CDI |     | 8  |
| CEMIG GT (Debentures)<br>CemigTelecom investment in Pampulha Fund ref. | Jun       | Nov. 2017 | 108% of CDI | 251 |    |
| CEMIG GT (Debentures)  | Jun       | Aug 2017  | 108% of CDI | 50  |    |

The return of the Pampulha Fund, in the nine months ended September 30, 2017, was R\$352 (R\$2,018 at September 30, 2016).

**Loan** On December 16, 2016 CemigTelecom signed a loan contract with Cemig for R\$ 18,000, to complement the funds necessary for full payment of the first Promissory Note issue, with maturity at 167 days, for settlement in a single payment on May 31, 2017, plus interest at 132.9% of the average DI (interbank deposit) Rate. The updated balance of R\$ 19,235 was settled on May 22, 2017.

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**Remuneration of Managers** In the nine months to September 30, 2017 the Company paid managers a total of R\$ 4,034 in remuneration and other benefits (R\$ 2,667 up to September 30, 2016), as follows:

| Post<br>R\$ 000 | Remuneration |              | Benefits   |            | Total<br>9M16 |
|-----------------|--------------|--------------|------------|------------|---------------|
|                 | 9M17         | 9M16         | 9M17       | 9M16       |               |
| Chief Officers  | 3,264        | 1,845        | 286        | 230        | 2,075         |
| Board members   | 484          | 592          |            |            | 592           |
| <b>Total</b>    | <b>3,748</b> | <b>2,437</b> | <b>286</b> | <b>230</b> | <b>2,667</b>  |

On April 28, 2017 the General Meeting of Stockholders set the annual global limit as from 2017 of R\$5,850 (R\$5,450 for the 2016) for remuneration of Chief Officers, members of the Board of Directors, and the Audit Board.

**Private Pension Plan and other employee benefits** As per Note 25, the Company is co-sponsor of the Private Pension Plan for Forluz and Cemig Saúde, responsible for management of the employees' health and dental plan. The contributions made by the Company were as follows:

|  | 3Q17       |             | 3Q16       |             | 9M17         |              | 9M16         |              |
|--|------------|-------------|------------|-------------|--------------|--------------|--------------|--------------|
|  | Forluz     | Health plan | Forluz     | Health plan | Forluz       | Health plan  | Forluz       | Health plan  |
| Mixed Benefits Pension Plan ( Plan B ) | 611        |             | 695        |             | 2,273        |              | 2,401        |              |
| Integrated health plan (PSI)           |            | 388         |            | 351         |              | 1,117        |              | 1,018        |
| Dental Plan                            |            | 16          |            | 14          |              | 46           |              | 39           |
| <b>Total</b>                           | <b>611</b> | <b>404</b>  | <b>695</b> | <b>365</b>  | <b>2,273</b> | <b>1,163</b> | <b>2,401</b> | <b>1,057</b> |

Further to the benefits specified in Law, the Company also provided its employees with: a day-care center, group life insurance, restaurant and food tickets, and Culture Tickets.

**Employees' profit shares** The Company's bylaws specify distribution to the employees as share of profits an annual amount as a means of incentivating employees to achieve the best results for which indicators and targets are periodically established in a collective work negotiation.

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**19. STOCKHOLDERS EQUITY**a) Share capital

On February 18, 2016 Cemig made a capital increase in CemigTelecom of R\$ 16,660, subscribing 16,660 new nominal common shares without par value, increasing the share capital from R\$ 225,081 to R\$ 241,741 from that date.

The full capital subscribed and paid up at September 30, 2017 and December 31, 2017 comprises common shares, without par value, as follows:

| <b>Shareholders</b>                  | <b>Shares</b>      | <b>Amount</b>  | <b>Stake<br/>%</b> |
|--------------------------------------|--------------------|----------------|--------------------|
| Companhia Energética de Minas Gerais | 397,683,384        | 241,741        | 100%               |
| Other                                | 1                  |                |                    |
| <b>Total</b>                         | <b>397,683,385</b> | <b>241,741</b> | <b>100%</b>        |

b) Remuneration to stockholders

Stockholders are guaranteed the minimum mandatory dividend of 50% of the adjusted net profit for each business year.

c) Legal reserve

This reserve is constituted from 5% of the net profit of each business year, under Article 193 of Law 6404/76, until the reserve reaches 20% of the share capital.

Since there was a balance of retained losses, no legal reserve was constituted in 2017.

d) Retained Earnings reserve

The aim of this reserve is to strengthen working capital and meet needs for funds for the Company's investments in the subsequent years.

e) Profit (loss) per share

The profit (loss) and weighted average number of common shares used in the calculation of the basic and diluted profit per share are as follows:

| <b>Basic and diluted profit (loss) per share</b> | <b>3Q17</b> | <b>3Q16</b> | <b>9M17</b> | <b>9M16</b> |
|--|-------------|-------------|-------------|-------------|
| Profit (loss) for the period R\$ 000             | 535         | 4,981       | (3,877)     | (10,564)    |
| Weighted average number of                       |             |             |             |             |
| common shares in circulation thousands           | 397,683     | 397,683     | 397,683     | 397,683     |
| Basic and diluted loss per share Reais           | 0.00        | 0.01        | (0.01)      | (0.03)      |

Since the Company has no dilutive instruments, diluted loss per share is the same as basic loss per share.

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**20. NET REVENUE**

|  | <b>3Q17</b>   | <b>3Q16</b>   | <b>9M18</b>    | <b>9M16</b>   |
|--|---------------|---------------|----------------|---------------|
| Dedicated circuits   | 33,696        | 26,590        | 96,785         | 74,940        |
| Transport of signal  | 1,438         | 1,792         | 4,875          | 5,376         |
| Integrated services  | 4,487         | 5,537         | 13,431         | 16,169        |
| Other  | 1,177         | 879           | 2,762          | 2,602         |
| <b>Gross revenue</b>                                       | <b>40,798</b> | <b>34,798</b> | <b>117,853</b> | <b>99,087</b> |
| Taxes, returns, adjustments to present value and discounts | (10,205)      | (8,846)       | (29,550)       | (24,446)      |
| <b>Net Revenue</b>   | <b>30,593</b> | <b>25,952</b> | <b>88,303</b>  | <b>74,641</b> |

**21. COSTS AND EXPENSES**

| <b>Classification by type</b>                          | <b>3Q7</b>      | <b>3Q16</b>     | <b>9M17</b>     | <b>9M16</b>     |
|--|-----------------|-----------------|-----------------|-----------------|
| Network infrastructure                                 | (4,000)         | (3,289)         | (12,093)        | (9,011)         |
| Supply of electricity                                  | (803)           | (665)           | (2,757)         | (2,475)         |
| Depreciation and amortization                          | (8,966)         | (8,611)         | (25,974)        | (24,947)        |
| Maintenance and repair service                         | (5,629)         | (4,300)         | (16,266)        | (12,453)        |
| Personnel  | (5,574)         | (4,586)         | (15,673)        | (17,842)        |
| Outsourced services                                    | (798)           | (755)           | (4,073)         | (2,222)         |
| Real estate property rented                            | (417)           | (427)           | (1,301)         | (1,290)         |
| Equity method gains in non-consolidated investees, net | (459)           | (10,141)        | (1,951)         | (25,647)        |
| PIS and Cofins taxes on financial leasing              | (168)           | (151)           | (353)           | (393)           |
| Loss on financial derivative                           | (20)            |                 | (103)           |                 |
| Other (Recovery of expenses)                           | (52)            | (369)           | (3,162)         | (352)           |
| <b>Total</b>   | <b>(26,886)</b> | <b>(33,294)</b> | <b>(83,706)</b> | <b>(96,632)</b> |

| <b>Classification by function</b>               | <b>3Q17</b> | <b>3Q16</b> | <b>9M17</b> | <b>9M16</b> |
|---|-------------|-------------|-------------|-------------|
| Cost of services provided                       | (17,671)    | (15,922)    | (52,624)    | (46,348)    |
| General and administrative expenses             | (8,285)     | (6,641)     | (24,881)    | (23,806)    |
| Sales and marketing expenses Equity method gain | (238)       | (124)       | (728)       | (259)       |

|                |                 |                 |                 |                 |
|----------------|-----------------|-----------------|-----------------|-----------------|
|                | (459)           | (10,141)        | (1,951)         | (25,647)        |
| Other expenses | (233)           | (466)           | (3,522)         | (572)           |
| <b>Total</b>   | <b>(26,886)</b> | <b>(33,294)</b> | <b>(83,706)</b> | <b>(96,632)</b> |

## 22. FINANCIAL REVENUE (EXPENSES)

| <b>Financial revenue</b>      | <b>3Q17</b>  | <b>3Q16</b> | <b>9M17</b>  | <b>9M16</b>  |
|-------------------------------|--------------|-------------|--------------|--------------|
| Revenue from cash investments | 139          | 741         | 386          | 2,431        |
| Interest (received)           | 144          | 17          | 177          | 148          |
| Other financial revenues      | 943          | 86          | 1,584        | 460          |
| <b>Total</b>                  | <b>1,226</b> | <b>844</b>  | <b>2,147</b> | <b>3,039</b> |

| <b>Financial expenses</b> | <b>3Q17</b>    | <b>3Q16</b>    | <b>9M17</b>     | <b>9M16</b>    |
|---------------------------|----------------|----------------|-----------------|----------------|
| Interest (paid)           | (3,128)        | (1,434)        | (10,081)        | (4,246)        |
| Other financial expenses  | (729)          | (194)          | (1,420)         | (801)          |
| <b>Total</b>              | <b>(3,857)</b> | <b>(1,628)</b> | <b>(11,501)</b> | <b>(5,047)</b> |

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**23. FINANCIAL INSTRUMENTS**

a) Financial risk management

The Company has exposure to the following risks arising from the use of financial instruments:

Credit risk

Market Risk

Liquidity risk

This note presents information on the Company's exposure to each one of the above risks, the Company's objectives, policies and processes for measurement and management of risk, and the Company's management of capital.

**Risk management structure**

The Board of Directors has the global responsibility for establishing and supervising the structure of the Company's risk management. The risk management policies applied by the Company and its jointly-controlled subsidiary entity are subordinated to those of the Cemig Group, which is responsible for creating and monitoring the risk management policies of the Company as a whole.

The Company's risk management policies are established to identify and analyze the risks faced, to set appropriate risk in its own controls, and to monitor risks and compliance with the limits established. The risk management policies and systems are frequently reviewed to reflect changes in market conditions and in the Company's activities. Through its training and management rules and procedures the Company aims to develop a disciplined and constructive control environment, in which all the employees understand their roles and obligations.

**CREDIT RISK**

Credit risk is the risk of financial loss in the event that a client or counter-party of a financial instrument fails to comply with its contractual obligations, which arise principally from the Company's receivables from the clients and in investment securities.

The Company's sales policies are subordinated to the credit policies set by the Management and aimed to minimize any problems arising from default by its clients. The client portfolio comprises large operators of fixed and mobile telephone service, cable TV and internet broadband, also corporate clients and internet service providers, as well as the Company's own majority stockholder. In view of the Company's change of focus with a view to increasing its market share in the segments of corporate market and internet providers, and the gradual decline of operators

participation in the market since 2015, the risk of losses in receipt of credits by the Company has been significantly diluted through the diversification of its portfolio of clients. The effort of sales to the corporate market have been sufficient to offset the losses from cancellation of circuits by operators and significantly reduces market risk.

By market segment: In September 2017, 37% of CemigTelecom's sales revenue was from the corporate sector, 34% from ISPs, and 29% from telecoms operators showing the diversification of revenue, which reduces risk of segment concentration. In September 2017 CemigTelecom had a total of 1,023 clients.



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In 2015 management began a review of the Company's policy for granting credit. Even so, the main instrument that ensures minimization of credit risk continues to be the Company's right to interrupt supply of signal in the event of contractual default which includes failure to pay.

The Company's exposure to credit risk is influenced primarily by the individual characteristics of each client. However, Management also takes into consideration the market segment in which clients operate, since this factor can influence credit risk, especially due to the sensitivity of the telecommunication sector to the economic circumstances of the country. The maximum concentration of the Company's revenue attributable to a single client is approximately 9%.

The level of losses due to lack of payment is insignificant. This is because the Company's policy establishes constant monitoring of default, in which contractual penalties are applied in the case of arrears in payment, which may, in the extreme cases culminate in discontinuation of services to clients.

The Company makes a provision for impairment that represents its estimate of losses on accounts receivable from clients and other creditors. Sensitivity, and expectation of losses related to significant individual risks, are the only parameters considered in this analysis. This is because the Company's business is substantially centered on the market for service to large telecommunications operators and the corporate market, and thus historic losses and global/geographical sector analysis do not usually supply a reasonable basis to estimate losses on accounts receivable. The Company has a provision for doubtful receivables in the amount of R\$ 1,780, at September 30, 2017 (R\$ 1,425 on December 31, 2017), which represents 9.4% (7% in 2016) of the total unpaid amount of accounts receivable 38% (18% in 2016) of past due accounts receivable.

In relation to the risk of losses arising from insolvency of a financial institution at which the Company has deposits, the Cemig Group's Cash Investment Policy has been in effect since 2004: under it, each institution is analyzed according to criteria of current liquidity, degree of leverage, level of default, profitability, and costs; and also analysis by three financial risk rating agencies. The Company assigns each financial institution a maximum fund allocation limit, which is reviewed for appropriateness both periodically and also in the event of any change in the macroeconomic scenarios of the Brazilian economy.

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**MARKET RISK**

Market risk is the risk of exposure to changes in market prices, such as exchange rate and interest rates, which can have a significant financial impact on the Company. The aim of market risk management is to keep exposures to market risks under control, within acceptable parameters, and at the same time to optimize return.

1. **Currency risk**

The Company is not subject to currency risk as it does not have balances with suppliers, or loans, denominated in any currency different from its functional currency.

2. **Interest rate risk**

Interest rate risk arises from issuance of non-convertible securities. When these are linked to variable interest rates, they expose the Company to cash-flow risk. Liabilities linked to fixed interest rates expose the Company to risk of fair value associated with the interest rate.

The Company continues to evaluate its exposure to interest rate risk. Various scenarios are simulated, using various refinancing alternatives, renewal of existing positions and acquisition of new financings and alternative hedges.

The Company is exposed to the risk of increase in interest rates, affecting loans and debentures with floating interest rates principally linked to indices referenced to the basic interest rate of the Brazilian economy, in the amount of R\$ 117,971 (Note 12).

In relation to the most significant interest rate, the Company estimates that, in a probable scenario, the CDI rate will be close to 8.14% at its future reference date. The Company has made a sensitivity analysis of the effects on its profit arising from increase in these indicators to levels above the probable scenario. One of the assumptions of this analysis is that the expected variation in the CDI rate will be similar to the variation in the Selic rate.

Below is a table showing the sensitivity of the financial instruments, prepared in accordance with CVM Instruction 475/2008, to show the balances of the principal financial assets and liabilities, calculated at a projected rate up to the date of final settlement of each contract, assuming a probable scenario (Scenario I), a scenario with appreciation of 25% (Scenario II), and one with 50% (Scenario III).

The aim of this sensitivity analysis is to measure the impact of changes in the market variables on the financial instruments referred to, assuming all other market indicators constant. When these amounts are settled they may be different from those shown above, due to the estimates used in the process of preparation. The table below includes the amounts of principal and interest.

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|                                  | Amount<br>Book | Risk of increase in domestic<br>interest rates scenarios<br>(percent<br>p.a.) scenarios (% p.a.) |                    |                     |
|----------------------------------|----------------|--|--------------------|---------------------|
|                                  |                | Scenario<br>I CDI  | Scenario<br>II CDI | Scenario<br>III CDI |
|                                  |                | 8.14%  | 10.18%             | 12.21%              |
| <b>Assets</b>                    |                |  |                    |                     |
| <b>Cash and cash equivalents</b> |                |  |                    |                     |
| Fixed income funds               | 1,283          | 104  | 131                | 157                 |
| <b>Securities</b>                |                |  |                    |                     |
| Fixed income funds               | 6,313          | 514  | 642                | 771                 |
| <b>Liabilities</b>               |                |  |                    |                     |
| Debentures                       | (27,064)       | (2,203)  | (2,754)            | (3,305)             |
| Loans                            | (92,138)       | (7,500)  | (9,375)            | (11,250)            |
| Net positive (negative) exposure |                | (9,085)  | (11,356)           | (13,627)            |
| <b>PRICE RISK</b>                |                |  |                    |                     |

The Company operates in a business segment where prices are freely agreed, and thus maintaining risk mitigation policies of this type can be dispensed with.

**Fair value of financial instruments**

The balances of financial instruments used by the Company at September 30, 2017 are mostly recorded at accounting cost, which is not significantly different from the corresponding estimated market values. They are classified as follows:

Financial assets held to maturity: Cash investments which are expected to be held to maturity are in this category. These are valued at amortized cost using the effective rates method, less any impairments.

Financial asset measured at fair value through profit or loss: Fixed income securities held for trading are in this category. These are valued at fair value through profit or loss, as per Level 2.

Receivables: Balances receivable from clients are in this category. They are recognized at their nominal realization value, which is similar to fair value.

Loans: These are measured at amortized cost, using the effective interest method.

Suppliers: These are balances payable to suppliers, and are recognized at nominal settlement value, similar to fair values.

Fair value is a market-based measurement based on assumptions that market participants would use in pricing an asset or liability. The Fair Value Hierarchy aims to increase consistency and comparability: it divides the inputs used in measuring fair value into three broad levels, as follows:

Level 1 Active market Quoted prices: A financial instrument is considered to be quoted in an active market if the prices quoted are promptly and regularly made available by an exchange or organized over-the-counter market, by operators, by brokers or by a market association, by entities whose purpose is to publish prices, or by regulatory agencies, and if those prices represent regular arm's length market transactions made without any preference.

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Level 2 No active market Valuation technique: For an instrument that does not have an active market, fair value should be found by using a method of valuation/pricing. Criteria such as data on the current fair value of another instrument that is substantially similar, or discounted cash flow analysis or option pricing models, may be used. The objective of the valuation technique is to establish what would be the transaction price on the measurement date in an arm's-length transaction motivated by business considerations.

Level 3 No active market No observable inputs: The fair value of investments in securities for which there are no prices quoted on an active market, or of derivatives linked to them which are to be settled by delivery of unquoted securities,

|                              | <b>Sep. 30, 2017</b> |                |                |              |
|------------------------------|----------------------|----------------|----------------|--------------|
|                              | <b>Level 1</b>       | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b><u>Assets</u></b>         |                      |                |                |              |
| Cash and banks               | 333                  |                |                | 333          |
| Bank certificates of deposit |                      | 218            |                | 218          |
| Repos ( <i>Overnight</i> )   |                      | 1,065          |                | 1,065        |
| Securities                   |                      | 6,313          |                | 6,313        |
| Total                        | 333                  | 7,596          |                | 7,929        |

|                              | <b>Dec. 30, 2016</b> |                |                |              |
|------------------------------|----------------------|----------------|----------------|--------------|
|                              | <b>Level 1</b>       | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b><u>Assets</u></b>         |                      |                |                |              |
| Cash and banks               | 261                  |                |                | 261          |
| Bank certificates of deposit |                      | 105            |                | 105          |
| <i>Overnight</i>             |                      | 668            |                | 668          |
| Securities                   |                      | 1,938          |                | 1,938        |
| Total                        | 261                  | 2,711          |                | 2,972        |

**LIQUIDITY RISK**

Liquidity risk is the risk that the Company will have difficulty complying with the obligations associated with its financial liabilities that are met with payment in cash or another financial asset. The Company's approach in managing liquidity is to guarantee to the maximum possible that there is always sufficient liquidity to comply with its obligations when they become due, and normal conditions and stress conditions, without causing unacceptable losses or a risk to harm the Company's reputation.

The Company operates with a profitability margin that results in it having a positive operational cash flow. Typically, the Company maintains immediate financial balances that guarantee compliance with commitments for at least 60 days operation, including financial obligations and investments. Events with potential impact of extreme circumstances that cannot be reasonably foreseen, such as natural disasters or large-scale economic crisis, are not taken into consideration in this analysis.

In fourth quarter 2016, to provide feasibility for the entry of a new partner into Ativas, CemigTelecom assumed a significant amount in short-term debt, with a guarantee from its controlling stockholder. As a result, on September 30, 2017 CemigTelecom's current liabilities exceeded its current assets by R\$ 61,445 (R\$ 74,312 on December 31, 2016). On September 30, 2017, CemigTelecom's short-term loans totaled R\$ 58,973, of which R\$ 50,426 had maturities in fourth quarter 2017.

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Management made an increase in the Company's capital of R\$ 50,657 for settlement of the loan, on October 23, 2017, and believes that it has satisfactory operational cash generation capacity, with adequate conditions to comply with its short-term obligations and continue to make the investments necessary for maintaining its projects.

The Company uses a group of methods, procedures and instruments that are coherent with the complexity of the business, and applied in permanent control of the financial processes, to guarantee appropriate risk management.

The Company manages liquidity risk by permanently monitoring its cash flow in a conservative, budget-oriented manner. Balances are projected monthly, for a period of 12 months ahead, and daily liquidity balances are projected over 90 days.

Short-term allocations also obey rigid principles established in a Cash Investment Policy, in which funds are invested in exclusive private credit investment funds, and any balance remaining is invested in repos remunerated at the CDI rate, according to orientations decided by the Cemig Group, with a view to a consolidated management of the available funds, which does not depend on any individual analysis by CemigTelecom.

In managing cash investments, the Company seeks to obtain profitability through a rigid analysis of financial institutions' credit, applying operational limits for each bank, based on assessments that take into account their ratings, exposures and balance sheets.

The table below analyzes the Company's financial assets, by period of maturity, including the installments of principal and future interest to be paid in accordance with contractual clauses.

| <b>Non-derivative financial liabilities</b> | <b>Sep. 30, 2017</b> | <b>Contractual cash-flow</b> |                     |
|---|----------------------|------------------------------|---------------------|
|   |                      | <b>1 to 2 years</b>          | <b>3 to 5 years</b> |
| Debentures                                  | 26,492               | 29,466                       |                     |
| Sonda loans                                 | 91,479               | 51,413                       | 55.663              |
| Suppliers                                   | 18,723               | 18,723                       |                     |
| Deferred revenues                           | 4,679                | 920                          | 3.759               |
| Related parties                             | 6,394                |                              | 6,394               |
| <b>Total</b>                                | <b>143,088</b>       | <b>100,522</b>               | <b>65,816</b>       |

**24. BENEFITS TO EMPLOYEES**

The obligations related to employee benefit plans, include private pension plans, a health plan, a dental plan and group life insurance.

Private pension plan – Forluz

The Company is co-sponsor of Fundação Forluminas de Seguridade Social (Forluz), a non-profit legal entity created to provide its participants and their dependents with an income to supplement retirement and pension.

The pension plan, co-sponsored by the Company, called the Mixed Benefit Private Pension Plan – Plan B, comprises benefits including: (i) Addition to Retirement Pension for Time of Service, Special reasons or Age – MAT; (ii) Improvement to Pension for Disability – MAI; (iii) Annual Bonus – AA; (iv) Continuous Revenue due to Death – RCM; and Prisoner Family Assistance – AR.



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The sponsors' contribution to this plan is 27.52% for the portion with defined-benefit characteristics, relating to the coverage for death or disability of participants still working, and is used to amortize the obligations defined by an actuarial calculation. The remaining 72.48%, referring to the portion of the plan with defined contribution characteristics, is allocated to the participants' nominal accounts. These contributions are recognized in the Profit & Loss account in accordance with the payments made by the sponsors under Personnel Expenses.

**Medical care – Cemig Saúde**

The Company is co-sponsor of the health and dental plans of its employees, which are administered by Cemig Saúde.

The amounts of the contributions to the pension plans, the health plan and the dental plan are determined annually, from the amounts considered sufficient to cover the respective expenses expected in each business year, according to an evaluation made by an independent actuary contracted for the purpose. The three plans are optional to join, for the employee, and the sponsors' contributions match those made by the participants.

In this Note the Company demonstrates the net actuarial assets/liabilities and the expenses in connection with the Retirement Plan, Health Plan and Dental Plan, in accordance with the terms of CPC 33 Technical Pronouncement (Benefits to employees) and an independent actuarial opinion issued as of December 31, 2016.

This table shows a reconciliation of the actuarial assets and liabilities:

|   | <b>Forluz<br/>Plan B</b> | <b>Cemig Saude<br/>Health</b> | <b>Dental</b> | <b>Total</b> |
|---|--------------------------|-------------------------------|---------------|--------------|
| Net actuarial Assets (Liabilities) at December 31, 2016     |                          | (2,695)                       | (106)         | (2,801)      |
| Estimated expense recognized in the profit and loss account |                          | (377)                         | (14)          | (391)        |
| Net actuarial Assets (Liabilities) at September 30, 2017    |                          | (3,072)                       | (120)         | (3,192)      |

**25. CONTRACTUAL COMMITMENTS**

The Company has contractual obligations and commitments, which principally include amortization of loans, contracts for sharing of infrastructure and rental of dark fiber, as follows:

|                           | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>After 2021</b> | <b>Total</b> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| Sharing of infrastructure | 1,198       | 3,777       | 1,486       | 283         | 212         |                   | 6,956        |
| Dark fiber rental         | 533         | 1,196       | 805         | 22          | 22          | 76                | 2,654        |
| Loans and financings      | 51,413      | 17,981      | 11,485      |             | 55,663      |                   | 136,542      |
| Total                     | 53,144      | 22,954      | 13,776      | 305         | 55,897      | 75                | 146,152      |



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Cemig Telecomunicações S.A. ( CemigTelecom )

**26. INSURANCE**

The Company has reassessed the risks involving its telecommunications assets, and the probability of interruptions of its operations in the event of any adverse concurrences. This study shows that the probability of simultaneous occurrences of claimed events on a large-scale such as might represent significant financial and operational losses to the Company is significantly remote, mainly due to the diversity of the geographical distribution of the assets exposed to risks. For this reason the Company's management has opted, at present, not to contract insurance cover for claim events involving its Operations Center and Headends, and also events that could affect its network equipment, cables and other goods of its fixed assets. Since its operation started, the Company has never experienced significant losses as a function of the risks mentioned above. The assumptions for evaluation of risks adopted by the Company, due to their nature, are not part of the scope of review of the Quarterly Information (ITR). Consequently they have not been reviewed by the external auditors.

**27. SUBSEQUENT EVENTS**

On November 8, 2017, as provided in the budgets of the stockholder, the Company made a capital increase in the amount of R\$ 50,657. The transaction was approved by an Extraordinary General Meeting of Stockholders held on that date and involved issuance of 50,657,437 (fifty million, six hundred fifty seven thousand, four hundred thirty seven) new nominal common shares without par value. The proceeds were entirely used for settlement of Loan I with the creditor Sonda Procwork.

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**NOTICE TO STOCKHOLDERS DATED AS OF JANUARY 17, 2018: CANCELATION OF THE  
CONVOCATION TO THE EXTRAORDINARY GENERAL MEETING OF STOCKHOLDERS  
SCHEDULED FOR JANUARY 24, 2018**

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

CNPJ 17.155.730/0001-64 NIRE 31300040127

**EXTRAORDINARY GENERAL MEETING OF STOCKHOLDERS**

**CANCELLATION OF CONVOCAÇÃO**

**JANUARY 24, 2018**

Stockholders are hereby advised that:

The Extraordinary General Meeting of Stockholders called for 3 p.m. on January 24, 2018 at the company's head office **has been canceled.**

The agenda of the meeting was: to vote on (1) an authorization for certain limits in the by-laws to be exceeded; and (2) an extension of the current term of office of the members of the Board of Directors.

Belo Horizonte, January 17, 2018.

José Afonso Bicalho Beltrão da Silva

Chief Finance and Investor Relations Officer

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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**SUMMARY OF THE MINUTES OF THE 721TH MEETING OF THE BOARD OF DIRECTORS HELD ON  
JANUARY 17, 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 17, 2018**

**SUMMARY OF MAIN RESOLUTIONS**

At its 721<sup>st</sup> meeting, held on January 17, 2018, the Board of Directors of **Cemig** (*Companhia Energética de Minas Gerais*) resolved the following:

**Cancellation** of the Convocation to an Extraordinary General Meeting of Stockholders scheduled for January 24, 2018 at 3 p.m. at the Company's head office, Avenida Barbacena 1200, 2<sup>nd</sup> floor, Belo Horizonte, Minas Gerais, Brazil.

The agenda of the meeting was:

- (1) Authorization for certain limits in the by-laws to be exceeded; and
- (2) Extension of the current term of office of the members of the Board of Directors.

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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**MARKET ANNOUNCEMENT DATED AS OF JANUARY 17, 2018: CANCELTION OF THE  
EXTRAORDINARY GENERAL MEETING OF STOCKHOLDERS SCHEDULED FOR JANUARY 24, 2018**

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

LISTED COMPANY CNPJ 17.155.730/0001-64 NIRE 31300040127

**MARKET ANNOUNCEMENT**

**Extraordinary General Meeting**

**of January 24, 2018 canceled**

**Cemig** (*Companhia Energética de Minas Gerais* listed in São Paulo, New York and Madrid), in accordance 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, the Board of Directors of Cemig decided to cancel the Extraordinary General Meeting of Stockholders scheduled for January 24, 2018.

The resolution of the Board of Directors for the cancellation of the Extraordinary General Meeting, pursuant to the terms of CVM Instruction No. 372 of 2002, results from the CVM Official Letter 11/2018/CVM/SEP/GEA-3, of January 16, 2018, which informed Cemig about a request for the interruption of the term for calling the Extraordinary General Meeting of Stockholders, filed by a minority stockholder based on Article 124, §5º, II of Law 6404/1976.

Belo Horizonte, January 17, 2018

Adézio de Almeida Lima

Chief Finance and Investor Relations Officer

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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**MARKET ANNOUNCEMENT DATED AS OF JANUARY 24, 2018: BEGIN OF THE 30-DAY EXTENSION TO THE EXCLUSIVITY PERIOD GRANTED TO BROOKFIELD ENERGIA RENOVÁVEL S.A. TO CONTRIBUTE TO THE CAPITAL STOCK OF RENOVA ENERGIA S.A.**

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

LISTED COMPANY CNPJ 17.155.730/0001-64 NIRE 31300040127

**MARKET ANNOUNCEMENT**

**BEGIN OF THE 30-DAY EXTENSION TO THE EXCLUSIVITY PERIOD GRANTED TO BROOKFIELD ENERGIA RENOVÁVEL S.A.**

**Cemig** (*Companhia Energética de Minas Gerais* listed in São Paulo, New York and Madrid), in accordance 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**:

Today Cemig's affiliated company Renova Energia S.A. ( **Renova** ) released the following Market Announcement:

Under the scope of the Material Announcement dated as of November 24, 2017, Renova Energia S.A. (RNEW11) ( **Renova** ), in accordance with CVM Instruction 358/2002 as amended, hereby informs to its stockholders and the market in general the following:

Today begins the 30-day extension to the exclusivity period granted to Brookfield Energia Renovável S.A. to make the capital contribution to the capital stock of Renova as set forth in the binding offer approved by the Board of Directors of Renova.

Renova reaffirm its commitment to keep stockholders and the market in general fully and timely informed in accordance with the applicable legislation.

Belo Horizonte, January 24, 2018

Adézio de Almeida Lima

Chief Finance and Investor Relations Office

Santo  
Agostinho

Tel.: +55 31  
3506-5024

Fax +55 31  
3506-5025

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**SUMMARY OF THE MINUTES OF THE 722TH MEETING OF THE BOARD OF DIRECTORS HELD ON  
FEBRUARY 8, 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 February 8, 2018**

**SUMMARY OF MAIN RESOLUTIONS**

At its 722<sup>nd</sup> meeting, held on February 8, 2018, the Board of Directors of **Cemig** (*Companhia Energética de Minas Gerais*) decided the following:

Advance for Future Capital Increase in Cemig D.

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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**MARKET ANNOUNCEMENT DATED AS OF FEBRUARY 16, 2018: REPLY TO CVM INQUIRY LETTER  
65/2018-CVM/SEP/GEA-1 OF FEBRUARY 15, 2018**

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

LISTED COMPANY CNPJ 17.155.730/0001-64 NIRE 31300040127

**MARKET ANNOUNCEMENT**

**Reply to CVM Inquiry Letter 65/2018-CVM/SEP/GEA-1, of February 15, 2018**

**Question made by the Brazilian Securities Commission (CVM)**

Rio de Janeiro, February 15, 2018.

To Mr. Adézio de Almeida Lima

Investor Relations Director

Companhia Energética de Minas Gerais CEMIG

Av. Barbacena 1200 5th floor, B1 Wing, Santo Agostinho,

30190131 Belo Horizonte, MG

Fax: (31) 35065026

Email: ri@cemig.com.br

cc: emissores@bvmf.com.br

**Subject: Request for information on news report.**

Dear Sir,

1. We refer to the news report published in the newspaper *Valor Econômico*, in the section *Empresas*, under the headline:

*Sale of assets of Eletrobras, and losses, affect the process of Light*

which contains the following statements:

*While negotiating to try to improve the offers already received from Equatorial and from Enel Cemig also does not rule out reopening the data room (the computerized information room), in the expectation that new interested parties may emerge, according to a source close to the subject. In this event, the negotiations would re-start from zero.*

*According to another source, binding proposals are likely to be received in the second quarter of this year, when the process of due diligence (operational and financial audit) on the company that is offered for sale will take place. Until the end of last year, Cemig expected to complete the transaction in the first half of this year, which now seems increasingly distant.*

*The offers received for the assets so far do not totally meet Cemig's financial needs, Valor has ascertained. Equatorial made a proposal for the whole equity stake in Light owned by Cemig, but for part of the payment to be made in shares. With the stock price of Equatorial rising 12% in the last three months, and the stock price of Light falling 9% in the same period, the transaction becomes more attractive for Equatorial. As a result Equatorial controlling stockholder of Celpa and Cemar would use fewer shares to complete the purchase of Light.*

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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*However, if it wants to do this, it will need to convince Cemig to negotiate the terms, and accept at least part of the payment in shares.*

*At the same time, Light is not the only target of Equatorial which is seen as one of the leading candidates to buy the distributors of Eletrobras. Equatorial has some successful experiences in the recovery of Cemar, of the state of Maranhão, and Celpa, of the state of Pará both companies that had been previously financially in tatters.*

*Cemig's initial plan, however, is to receive only cash. Since it has now succeeded in refinancing a large part of its debt, extending maturities, the sale of Light has become less urgent. Thus, it is trying to improve the offers received.*

*Enel of Italy, on the other hand, is interested only in Light's distribution assets, and thus has an even longer path ahead even though it may be considered to be one of the strongest interested parties. Its proposal would be for an amount implying R\$ 17 per share, a source says.*

*This offer provides more attractive terms than the one made by Equatorial, but it is very unlikely that Cemig would sell only the distribution segment. To do this, the transaction would need to include a split of Light an operation that is considered to be very complex. Not only would this need to be approved by a stockholders' meeting, but the company would have to renegotiate covenants with creditors, which might result in early maturity of debts.*

*Cemig intends to use the proceeds from the sale of Light to pay the put option (option to sell their equity interest in Light to Cemig) that is still held by the banks that are its partners in Light Santander, Banco do Brasil and Votorantim which represents an amount of approximately R\$ 700 million. Part of the option, which was to become due in November 2017, was extended for one year. If it uses the proceeds from the sale of Light to pay the banks with dividends, Cemig would have a tax advantage. This would only be possible if Light is sold for cash.*

2. We request your statement in relation to the veracity of this news report, and if it is true, that you explain the reasons why you believe that this is not a fact of material importance, and also comment on any other information considered to be important on the subject.
3. We also remind you of the obligation in the sole sub-paragraph of Article 4 of CVM Instruction 358/02, to question managers and controlling stockholders of the Company, and all other persons with access to material events or facts, to ascertain whether they had knowledge of information that should be disclosed to the market.

4. Your statement should be given through the Empresas.NET system, in the category: Market Announcement, under the sub-category: Responses to consultations by CVM/B3; subject heading: Media News Reports, and should include a transcription of this letter.
  
5. Be advised that, by order of our Company Relations Supervision Management, using its legal powers under Sub-item II of Article 9 of Law 6385/1976 and CVM Instruction 452/07, a coercive fine of **R\$ 1,000** (one thousand Reais) is applicable, without prejudice to other administrative sanctions, for non-compliance, **by February 16, 2018**, with the requirement contained in this Official Letter, which is sent exclusively by e-mail, notwithstanding the provisions of §1 of Article 6 of CVM Instruction 358/02.

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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**Reply by CEMIG**

Dear Ms. Nilza Maria Silva de Oliveira,

In reply to Official Letter 65/2018-CVM/SEP/GEA-1, of February 15, 2018, we advise you that, through its Material Announcement of June 1, 2017, subsequently updated on July 7, 2017, Cemig has disclosed and described its divestment program. Light, among other assets, is included in the said program.

Additionally, a Material Announcement was published on November 13, 2017, in which it was emphasized that:

*Cemig has received non-binding proposals related to the process of divestment, as a result of the first phase of access to the documents and information contained in the Data Room of the Light group. These proposals are undergoing internal analysis for possible selection for inclusion in the next phase.*

*If any selection is made, conclusion of the process of divestment will also be subject to a phase of due diligence and technical visits, submission of binding proposals, negotiations and final approvals for signature of definitive agreements for the transaction referred to, and also approvals of the conditions precedent that are usual in this type of transaction.*

We inform you that, up to the present moment, the process of disposal of the equity interest in Light continues to be under internal analysis by the Company.

Cemig takes this opportunity of reiterating its commitment to opportune and timely disclosure of all and any facts that are of interest to its stockholders, in accordance with Article 2 of CVM Instruction 358/2002.

Belo Horizonte, February 16, 2018

José Maria Rabelo

Acting Chief Finance and Investor Relations Officer

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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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**MARKET ANNOUNCEMENT DATED AS OF FEBRUARY 19, 2018: RESIGNATION OF THE CEO OF  
RENOVA**

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**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

LISTED COMPANY CNPJ 17.155.730/0001-64 NIRE 31300040127

**MATERIAL ANNOUNCEMENT**

**Resignation of the CEO of Renova**

**Cemig** (*Companhia Energética de Minas Gerais*), a listed company with securities traded on the stock exchanges of São Paulo, New York and Madrid, as per 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**:

Today Cemig's affiliated company Renova Energia S.A. ( Renova ) published the following Material Announcement:

Renova Energia S.A. (RNEW11) ( Renova ), in accordance with CVM Instruction 358/2002 as amended, hereby informs its stockholders and the market as follows:

On today's date Mr. Carlos Figueiredo Santos delivered to the Chairman of the Board of Directors his resignation from the position of Chief Executive Officer of Renova.

He will remain in his position until February 28, 2018. If a new officer to replace him is not elected by that date, the present Chief Financial Officer will assume the position as interim Chief Executive Officer, as per the terms of the by-laws and the Stockholders' Agreement signed on December 19, 2014.

Belo Horizonte, February 19, 2018

José Maria Rabelo

Acting Chief Finance and Investor Relations Officer

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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